

**Monday, 12th December, 2022,  
6.15 pm**

**The John Meikle Room - The Deane  
House**

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**Members: Lee Baker (Chair), Janet Lloyd (Vice-Chair), Ed Firmin,  
Simon Coles, Hugh Davies, Tom Deakin, Dawn Johnson,  
Marcus Kravis, Andy Milne, Steven Pugsley and Terry Venner**

### **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 held on 7<sup>th</sup> November 2022.

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

We are now live webcasting most of 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](#).

(Pages 7 - 20)

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| <p><b>5. Audit and Governance Committee Forward Plan</b></p> <p>To receive items and review the Audit and Governance Committee Forward Plan.</p>  | <p>(Pages 21 - 22)</p> |
| <p><b>6. Audit and Governance Committee action/recommendation tracker</b></p> <p>To receive an update on the status and progress of actions and recommendations arising from the Audit and Governance Committee meetings held on 12<sup>th</sup> September and 7<sup>th</sup> November 2022.</p>  | <p>(Pages 23 - 24)</p> |
| <p><b>7. SWAP Owners Meeting</b></p> <p>To agree which Member of the Audit and Governance Committee will attend the SWAP Internal Audit Owners Meeting on Thursday 15<sup>th</sup> December at 2pm (the meeting is being held virtually).</p>   |                        |
| <p><b>8. External Audit Annual Report 2021/2022</b></p> <p>This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen.</p> <p>Report Author: John Dyson, Corporate Finance Manager</p> <p>This is a report from the Council's External Auditors, Grant Thornton which focuses primarily on the Auditor's findings on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. It recognises the transition towards the new unitary Somerset Council.</p> <p>This report is presented as an interim report, pending the auditor issuing the final opinion on the Statement of Accounts for 2021/22 due to the national issue relating to the statutory override relating to the treatment of infrastructure assets in the Statement of Accounts.</p> | <p>(Pages 25 - 64)</p> |
| <p><b>9. External Audit Progress Report and Sector Update</b></p> <p>This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen.</p> <p>Report Author: John Dyson, Corporate Finance Manager</p> <p>This report provides the Audit and Governance Committee with a progress update regarding the work of the external auditor, Grant Thornton LLP, together with information relating to emerging issues which may be relevant to the Council.</p>  | <p>(Pages 65 - 76)</p> |

- 10. Internal Audit Progress Report 2022/2023** (Pages 77 - 96)
- This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen.
- Report Author: Alastair Woodland, Assistant Director, SWAP
- This report summarises the work of the Council's Internal Audit Service including progress against the audit plan and significant findings that have arisen since the last update in September 2022.
- 11. Summary of Level 1 and 2 Audit Actions Report** (Pages 97 - 106)
- This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen
- Report Author: Malcolm Riches, Business Intelligence and Performance Manager
- 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 October 2022.
- 12. Treasury Management 2022/2023 Mid Year Review** (Pages 107 - 128)
- This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen.
- Report Authors: John Dyson, Corporate Finance Manager and Steve Plenty, Finance Specialist
- The purpose of this report is to provide Members with an update on the Treasury Management activity of Somerset West and Taunton Council and performance against the Prudential Indicators in respect of the first six months of 2022/23.
- It provides a view of the Council's borrowing and investments at the mid-point of the year.
- 13. Health and Safety Update** (Pages 129 - 140)
- This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen.
- Report Authors: Sean Papworth, Assistant Director – Corporate and Mike Barter, Health and Safety Business Partner
- The purpose of this report is to provide the Committee with progress updates on the Health and Safety Performance

Framework and delivery of the Health and Safety Management System (HSMS) Improvement Programme.

**14. Landlord Compliance Report**

(Pages 141 - 158)

This matter is the responsibility of the Portfolio Holder for Housing, Cllr Francesca Smith.

Report Author: Ian Candlish, Assistant Director Housing Property

This report provides an updated position for the main landlord health and safety property compliance disciplines.

A handwritten signature in black ink, appearing to read 'A Pritchard', with a horizontal line underneath.

**ANDREW PRITCHARD  
CHIEF EXECUTIVE**

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If an item on the agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group. These arrangements do not apply to exempt (confidential) items on the agenda where any members of the press or public present will be asked to leave the Committee Room. Full Council, Executive, and Committee agendas, reports and minutes are available on our website: [www.somersetwestandtaunton.gov.uk](http://www.somersetwestandtaunton.gov.uk)

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**SWT Audit and Governance Committee - 7 November 2022**

Present: Councillor Lee Baker (Chair)

Councillors Janet Lloyd, Ed Firmin, Simon Coles, Hugh Davies, Tom Deakin and Dawn Johnson

Officers: Amy Tregellas, Paul Fitzgerald, Jackson Murray, John Dyson, Steve Plenty and Oliver Durbin

Also Present: Councillors Stephen Pugsley (on Zoom)

(The meeting commenced at 6.15 pm)

A minutes silence was observed at the start of the meeting as a mark of respect for Councillor Anthony Trollope-Bellew who passed away recently.

104. **Apologies**

Apologies were received from Councillors Terry Venner and Marcus Kravis. Councillor Stephen Pugsley was unable to attend in person so joined via Zoom as a non-voting participant.

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

The Committee **resolved** to approve the minutes from the Audit and Governance Committee meeting held on 12<sup>th</sup> September 2022.

(proposed by Cllr Simon Coles; seconded by Cllr Janet Lloyd)

106. **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	SCC, Cheddon Fitzpaine & Taunton Charter Trustee	Personal	Spoke and Voted

Cllr S Coles	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr H Davies	All Items	SCC	Personal	Spoke and Voted
Cllr T Deakin	All Items	SCC & Taunton Charter Trustee	Personal	Spoke and Voted
Cllr D Johnson	All Items	SCC	Personal	Spoke and Voted
Cllr J Lloyd	All Items	Wellington & Sampford Arundel	Personal	Spoke and Voted

Cllr Janet Lloyd declared a personal interest in that she is a member of the Local Government Pension Scheme.

107. **Public Participation**

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

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

The Committee were advised that the External Auditors Annual Report for 2021/22 had been moved to the agenda on the 12<sup>th</sup> December 2022, rather than coming before the Committee at this meeting.

During the debate, discussion took place around:

- When there would be clarification as to the reports listed as SWT and/or possibly Unitary and if they would be coming before the Committee in March 2023. Officers agreed to provide the Committee with a response at their December meeting.

The Committee **resolved** that the Audit and Governance Committee Forward Plan be noted.

(proposed Cllr Simon Coles; seconded Cllr Janet Lloyd)

109. **Audit & Governance Committee action/recommendation tracker**

Amy Tregellas, Governance Manager and Monitoring Officer introduced the action/recommendation tracker, explaining that it had been introduced to monitor the progress of any items picked up at previous meetings.

Updates were:

- The Audit & Governance Committee Terms of Reference had been approved by Council on 29<sup>th</sup> September 2022
- The queries arising from the Local Government Ombudsman summary of complaints report had been answered, and the information had been circulated to all Councillors on 23<sup>rd</sup> September 2022
- The Display Screen Equipment information was circulated to all Councillors on Friday 4<sup>th</sup> November 2022



- Further information on personal safety was to be circulated to all Councillors by 11<sup>th</sup> November 2022, through the next edition of the Ethical Newsletter

Cllr Lee Baker thanked the officer on behalf of the Committee for following up the items in an efficient way.

The Committee **resolved** that the Audit & Governance Committee action tracker be noted.

(proposed Cllr Simon Coles; seconded Cllr Tom Deakin)

## 110. **External Auditors 2020/2021 Key Recommendations Update**

Paul Fitzgerald, Assistant Director Finance and Section 151 Officer introduced the report:

- This is an update on a key recommendation that Grant Thornton made in respect of the 2020/21 set of accounts, which related to the level of risk in respect of commercial investment, in particular the total level of investment and our total level of borrowing requirement.
- Following the recommendation, we've had two reviews undertaken by our Internal Auditors (SWAP) relating to the Council's Commercial investment strategy. The first focused on the governance arrangements that the Council put into place to manage this activity. Secondly, there was a follow up audit to test the actual implementation of the agreed strategy and making sure decisions being made in line with the agreed strategy and process. In both cases the Internal Auditor gave a substantial opinion which is the highest level of assurance they can give. There were only two recommendations across the reports and both of those were fully implemented.
- Page 23 provides a summary of the risk management factors that are already in place as well as the additional measures that have been put in place to strengthen those measures and to reduce the level of risk.
- Instead of borrowing money, we've used £3.5m of the Council's revenue reserves to finance the purchase of investments. We've also accelerated the debt repayment where we have previously used borrowing to buy assets. Therefore, we have reduced the level of debt that was required to support that particular strategy.
- By the end of this financial year the Council will be down to 92.5% residual borrowing compared with the original £99m total investment.
- The Council holds around £4.8m in our Ear Marked Reserves (EMR) which are specific reserves held to manage and mitigate risk in respect of this activity. If income was to fall there is some cushioning to reduce the impact if a property was void for a period of time.
- The Council currently holds £6m in general reserves which are there to support the budget generally and to help to withstand any unforeseen or unexpected financial risk that may emerge during the course of business.
- The Council has done well with Treasury Management. We have a borrowing requirement which is a lot bigger than we held previously, and we secured loans at a lower interest rate compared to the changes in the market in the

last two or three months. We took good action to secure the loans we needed for this financial year which has helped to manage that and reduce the risk in that area.

- As part of the wider management of the capital programme, the Council agreed to remove £35m worth of previously agreed spend from the capital programme which would have been additional borrowing requirement on top of that needed for the commercial investment strategy.
- In summary, we've reduced the level of debt and we've reduced the future need to borrow for the capital programme, which reduces the level of future borrowing. This in turn reduces the level of risk.

During the discussion, debate took place around:

- The fact that the Council has received a reasonably substantial income from the commercial investment assets, with our gross income being around £6.9m in a full year for the invested portfolio
- The turbulent national economy and higher interest rates being set by the Bank of England, and the fact that its likely to be about 18 months to two years before interest rates start to reduce
- The fact that the commercial investment assets are revalued at the end of each financial year. The actual carrying value at the end of 2021/22 was slightly above the value of the assets on the balance sheet
- Migration to a single unitary authority from 1 April 2023 and the challenges that brings given that all four district councils in Somerset have undertaken activity to acquire an income through investment in property.
- Part of the work of the finance workstream preparing for the unitary is looking at all investments together to consider matters such as how long we can rely on that income, when are leases due to expire, does the value of the portfolio when you add all of these things together remain decent in terms of managing risk? The workstream is looking at the financing requirement, the overall balance of investments and borrowing requirement and Treasury Management position for the unitary authority.
- SWT have used a lot of internal borrowing as well as taking advantage of relatively low cost, shorter term loans in the main from other local authorities.
- The cost of borrowing today would be more expensive than what we have been used to paying previously.
- Treasury Management and that fact that we hold quite a significant surplus in the current financial year.
- The fact that the council adopted its strategy for Commercial Investment due to funding cuts from the government
- Whether the Council would have to pay more for loans from other authorities going forward, and the fact that it would still likely be cheaper than borrowing from the Public Works Loan Board (PWLB). Inter authority lending rates were around 3 to 3.5% at a point in time when the PWLB rate was around 5%
- Whether section 24 would kick in if the Council had to go out and replace any short term loans before the new unitary authority goes live on 1 April 2023. Section 24 covers any contracts that the council might enter into before April 2023. There is consent from Somerset County Council to undertake any borrowing up to £5m and 365 days. So if we were planning to enter into any larger or longer term loans consent would need to be obtained from the SCC S151 Officer.

- The Housing Revenue Account (HRA) being a ringfenced account and is responsible for maintaining its own borrowing profiles. For any HRA loans that are due to mature, this will be looked at by the Unitary finance workstream in terms of the future borrowing requirement
- Whether Capital Gains Tax applies to the sale of council assets. Clarification was given that as a local authority the council is exempt from Capital Gains Tax. As and when the authority decides to sell any assets the value will come into the authority as a capital receipt and go into the pool of capital receipts and the authority will need to decide what to do with it.

The Committee **resolved** to consider and note the arrangements in place to mitigate risks and the further actions taken in response to the auditor's Key Recommendations.

(proposed Cllr Dawn Johnson; seconded Cllr Janet Lloyd)

The Chair advised the Committee that he proposed to change the running order and take agenda item 9, the Annual Governance Statement before agenda item 8, External Audit Finding Report 2021/2022.

The Committee **resolved** to amend the running order as set out

(proposed Cllr Ed Firmin; seconded Cllr Simon Coles)

#### 111. **Annual Governance Statement (Audited) 2021/2022**

Amy Tregellas, Governance Manager and Monitoring Officer introduced the report:

- This is the Annual Governance Statement (AGS) for the 2021/22 financial year which has now been through the external audit process
- The AGS hasn't changed since it came before the Committee in June 2022.
- The statement is prepared following the statutory guidance which comes from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) and the framework principles are in paragraph 4.5 of the report on page 86.
- The statement itself starts on page 89 which explains what the council's governance arrangements have been for the 2021/22 financial year.
- Accompanying that is an action plan, stating on page 117, which sets out actions to be delivered in this financial year. Updates on progress in the actions have been highlighted in red text.
- Grant Thornton colleagues have confirmed that they don't have any issues with the statement.
- If the Committee approve the statement, the Chief Executive and the Leader of the Council will sign it as the most senior officer and member, and it will be published with the statement of accounts.

During the debate, discussion took place around:

- Member training and development. The Executive approved the Member Training and Development Policy but that the Member Working Group proposed to look at Member Training and Development had not met due to the pandemic and then being superseded by Local Government Reorganisation and capacity within the Democratic Services Team
- The Unitary Council and that there is a sub workstream focusing on Member Training and Development.
- An extensive induction training programme was rolled out for the 110 SCC Councillors following the elections in May 2022
- Members sought assurance that training, particularly for specialist areas such as finance, planning and licensing were being considered and arranged. The officer agreed to bring an update to the next meeting.
- The fact that the only part of the AGS that had changed was the action plan. The officer confirmed that updates had been given in red to set out those actions that have been completed or are currently in progress
- The officer gave an example from page 117, confirming that the new Somerset wide Members Code of Conduct was signed off by the Council on 6th September 2022 and would feature in the next ethical newsletter.

The Committee **resolved** to approve the Annual Governance Statement and Action Plan (Appendix B) for 2021/2022.

(proposed Cllr Simon Coles; seconded Cllr Tom Deakin)

## 112. **External Audit Findings Report 2021/2022**

John Dyson, Corporate Finance Manager, introduced the report:

- Presenting to Members this evening the final statement of accounts for this authority for the 2021/22 financial year.
- Item 8 is the External Audit Findings Report which dovetails with item 10 the Statement of Accounts. The two items will be taken together as there are clear linkages between the two reports.
- The Statement of Accounts are prepared in accordance with International Financial Reporting Standards and a detailed Code of Practice which is backed up by regulations and professional guidance.
- Many other professional also contribute to the compilation of the accounts including teams across the council, qualified valuers, pension fund actuary and treasury management advisors.
- The draft accounts were published on the Council's website by the statutory timescale of the 30 June 2022.
- The draft accounts and supporting workings are subject to review and independent scrutiny by our external auditors, Grant Thornton. In recent years there have been growing demands in terms of the audit process and scrutiny and challenge, putting a lot of pressure on finance and the audit teams alike in conducting the work following the compilation of the accounts.
- All of this work culminates in the audit findings report agenda item 8. The statement of accounts set before you this evening in agenda item 10 contains

a range of adjustments and corrections and these are highlighted in the audit findings report.

- Since the publication of the agenda, one further correction is needed relating to car parks, and the explanatory note sets out the proposed change
- The changes made to the accounts between the initial draft and those that are in the agenda this evening are technical in nature. None of those changes actually impact on the general fund or HRA balances, and no changes have impacted on the reserves except for those made to unusable reserves of a technical nature and also to the capital grants unapplied account.
- CIPFA, working in tandem with the government and other parties are formulating a statutory override of an accounting treatment relating to infrastructure assets, that sits on the balance sheet under property, plant and equipment. The statutory override is needed to enable local authorities to conclude their accounts for 2021/22. That matter is outside of our control.
- Once the override and any guidance has been issued it is anticipated that some form of confirmation or explanation will be added to the accounting policies set out in the statement of accounts. This will then be a minor adjustment to those which will be made after this evenings meeting.
- In terms of the report recommendations, the committee is asked to consider the accounts as presented alongside the adjustment for car parks which we advised separately on at the end of last week. Due to the likely delay caused by the statutory override, it is requested that the committee delegate authority for the final approval of the statement of accounts to the committee chair in consultation with the Assistant Director Finance S151 Officer.
- In terms of good news, the deadline for approving and publishing the statement of accounts this year is the 30 November. We are well within that timescale (subject to the statutory override issue). We do remain ahead of many authorities. Many councils have not had their 2020/21 accounts approved yet.
- Effective working has been in place this year between the auditors and the finance team and we have had good communications and regular formal updates.
- We've generated a range of further improvements on top of last years including S106 reconciliations, progress for collating data relating to property, plant and equipment and achieving a 100% return from members and officers for related party transactions
- Management have embraced the audit recommendations which are set out in the audit findings report by electing to make adjustments and make improvements as far as is practicable.

Jackson Murray and Oliver Durban from Grant Thornton introduced their findings report for 2021/2022:

- Subject to the final checking of the accounts our proposed audit opinion is unqualified but important to set out that is at the moment. That's a clean opinion and that's the opinion that you want for your financial statements.
- Our other responsibility is in respect of value for money arrangements and this report will come before the Committee in December 2022.
- In terms of the infrastructure assets this is out of our control. It impacts all local authorities with infrastructure balances. Somerset West and Taunton

Council has infrastructure assets on their balance sheet relating to flood defences and sea walls. So we need to wait for this override to come into place and truly understand what that means so any adjustments can be posted through the financial statements.

- Page 39 highlights the key headlines including what we have done and what is outstanding, including the infrastructure item. We also need to complete our final consistency check of this set of accounts and receive confirmations from our pension fund auditor.
- Halfway down page 39 lists the work outstanding on the car park valuations which has now been completed and an adjustment is due to be made to the final draft set of accounts.
- Pages 43 - 54 give more detail of the work performed on the risk areas identified in our audit plan. On page 43 the testing of journals didn't identify any errors, however we did have a control finding relating to user administration rights and login changes. Page 45 we discuss the valuation of property, plant and equipment. The key findings related to the valuation of HRA properties and an incorrect number of garages, car parking was based on an assumption rather than actual figure, and the housing price index data used was the realisable value of land and was different to the index used for actual residential properties.
- We found that the impairment test for property, plant and equipment on car parks weren't formally revalued in the year and this is what has caused the late adjustment to the accounts. We found that the methodology used for the valuation wasn't appropriate, so we made a recommendation that was revisited by management. The proposed adjustment is based on an appropriate methodology.
- Page 46 covers our testing of the pension fund liability. There were no error or adjustments proposed but it's worth noting that we found the inclusion of a previous year settlement for an historic subsidiary. It was concluded that the correct treatment was applied for this item but it took time for us to unpick what this meant for the draft accounts. Ultimately, we were satisfied that the figures and disclosures were correct. The only adjustment made was we took out a contingent liability that wasn't included in the draft accounts because it wasn't contingent anymore as the actual event had occurred.
- Page 53 covers a prior period adjustment identified in respect of the treatment of inventory versus assets under construction for Coal Orchard. This is based on the intended use of the site.
- Page 54 discusses in more detail the infrastructure issue that has already been flagged.
- Appendix A lists out the internal control findings. Appendix B covers prior year findings and our update on those findings and Appendix C lists out the adjustments that were made between the original draft accounts and to the final draft accounts that you have today.
- Appendices E and F are copies of our draft audit opinion and letter of representation. This is a clean unqualified audit opinion and it's worth noting that our letter of representation includes only standard items and one relating to the prior year adjustment.

During the debate, discussion took place around:

- Insurance and whether incorrect valuations would impact on the cost we are paying on insurance. The officer confirmed that the valuations that are included in the statement of accounts follow actual market movements i.e. what they would be worth if we were to sell them. For the purposes of insurance they are going to be aligned to what it might cost to rebuild or replace something that might have been damaged say through fire, flood or otherwise. Information is provided to the insurers at a particular point in time which then informs the insurers and the price they would quote.
- Whether the Council would be in a position to complete the accounts by the statutory deadline of the end of November 2022 due to the infrastructure assets statutory override and where that leaves us legally. The officers confirmed that we need to wait for the statutory instrument so Grant Thornton are not able to issue an opinion until that comes into place. The likelihood is that the statutory instrument won't be in place by the end of November. If this is the case the council will need to place a notice on its website stating that the audit is not yet complete and provide an explanation that it is due to waiting for the national guidance on infrastructure assets. Councils that have not met previous deadlines for publishing their accounts have not had any funding withdrawn or been subject to any other sanctions/penalties from the government.
- Last year Grant Thornton were able to issue the opinion on the SWT Statement of Accounts in advance of the statutory deadline and that the Council was one of the 9% nationally to get that opinion. It's anticipated that the majority of Councils will not be in a position to publish their audited Statement of Accounts by the end of November 2022.
- In 2022/23 the regulations have been updated to bring the statutory deadline for the publication of the audited Statement of Accounts to the end of September.
- Whether there had been any challenges to the accounts this year. The officer confirmed that there had not been any challenges this year or visits to actually look at the accounts.
- How the errors had arisen in respect of the methodology for calculating the number of garages, price index on houses and car park assets and expenditure assumptions rather than actual expenditure data. The officer confirmed that property, plant and equipment is updated by indices or making assumptions or an assessment as to what would be fair value to put into the balance sheet. Not every asset can be looked at to get a precise price so it's done in a holistic way under different categories. The valuers are the experts in that field.
- In relation to car parks and the method of computation that is one aspect that the auditors raised last year in terms of how we gathered information and we put into place an improvement for this year for that. Last year we had income figures which didn't tally with what we had in our ledger so we've improved on that and got it right this year. But then there is another aspect and that is expenditure. So an assumption was made on that and following the recommendation we have now put actual expenditure into the computation. That in itself have fed through a trail in the various statements hence the issuing of the note so you were all aware prior to the meeting.
- Materiality and public perception, and the fact that £1.135m was listed as being 'sufficiently material' rather than 'material'. The external auditor

confirmed that audit materiality is a concept they use - it's a set benchmark all auditors use for this year our materiality level is just over £2m and that's based on a benchmark using expenditure. That being said £1.1m is a lot of money. Management have accepted that and made an adjustment. The Auditors have to be confident that the accounts are 'true and fair' and not materially misstated. Normally any errors or adjustments or uncertainties over £100k would be reported to you as a committee and any value below that we would just discuss and raise with finance colleagues but not necessarily report to committee. The officer confirmed that £1m is a lot of money, but it's whether or not you might regard it as a distortion of the figures or not. Is it likely to mislead the reader as to the overall value of that particular thing they are seeing in the accounts? Accounts are prepared in good faith and there has been work done to test that and as a result of that there are some things that have been identified that needed to be updated. None of the adjustments we have worked through with the auditors required any adjustments to the councils balances for either the general fund or HRA.

- Unitary Council and if the accounts are not signed off, if this impacts the Unitary Council. The officer confirmed that not all of the 2020/21 statement of accounts relating to year ending March 2021 in Somerset have been approved yet. We may be one of the first of the 5 authorities to take this year's accounts before an audit committee for consideration. Given that in two of the authorities their audit doesn't even start until January 2023 it is unlikely that their 2021/22 Statement of Accounts will be signed off before the end March 2023. It's a recognised challenge being picked up by the finance workstream.
- The Unitary Council will need to prepare the accounts for each of the 5 authorities for the 2022/23 financial year. However, as the district councils won't exist it will be the responsibility of the Unitary Council to approve the accounts for this financial year because that will be the body that's taken on responsibility to do that on 1 April 2023. The Finance workstream are making sure that the right people are doing the right bits of work around preparing the accounts across all 5 authorities between now and next May, as we have until the end of May 2023 to produce the draft accounts.
- The Annual Governance Statement will be prepared and presented to the Committee in March 2023 before the organisation is dissolved. This is because it will need to be signed by the Chief Executive and Leader of the Council for each individual council
- The methodology of valuations including details of the beacon methodology. The external auditor confirmed that the beacon methodology was set up by the former Department of Communities and Local Government (DCLG). It's a methodology for valuing large holdings of housing stock so the council has various beacon properties. For example you will have an area of Taunton and you will select a three bedroom terraced house and the valuer will value that property. He or she will then project that value across all of the other houses in that area, adding an additional amount for properties with more than three bedrooms or decreasing an amount for properties with fewer than three bedrooms. Each beacon property is valued at least once every five years. All other housing stock is indexed in the intervening years using a National index. For example if they say house prices have moved by 10% in the south west or Taunton in the last year that valuation uplift is applied to those other properties not subject to valuation in year. It's the recognised methodology



that the government suggest that gives the best estimate at the most realistic use of resource otherwise you would be valuing hundreds or thousands of properties annually which is not practical.

- How the Council procures a valuer. The External Auditor confirmed that as part of their work they consider the qualifications and experience of the valuer selected by the council to be their expert. A number of questions are asked of the valuers each year. That's why some of the points are raised in our report because we challenge them and their valuations and then come back with responses. The SWT officer confirmed that he would provide a follow up response to Members in respect of the procurement process for appointing a suitably qualified valuer. It was agreed to add this to the tracker for the next meeting.

The Committee **resolved** to approve the recommendations in the report:

1. The committee is recommended to note the Audit Findings Report in respect of Somerset West and Taunton Council's Statement of Accounts 2021/2022
2. The Committee is recommended to approve management's proposed treatment of unadjusted misstatements, as set out in Appendix C of the Audit Findings Report
3. The Committee is recommended to note the Auditor's Opinion in relation to the Statement of Accounts

(proposed Cllr Simon Coles; seconded Cllr Janet Lloyd)

### 113. **Somerset West and Taunton Council Statement of Accounts 2021/2022**

John Dyson, Corporate Finance Manager introduced the report:

- Confirmed that his earlier presentation for agenda item 8 covered the matters relating to the Statement of Accounts.
- I would also like to point out that within the statement of accounts that have been issued the balance sheet assumes that will be signed as of today i.e. 7 November 2022 and the statement of responsibilities likewise, and that when we have gone through the process of applying the statutory override we will be changing the dates of those two statements.

During the debate, discussion took place around:

- Page 184 note 15 and whether minus investment property figure of £1,150k in 2020/21 was a loss and whether the figure of minus £5,754k in 2021/22 was a bigger loss than the previous year. The officer confirmed that a negative represents a credit and therefore in this instance it was positive income. The figures show that the Council received more rental income in 2021/22 than in 2020/21.
- Page 190 shows a figure of £4,570 listed as short term creditors. The officer was asked to give an example of who a short term creditor is. The officer confirmed that a short term creditor arises where the Council owes money to businesses as at the 31 March 2022, but where it will be paid in less than twelve months

- What the Council's standard payment terms are when an invoice is received from a business. The officer confirmed that our standard payment terms are 30 days unless the arrangement with the business stipulates something different.
- Whether the Council pays businesses quickly to support them during the cost of living crisis. The officer confirmed that there was a push during the pandemic to pay invoices in the next payment run once the invoice had been confirmed as valid. We now do one or two payment runs a week to ensure that businesses are paid in a timely manner. A Councillor confirmed that the Council's approach had been well received by local businesses during the pandemic.

The Committee **resolved** to approve the recommendations in the report plus an addition recommendation (d):

The Committee is recommended to:

- Note the Auditor's unqualified opinion on the Statement of Accounts (Appendix A) – this remains subject to an update on the matter of a statutory override regarding the accounting treatment of Infrastructure Assets under the CIPFA Code of Practice
- Either approve the 2021/2022 Statements of Accounts as attached to this report (Appendix A – as updated as per recommendation d below) or, if Somerset West and Taunton Council must await conclusion of the statutory override, delegate final approval of the 2021/2022 Statement of Accounts to the Chairman of the Committee, in consultation with the Vice Chairman and the Assistant Director – Finance (S151 Officer)
- Endorse the Chairman of the Committee to sign the Management Letter of Representation (Appendix B) in respect of the financial statements for the year ended 31<sup>st</sup> March 2022.
- The Balance Sheet (Page 17 of the Statement of Accounts or Page 144 of the agenda pack) is amended, as follows:

<b>Balance Sheet Line</b>	<b>Originally Reported</b>	<b>Updated to</b>	<b>Movement</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Other land and Buildings	103,044	104,179	1,135
Unusable Reserves	224,602	225,737	1,135

And that the following notes will be amended for this adjustment:

- Comprehensive Income and Expenditure Statement (Page 15)
- Movement in Reserves Statement (Page 16)
- Note 14 (Pages 50 and 56)
- Note 25 (Pages 71 and 72)

(proposed Cllr Simon Coles; seconded Cllr Janet Lloyd)

The Chair and Committee thanked the Finance Team for their work on the Statement of Accounts.

(The Meeting ended at 8.02 pm)



	<b>AUDIT AND GOVERNANCE COMMITTEE</b>	
<b>Meeting Date</b>	<b>Draft Agenda Items</b>	<b>Lead Officer</b>
<b>12 December 2022</b>	External Audit Progress Report and Sector Update	Grant Thornton LLP (Jackson Murray)
	External Audit Auditor's Annual Report 2021/22	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
	Summary of Level 1 and 2 Audit Actions Progress	Malcolm Riches
	Landlord Compliance Report	Ian Candlish
	H&S Update	Sean Papworth
<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 Annual Opinion Report 2022-23	SWAP (Alastair Woodland)
	Update on Annual Fraud plan 2022/23	Amy Tregellas
	Summary of Level 1 and 2 Audit Actions Progress	Malcolm Riches
	Annual Governance Statement 2022/23	Amy Tregellas
	H&S Update	James Barra
	Treasury Management Q3 2022/23	John Dyson
	Audit and Governance Chair's Annual Report 2022/23	Chair of Committee



## Agenda Item 6 – Action/recommendation tracker

Items from the Audit & Governance Committee meetings held on 12<sup>th</sup> September and 7<sup>th</sup> November 2022

Agenda Item	Action/recommendation	Update/Status
Health & Safety Update (from 12 <sup>th</sup> September meeting)	With regard to the risks around abuse and threatening behaviour towards Councillors and how Councillors could keep themselves safe, officers confirmed that information on personal safety was sent around to all councillors recently and that they would revisit the information on the Local Government Association website and circulate any further useful information including how to de-escalate a situation.	Complete – Information was circulated in the ethical newsletter sent to all Members on 10 <sup>th</sup> November 2022. This included draft guidelines for Members on Personal Safety.
Forward Plan (from 7 <sup>th</sup> November meeting)	The queries regarding whether items in March 2023 will be under the remit of SWT or SCC to be resolved and the forward plan to be updated.	Complete – updated forward plan is on this agenda
Annual Governance Statement (from 7 <sup>th</sup> November meeting)	The officer to provide the Committee with an update on Member Training and Development arrangements for the new Unitary Council – specifically relating to specialist areas such as finance, planning and licensing.	An update to be provided at the Committee meeting
Statement of Accounts (from 7 <sup>th</sup> November meeting)	The officer to provide the Committee with an update on the position in terms of the statutory override relating to infrastructure assets and the signing off of the Statement of Accounts for 2021/22	An update to be provided at the Committee meeting

Agenda Item	Action/recommendation	Update/Status
Statement of Accounts (from 7 <sup>th</sup> November meeting)	Information to be sent to all Committee members relating to the procurement arrangements for appointing valuers.	<p>Complete – update sent to all Committee members on 9<sup>th</sup> November 2022. The information was, as follows:</p> <p>When appointing valuers, the Council's Assets team goes through a formal procurement process, which is restricted to firms who are governed by the strict Royal Institute of Chartered Surveyors (RICS) standards on such matters.</p> <p>RICS rules state that any conflict of interest must be declared and a valuer must refuse to act if there is any conflict.</p> <p>The firm would be de-registered and the Valuer struck off if they disobey those rules.</p> <p>The current valuers, Wilks Head &amp; Eve, were appointed following a competition tender process within the ESPO 2700_19 Estates Management Professional Services Framework. There were five bids evaluated by the project team in the last procurement process.</p>



*Report Number: SWT 156/22*

## **Somerset West and Taunton Council**

### **Audit and Governance Committee – 12 December 2022**

#### **Auditor's Interim Annual Report on Somerset West and Taunton District Council 2021/22**

**This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen**

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

#### **1 Executive Summary**

- 1.1 This short covering report introduces the second stage of annual reporting by our External Auditor, Grant Thornton UK LLP. It follows their presentation of the Audit Findings Report for the Statement of Accounts 2021/22 to the meeting of this Committee on 7 November.
- 1.2 The Auditor's report, attached as Appendix 1, is presented as an interim report, pending the auditor issuing the final opinion on the Statement of Accounts for 2021/22. It primarily focusses on the Auditor's findings on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. It recognises the transition towards the new unitary Somerset Council.
- 1.3 The Auditor's report includes a summary of findings and highlights five improvement recommendations to the Council which, in turn, are accompanied by the Council's management comments. The Auditor will present the report verbally at this meeting of the Committee.

#### **2 Recommendations**

- 2.1 The Committee is recommended to note the Auditor's Annual Report in respect of 2021/22 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.

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

- 3.1 The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General responsible for the preparation, publication, and maintenance of the Code of Audit Practice. The latest (2020) Code of Audit Practice sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act. It introduced changes to the way local auditors report on arrangements to secure Value for Money (VFM), requiring the report of the Auditor to be substantially more

comprehensive. The report, in turn, follows considerable work by the External Audit team involving research, high-level interviews and evidence gathering to support the Council's position in respect of:

- Ensuring financial sustainability,
- Managing governance arrangements,
- Securing economy, efficiency, and effectiveness in its use of resources.

3.2 The Annual Auditor's Report is required to be issued within three months of the audit opinion for the Statement of Accounts 2021/22. The opinion awaits final approval of the accounts which, in turn, will follow the resolution of a technical issue that is affecting local authorities nationally. When the accounts have been signed off, the Annual Auditor's Report will be issued alongside the audit opinion. Meanwhile, the National Audit Office has once again permitted auditors an extension for this piece of work to reflect the reduced staffing capacity of the audit sector and the longer-term impact of the pandemic. For this reason, the Interim Annual Report on VFM can be brought to the December meeting of this Committee.

3.3 Recommendations made by the Auditor are classified into a hierarchy of levels:

- Statutory Recommendations – there are none reported
- Key Recommendations – there are none reported
- Improvement Recommendations – the report contains five such recommendations.

3.4 Details of the hierarchy of recommendations are contained on page 5 of the Auditor's report.

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

4.1 The audit reviewed in closer detail the governance arrangements in place to support Somerset's local government reorganisation. Details are contained within the Auditor's report, including two recommendations relating to governance.

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

5.1 There are no direct resource implications related to this report. However, Members should note the external auditor's opinion and recommendation relating to financial sustainability, together with management response.

5.2 The Commercial Property Investment Strategy (CPIS) has currently one of the key elements of this Council's financial strategy since the CPIS was approved at Full Council in December 2019. The Auditor's report continues to consider Commercial property investment and recognises that the cumulative portfolio stemming from the merging Somerset councils represents a key budgetary risk for the new unitary council.

#### **6 Legal Implications**

6.1 The Council has a statutory duty to report on the Auditor's findings in relation to

securing economy, efficiency, and effectiveness in its use of resources.

**Democratic Path:**

- Audit and Governance Committee – 12 December 2022

**Reporting Frequency:** Annually

**Contact Officers:**

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# Interim Auditor's Annual Report on Somerset West and Taunton Council

Page 2021/22

29 December 2022



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

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



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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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# Executive summary



## Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

During 2021/22 the Council has continued to feel the impact of the pandemic with regards to reductions in income, increasing demand for services, and on the delivery of the capital programme. Despite financial and operational challenges, the Council delivered a £2.3m surplus for the year. The Secretary of State issued his decision to implement the "One Somerset" proposal for local government reorganisation on 21 July 2021. From 1 April 2023 there will be a single tier of local government in Somerset, with the existing four district councils and Somerset County Council merging to form Somerset Council. Increasingly the Council's financial and service planning is now focused on a successful transition to the new authority.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk identified with regard to arrangements for transition to the new unitary council.	No significant weaknesses in arrangements identified, but two improvement recommendations made.	No significant weaknesses in arrangements identified, but one improvement recommendation made.	↑
Governance	Risk identified with regard to arrangements for transition to the new unitary council.	One significant weaknesses in arrangements identified, and one improvement recommendation made.	No significant weaknesses in arrangements identified, but two improvement recommendations made.	↑
Improving economy, efficiency and effectiveness	No risk identified.	No significant weaknesses in arrangements identified, but two improvement recommendations made.	No significant weaknesses in arrangements identified, but two improvement recommendations made.	↔

	No significant weaknesses in arrangements identified or improvement recommendation made.
	No significant weaknesses in arrangements identified, but improvement recommendations made.
	Significant weaknesses in arrangements identified and key recommendations made.

# Executive summary



## Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. The Council has a good track record for robust financial management, and delivered a £2.3m surplus for 2021/22. We have carried out additional work to review the arrangements in place to support a successful transition to the new unitary council and to deliver the medium term financial plan. We have not identified any significant weaknesses in arrangements, but have made an improvement recommendation. Specifically:

- as part of the budget process for 2023/24 and through LGR workstreams, Somerset West and Taunton Council should support Somerset County Council in working to address key budget risks relating to commercial property, capital financing, reserves, and savings.

Page 32



## Governance

We have not identified any areas of significant weakness in the Council's governance arrangements with regard to managing risk, setting ethical standards, internal control and decision making. We have carried out additional work to review the arrangements in place to support a successful transition to the new unitary council. We have made improvement recommendations with regard to:

- further strengthening risk reporting by the inclusion of mitigating actions, gross and residual risk scores, and through risks being mapped to corporate objectives;
- ensuring adequate resources are allocated to the planning and delivery of service transformation for Somerset Council.



## Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations that the Council should:

- ensure that its strategic partners are recorded in a register that identifies the corporate priorities that they contribute to and the risks associated with the partnership;
- highlight to the LGR Programme previous internal audit recommendations relating to procurement.



We have yet to complete the audit of your financial statements due to a technical accounting issue affecting local authorities nationally in relation to infrastructure assets. We presented our audit findings to the Audit and Governance Committee of 7<sup>th</sup> November 2022.





# An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	Not applicable.
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No.	Not applicable.
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes.	Page 17 Pages 23-24 Pages 29-30

# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have yet to complete the audit of your financial statements due to a technical accounting issue affecting local authorities nationally in relation to infrastructure assets. We presented our audit findings to the Audit and Governance Committee of 7<sup>th</sup> November 2022

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not issue a statutory recommendation.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply for an application to the court.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for judicial review.

# Securing economy, efficiency and effectiveness in the Council's use of resources

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

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

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

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



## Financial Sustainability

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



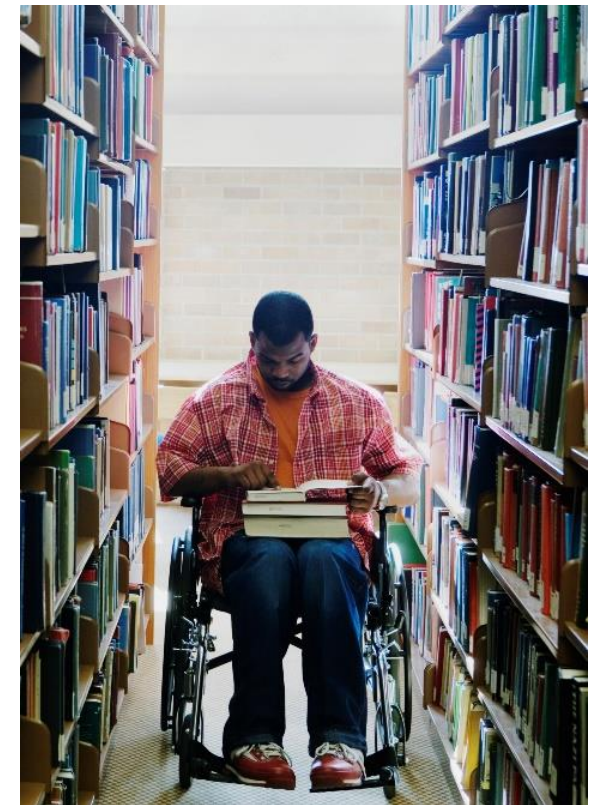
## Governance

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



## Improving economy, efficiency and effectiveness

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



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 8 to 30. Further detail on how we approached our work is included in Appendix B.

# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Outturn 2021/22

The 2021/22 General Fund (GF) outturn position was a £2.3m surplus against the £18.8m net budget. Within this net position, the Council achieved savings across service areas that include £0.5m against major contract costs and £0.9m reduced building management costs. Additional income was achieved for investment income of £0.6m. The Council also recognised £0.6m of Covid-19 general grants from the sales, fees and charges compensation scheme and from new burdens funding. Due to the continued impact of the pandemic, car parking income was £1.6m below the budgeted target.

The surplus was allocated to unearmarked GF reserves in order to increase the Council's financial resilience which is a prudent approach.

The Housing Revenue Account (HRA) outturn position was a £0.2m surplus which was added to HRA general reserves.

The Council incurred GF capital expenditure of £69.7m against a profiled budget of £78.5m. Capital spend supported corporate priorities, including commercial property (£54.9m), major regeneration schemes (£3.9m) and a contribution to the M5 infrastructure improvement scheme (£1.5m). In-year monitoring recognised there would be some slippage to schemes due to phosphate remediation issues, material and labour shortages, and reprofiling of the roll out of Recycle More depot works. This ensured that the outturn was not a surprise and indicates appropriate monitoring arrangements are in place.

Covid-19 continued to impact the delivery of the HRA capital programme. HRA capital expenditure of £12.7m was incurred for the year, mainly relating to capital maintenance of existing stock. Monitoring in the year identified slippage against the £29.9m budget for major works due to the impact of Covid-19 and supply chain disruption.

The outturn position for 2021/22 does not identify any risk of significant weakness in the Council's financial management arrangements. The Council's budget monitoring arrangements are robust, with monitoring and outturn reports containing a detailed narrative explaining the reasons for budget variations by Directorate and providing evidence that variances are identified, trends monitored, and forecasts are made to the year end.

## Budget 2022/23

The 2022/23 budget reflects the implications of the annual local government funding settlement, which are clearly set out in the budget report. There was no overall change to the Council's core spending power that takes into account government funding, business rate baseline and council tax income. The budget report sets out the income the Council will receive for specific grants such as revenue support grant, rural services and lower tier services grants, and new homes bonus.

Funding within the budget also includes a 2.95%, or £5 increase, in council tax in accordance with referendum principles.

The Council withdrew from the Somerset business rates pool for 2022/23 in order to reduce risk and optimise retained business rate income for Somerset as a whole. This is due to the risk that the Council will fall into the safety net when

# Financial sustainability

Hinkley Point B ceases production. The decision was supported by financial scenario modelling based on the amount either the pool or the Council would lose. Due to the effect of reducing risk to the pool by Somerset West and Taunton (SWT) Council exiting the arrangement, the remaining pool members have agreed to pay the Council a proportion of business rates income growth. This arrangement ensures additional business rate growth in Somerset is retained and benefits the whole County and evidences appropriate planning arrangements and liaison with key partners.

The 2022/23 budget reflects the impact of the Council falling into the safety net for 2022/23, with a £1.6m reduction in business rates income forecast.

The 2022/23 budget relies on £2.6m of one-off reserve contributions to fund recurring service costs. While this is not a sustainable position in the long term, we recognise that it is an appropriate approach to balance the budget gap in what is the last year of operation for SWT Council and protects services and capacity to deliver local government reorganisation from 1 April 2023.

Given this situation, significant service based savings are not factored into the 2022/23 budget. A savings target of £0.2m is included which relates to the service efficiency and improvement programme for the Internal Operations Directorate.

Revenue monitoring identifies a £0.2m revenue surplus as at Quarter Two 2022/23. The position has improved compared to the Quarter One forecast of a £0.3m budget overspend, after action was taken to review budgets and manage pressures where possible. It will be important to continue to manage the 2022/23 budget position during the remainder of the financial year so that there is no requirement to call on reserves to balance the budget. This will ensure that the new Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023. We note that the Council does have a good track record of delivering a year-end outturn position within the approved budget, with underspends reported for 2020/21 and 2021/22.

From our work we have not identified any significant weaknesses with regard to the Council's budget setting arrangements. The Council's annual budget was based on realistic assumptions when it was created and reflects the annual funding settlement. We note that the 2022/23 budget report is accompanied by a budget book which provides additional information on the cost of services through a detailed subjective analysis by cost centre, and

evidences action taken against a previous improvement recommendation from the 2020/21 Auditors Annual Report.

## Medium term financial plan (MTFP)

Financial planning across local government is made more difficult due to the uncertainty created from annual finance settlements and the delay to funding reforms such as the fair funding review and the business rate reset. Despite this uncertainty, our review of the Council's financial planning process indicates that it is based on realistic assumptions and considers that arrangements are robust. Financial planning assumptions are updated as the financial year progresses and more information becomes available.

Executive approved the Financial Strategy 2021/22 – 2022/23 in July 2021. This set out the approach to developing the 2022/23 budget and provided an indicative forecast for 2023/24, which will be the first year of operation for the new unitary council. Due to local government reorganisation the Strategy seeks to protect funding for services in order to maintain service delivery and capacity to support the transition to the new council. This includes using reserves to balance budget gaps in the short term so that service redesign can be planned on a Somerset-wide basis as part of local government reorganisation and transformation. We consider this to be appropriate in this specific context.

Financial planning assumptions are clearly set out in the Financial Strategy. These include assumptions for pay awards, inflation, fees and charges, savings targets and government funding. These were appropriate at the time they were developed.

The medium term planning update provided to Members in February 2022 as part of the Revenue Budget Report 2022/23 identifies an indicative budget gap of £5.2m for 2023/24. This gap is driven by the removal of one-off reserve contributions that are funding the 2022/23 budget and reductions to specific government grant funding such as new homes bonus.

Local government reorganisation (LGR) in Somerset, and the creation of Somerset Council on 1 April 2023, is the strategic response to protecting services and providing financial sustainability in the area over the medium term. The business case for the One Somerset proposal that was approved by the Secretary of State identified recurring annual savings of £18.5m that could be delivered, based on one-off implementation costs of £16.5m. Financial planning has now switched focus from balancing the budget gaps of individual sovereign

# Financial sustainability

councils, to identifying the budget gap for the new unitary council and addressing this through LGR and transformation savings. This is an appropriate focus.

From our review of the assumptions within the 2022/23 budget and medium term financial planning undertaken during the year, we are satisfied that the Council has robust financial planning processes in place and that planning is based on reasonable assumptions. As LGR is the primary mechanism for delivering financial sustainability in the medium term, we have carried out further detailed work on the arrangements and progress for setting the 2023/24 budget for Somerset Council. This is detailed separately in the Budget Setting Arrangements 2023/24 section of this Auditor's Annual Report.

## Commercial property investment strategy

The Council's Commercial Investment Strategy was created to underpin financial planning by generating commercial income to offset reductions in government funding and so protect services. SWT Council has invested £99m through the Commercial Property Investment Strategy since 2020. The development of the portfolio was completed in December 2021, with the Council purchasing £54.9m of commercial property during 2021/22.

The 2022/23 budget report sets out the significant level of commercial property income that the Council is reliant upon, with total investment income of £7.2m forecast for the year. After deducting interest and minimum revenue provision charges of £2.8m, the net income funding services in the General Fund is £4.5m.

The Council has funded the majority of the commercial property portfolio through short term borrowing, with £75m of short term debt outstanding as at 31 March 2022. This creates a refinancing risk for the Council when interest rates are rising.

SWT Council has started to address this risk through accelerated debt repayments approved through the Financial Strategy and the 2022/23 budget. As at 31 March 2022 a total £4.5m accelerated debt repayments have been made to reduce the borrowing requirement associated with commercial property. Total debt repayments of £7.4m are planned by 31 March 2023. This will result in 7.5% of the portfolio being fully funded, but will still leave a balance to be funded from borrowing of £91.6m.

The Council operates an Investment Risk Reserve to mitigate the risk that income for commercial property is lower than the budgeted amount. This reserve had a balance of £3.2m as at 31 March 2022, with a further £1.0m contribution approved in Quarter One

2022/23, bringing the forecast balance to £4.1m as at 31 March 2023.

A key recommendation was made in the Auditor's Annual Report 2020/21 that the Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of the Commercial Property Investment Strategy. We identified that the scale of commercial property investment exposes the Council to significant financial risk and is a departure from the principles of prudent activity set out in the revised CIPFA Prudential Code that was published in December 2021. HM Treasury introduced new lending rules in November 2020 to curtail commercial property investment by preventing councils from accessing PWLB borrowing if they were undertaking such activity within their capital programmes.

The Council can demonstrate that it has made progress in implementing this key recommendation and in further addressing the risk associated with the commercial property portfolio. The Council's response includes:

- the accelerated repayment of the borrowing requirement associated with commercial property;
- maintaining an Investment Risk Reserve with a £4.1m balance forecast as at 31 March 2023, equivalent to 57% of gross income;
- updating the Commercial Strategy to reflect the completion of the portfolio and focus on ongoing management rather than further property acquisition;
- Members have been updated on the progress made in addressing the key recommendation through the updated Commercial Strategy and through an additional progress report considered by the Audit and Governance Committee in November 2022; and
- a local government workstream is considering the new unitary council's approach to commercial property, including risk appetite, financing, and which investments to retain.

We recognise that the Council has now completed the commercial property portfolio and has made progress implementing the actions from the key recommendation. We have therefore concluded that there is no further significant weakness in arrangements to report for 2021/22. The strong governance arrangements we identified in 2020/21 with regard to the appraisal of investments, the operation of the Commercial Property Investment Board, and reporting of performance to Council has continued.

# Financial sustainability

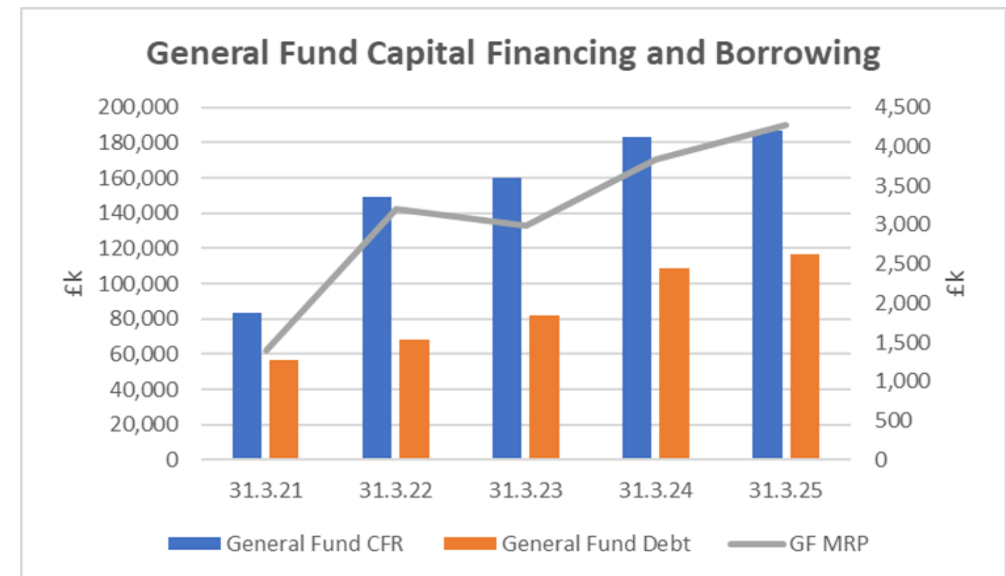
However, the outstanding borrowing requirement for commercial property is still significant and the Council has opted for a strategy of continuing to fund these acquisitions mainly from short term debt in order to maintain flexibility for the new unitary council, while their approach to these investments is developed. The new unitary council will inherit a significant commercial property portfolio from the four Somerset district councils, and will thus be exposed to continued significant risk with regard to commercial property income and financing. We have identified this as a key 2023/24 budget risk for the new council which is considered further in Budget Setting Arrangements 2023/24 section of the Auditor's Annual Report.

## Capital strategy and treasury management

The Capital Strategy was approved in March 2022 and forecasts a GF capital programme of £166.9m and an HRA capital programme of £110.3m for the period 2021/22 to 2024/25. Therefore the Council's total capital programme is £277.2m, of which £178.6m (64%) is funded from borrowing as demonstrated in the table below.

Capital Financing Summary					
	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
External sources	5.8	21.5	12.2	1.1	40.6
Internal sources	17.3	17.4	11.6	10.7	57.0
Leases		0.3	0.3	0.4	1.0
Debt:					
HRA	4.1	17.1	20.6	19.3	61.1
GF	69.1	13.9	26.6	7.9	117.5
<b>Total Debt</b>	<b>73.2</b>	<b>31.0</b>	<b>47.2</b>	<b>27.2</b>	<b>178.6</b>
<b>Total Financing</b>	<b>96.3</b>	<b>70.2</b>	<b>71.3</b>	<b>39.4</b>	<b>277.2</b>

The graph below reflects the revenue impact resulting from financing a large proportion of the GF capital programme through borrowing. In 2020/21 the MRP charge was £1.4m based on a CFR of £83.2m. This is forecast to rise to £4.3m by 2024/25 as the CFR increases to £186.9m.



The Council approved new GF capital bids totalling £1.9m in February 2022 which were prioritised on the basis that they mitigate health and safety risk or are essential for asset maintenance and service delivery. New bids were funded through the revenue budget and reserves, thus avoiding a further increase to the Council's capital financing requirement.

The Council's borrowing strategy is to retain flexibility during the transition to the new unitary council on 1 April 2023 and not enter into additional long term borrowing. Total outstanding debt on the Council's balance sheet as at 31 March 2022 was £180.7m, of

# Financial sustainability

which £75m was short term debt. The significant short term debt that the Council holds, and the internal borrowing represented by the difference between the CFR and actual debt in the graph above, represents a refinancing risk for the new Somerset Council in a period when interest rates are rising significantly. The capital programme, its financing and the related costs are recognised as key focus areas in the construction of the budget for the new unitary council, and are further considered in the Budget Setting Arrangements 2023/24 section of this Auditor's Annual Report.

## Reserves and risk mitigation

Risks are clearly set out within financial reports. The Revenue Budget and Capital Estimates Report 2022/23 contains the Section 151 Officer's report on the robustness of the budget and the adequacy of reserves. The narrative is comprehensive and describes key areas of risk and uncertainty within the budget and how these are mitigated. The CFO also confirms the adequacy of reserves and the minimum prudent level of GF reserves.

The budget report provides a sensitivity analysis for key elements of the budget, quantifying the financial impact of changes to assumptions for the pay award, carparking income, fees and charges, interest rates and commercial property income. This contributes to understanding the financial exposure the Council faces if actual performance varies to that assumed in the budget and allows informed decisions to be made. Mitigating actions are identified for each financial risk.

As part of the budget process 2022/23 the minimum prudent level of General Fund reserves was confirmed at £2.4m. Due to the allocation of the 2021/22 underspend to the General Fund balance, the actual balance as at 31 March 2022 was £7.6m. After taking into account the funding of LGR costs in 2023/24, this leaves a projected balance of £6.2m, which is well in excess of the minimum prudent balance and represents 36.5% of the Council's £17m net budget for 2022/23. This provides a good level of financial resilience for the Council in view of increased financial risk caused by high inflation, increasing interest rates and the transition to the new unitary council.

The Council also has earmarked reserves which can be used to mitigate financial risk. As at 31 March the Council had £28m of earmarked reserves. The budget for 2022/23 does forecast that £12.9m of these reserves will be utilised during the year, largely due to the draw

down of funding earmarked for specific purposes such as £6.4m business rates S31 grant, £1.2m Covid-19 relief fund grant, and £1.1m to fund budget carry forwards.

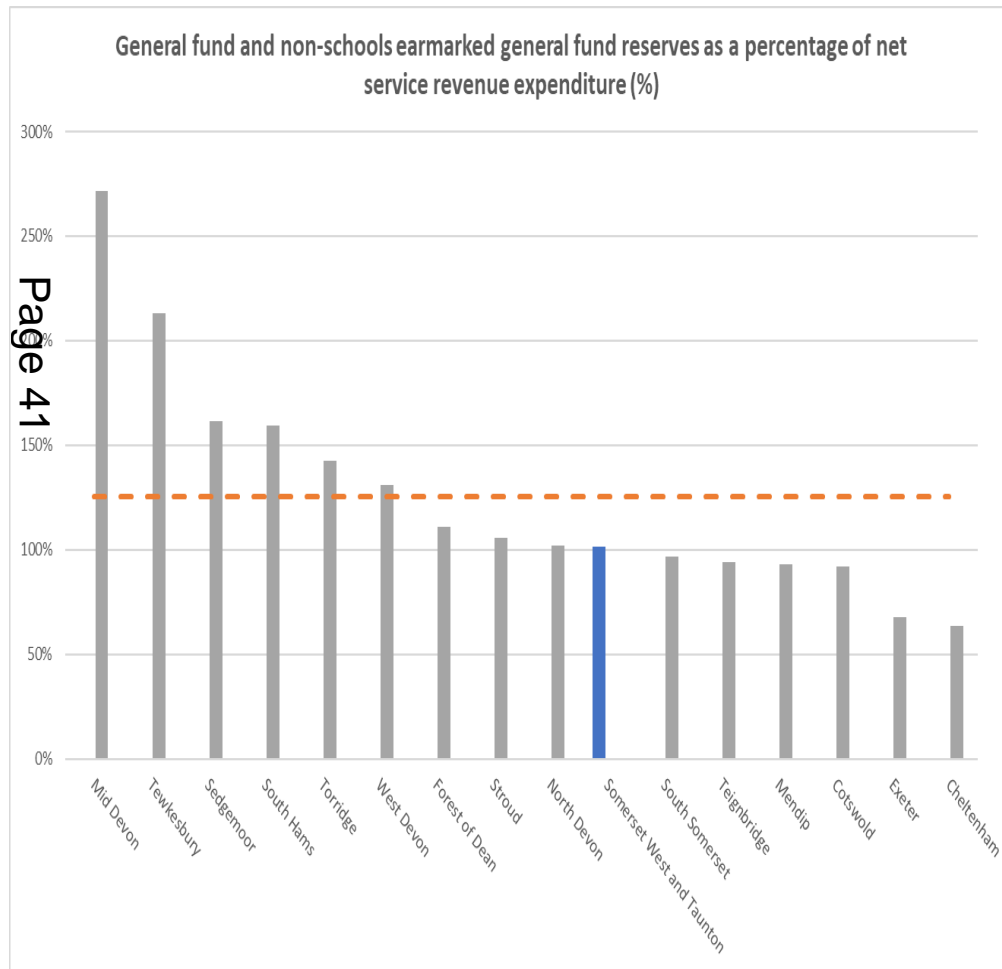
The Budget Monitoring Report for Quarter One 2022/23 forecasts earmarked reserves of £12m as at 31 March 2023. This balance includes risk mitigation reserves for business rates and property investments that total £8.9m and are in addition to the GF balance.

We have benchmarked the Council's GF and earmarked reserves, as a proportion of net service expenditure, to other district councils in the South West region, using data from the 2021/22 draft statement of accounts. SWT Council's reserves represent 101% of net service expenditure compared to an average of 125%. The graph overleaf does show that the Council is not an outlier compared to other districts, with the overall average inflated by high levels of reserves held by two district councils in particular.

From our work we have found that the Council has adequate arrangements in place to mitigate risk, and the Council has significant risk mitigation reserves. It will be important to protect the reserves position as much as possible during the transition to the new authority in order to ensure that Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023.



# Financial sustainability



## Local government reorganisation – budget setting arrangements 2023/24

We identified in the Audit Plan 2021/22 that there is a risk of significant weakness with regards to the arrangements in place to support a successful transition to the new unitary council. In response to this risk we have undertaken additional work to assess the progress made across key financial LGR workstreams. As Somerset County Council (SCC) is the continuing authority under the Structural Change Order, they are responsible for approving the financial strategies and budgets that relate to the new unitary council.

The LGR risk register recognises the budget gap for Somerset Council in 2023/24 as one of the highest risks to the LGR programme. The budget gap for the first year of the new council's existence is forecast at £74.2m in the November 2022 MTFP update to the SCC Executive. This reduces to a net gap of £38.2m after taking into account £27.8m of identified savings and an assumption that the cost of social care reform will be fully funded (£8.2m).

There is a robust process in place for delivering a balanced budget for 2023/24. The financial standing of the new council has been a key focus since the decision from the Secretary of State to implement LGR in July 2021. As part of the 2022/23 budget process, existing councils in Somerset agreed a voluntary Finance and Assets Protocol to ensure that legacy council decisions did not have an adverse impact on Somerset Council and that new financial commitments over agreed thresholds would not be entered into.

In February 2022 the LGR Joint Committee considered the impact of key elements of the existing councils' 2022/23 budget proposals on Somerset Council. Key areas include revenue and capital budgets, reserves, commercial investments and treasury management.

The SCC Executive approved the Somerset Council MTFP in July 2022. This set out the high level strategy for delivering a balanced budget, including efficiency savings, reviewing service levels, alternative service delivery, asset management and income generation.

Work is well underway to refine the budget for 2023/24 through reviewing the staffing establishment, developing savings proposals, reviewing borrowing costs, and deep dives into services with significant cost pressures such as Children's and Adult's services. SCC Executive away days are programmed into the budget process to review budget issues and gain consensus on potential areas to achieve savings. These ensure that Members of the

# Financial sustainability

continuing authority have a good understanding of the financial challenge. A Member Budget Working Group has been created to consider specific areas of the budget, including service budgets, the capital programme and office rationalisation.

We have identified the following elements of good practice that support the 2023/24 budget setting process:

- Member engagement through SCC Executive away days and the Budget Working Group;
- weekly budget briefings for the SCC Executive and Senior Leadership Team;
- three full SCC Member briefings planned for key stages during the 2023/24 budget process;
- monitoring and reporting of implementation costs against the business case;
- template developed to map 2022/23 service budgets from the existing five councils into a 2023/24 base budget for Somerset Council; and
- services have been asked to develop savings plans to achieve 5%, 10% and 20% efficiency targets.

Somerset County Council will be required to approve a balanced 2023/24 budget for the new Somerset Council in February 2023. Although robust budget setting arrangements are in place, the challenge to set a balanced budget for the first year of Somerset Council is significant. From our work and discussion with key officers, we have identified several key budget risks that relate to the scale of the commercial property portfolio, the size of the capital programme, the capital financing requirement, reserves, and the level of savings required.

Somerset Council will inherit a £280m commercial property portfolio that generates gross income of £20m from the four district councils. Much of the portfolio is funded from short term debt which creates a financing risk in the current environment where interest rates are rising. In developing the 2023/24 budget and associated Treasury Management and Investment Strategies, Somerset Council's appetite for risk should be determined, including which commercial assets the Council wishes to retain. The approach to financing commercial assets and mechanisms for mitigating risk if commercial returns are less than planned should also be determined. The new authority should ensure it complies with the

CIPFA Prudential Code, which confirms that capital investment purely for yield is not prudent activity, and requires councils with a capital financing requirement (CFR) to review options for exiting commercial investments.

Somerset Council will also inherit a significant CFR from the five predecessor authorities. Analysis of the CIPFA capital estimate returns for 2021/22 shows that Somerset Council would have a combined CFR of £1.1bn as at 31 March 2022. This would be the sixth highest CFR in England when compared to all other unitary authorities as demonstrated in the graph overleaf. The size of the combined CFR is consistent to the relative size of the new authority which would rank sixth highest in terms of revenue expenditure, but this level of CFR represents a significant financial risk that will require close management. The external debt levels associated with this CFR are approximately £780m, with significant amounts of short term debt that will need refinancing over the next three years. Associated interest costs are estimated at £31m per annum, with MRP charges of £13m.

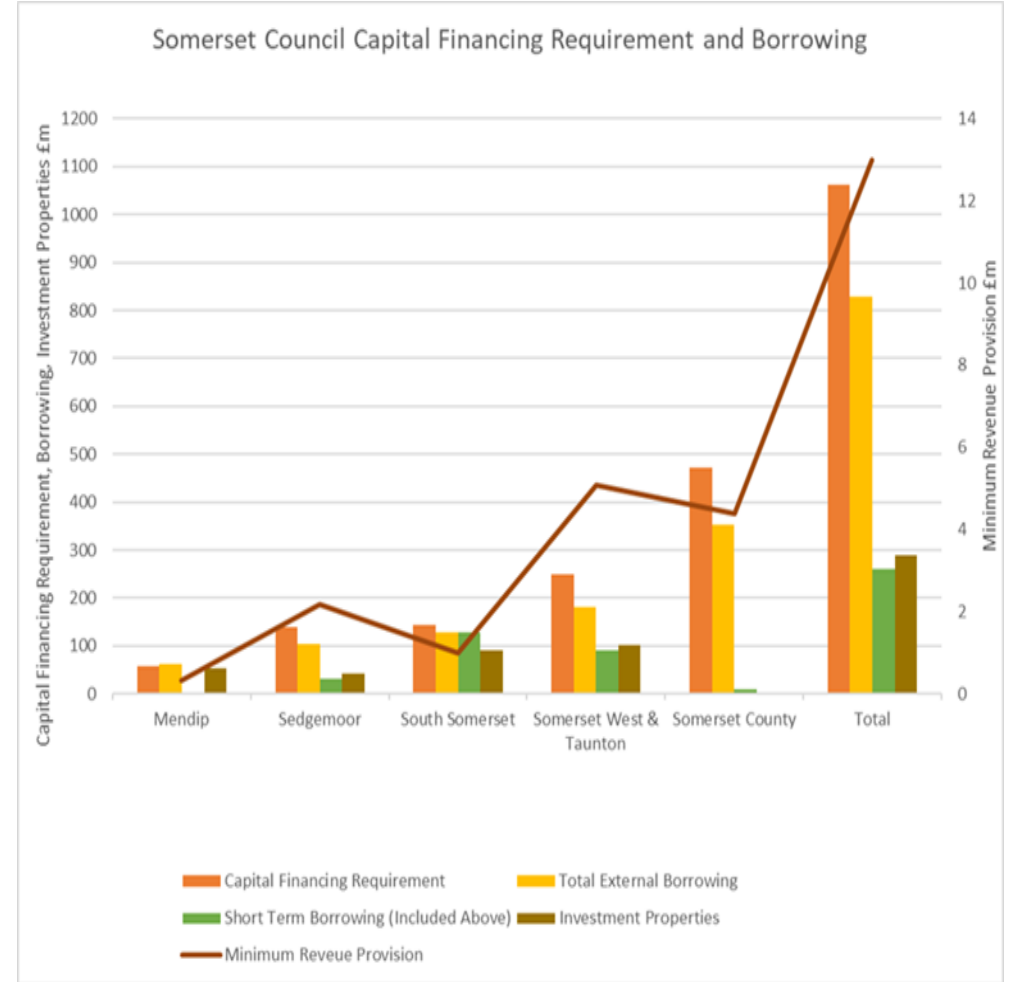
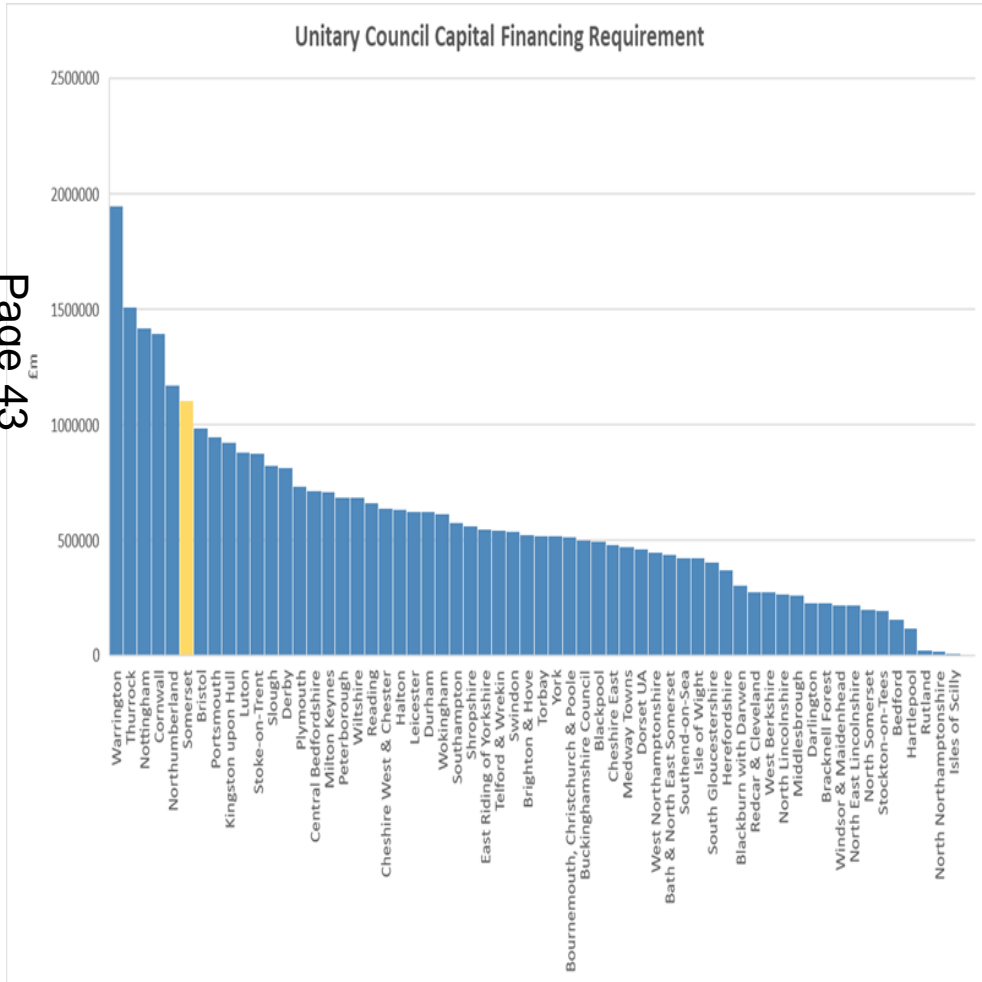
It should be noted that Somerset West and Taunton Council and Sedgemoor District Council are both housing authorities with a Housing Revenue Account. An element of their CFR therefore results from investment in housing stock which is not subject to the same requirement to charge the General Fund with MRP.

Therefore a key element to setting a balanced and sustainable budget for Somerset Council will be to agree a borrowing strategy that manages the risk of rising interest rates and ensures that the cost of borrowing is affordable, while ensuring a prudent MRP policy and charge. Using data from the draft 2021/22 accounts, the combined impact of amalgamating the CFR, borrowing and commercial property portfolio of the five predecessor councils is demonstrated in the graph overleaf.

Ensuring the affordability of borrowing is also dependent on the size of the ongoing capital programme. The combined capital programme of the five legacy councils is approximately £405m and requires £154m of borrowing to fund expenditure, which will further increase Somerset Council's CFR. Increasing costs on capital works due to supply chain issues, inflation, increasing demand and rising interest rates creates a financial risk that capital budgets previously approved will not be sufficient. Work is underway to review the combined capital programme to identify schemes that could be stopped or paused to mitigate financial risk.

# Financial sustainability

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# Financial sustainability

Having sufficient levels of useable reserves will be critical to the financial sustainability of Somerset Council. Reserves may be required to fund ongoing transformation costs in order to achieve the savings required to balance the budget gap identified in the MTFP. It is possible that reserves will need to be used to balance annual budgets in the short term while ongoing savings are delivered. Reserves should only be used to fund short term budget gaps when there is a robust savings plan supported by a business case to deliver financial sustainability.

Therefore a reserves strategy should be approved which identifies and earmarks the level of reserves required for transformation, smoothing budget gaps, while maintaining an adequate General Fund balance to mitigate budget risk. In order to protect the level of reserves available to Somerset Council, sovereign councils should ensure any identified overspends are managed in order to deliver a balanced budget outturn for 2022/23.

Due to the scale of the budget gap identified for 2023/24, the November 2022 MTFP update acknowledges that additional savings will need to be identified that are not part of the LGR programme or transformation. Additional actions are identified to balance the budget, which include the identification of service reductions. Work should be undertaken to identify potential areas for service efficiency that can be implemented within a short timescale in order to balance the 2023/24 budget.

In conclusion, we have identified that there is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge. We have made an improvement recommendation that as part of the budget process for 2023/24, the following key budget risks should be addressed:

- continue progress in identifying potential service efficiencies that are not part of the LGR programme;
- determining the approach for holding, financing and mitigating the risk relating to commercial property investments;
- managing the capital financing requirement and approving a borrowing strategy that ensures the affordability of borrowing;

- reviewing the future capital programme to manage financial risk with regards to scheme cost and associated borrowing costs; and
- ensuring the level of reserves is adequate to fund transformation and mitigate risk.



# Improvement recommendations



## Financial sustainability

### Recommendation 1

As part of the budget process for 2023/24 and through LGR workstreams, Somerset West and Taunton Council should support Somerset County Council in working to address the following key budget risks:

- continue progress in identifying potential service efficiencies that are not part of the LGR programme;
- determining the approach for holding, financing and mitigating the risk relating to commercial property investments;
- managing the capital financing requirement and setting a borrowing strategy that ensures the affordability of borrowing;
- reviewing the future capital programme to manage financial risk with regards to scheme cost and associated borrowing costs;
- ensuring the level of reserves is adequate to fund transformation and mitigate risk.

### Why/impact

Somerset County Council will be required to set a balanced budget for the new authority in February 2023. The ongoing provision of services will depend on the financial sustainability of the new council. SWT Council and other district councils have a key role in supporting the budget process.

### Summary findings

The challenge to set a balanced budget for the first year of Somerset Council is significant, with a savings target of £38.2m identified. We have identified several key budget key risks that relate to the scale of the commercial property portfolio, the size of the capital programme, the capital financing requirement, reserves, and the level of savings required.

### Management Comments

Somerset County Council (SCC) is the continuing authority responsible for implementing local government reorganisation and setting a budget for 2023/24. The SCC S151 Officer is responsible for reporting to the County Council on the robustness of the budget and adequacy of reserves for 2023/24. SWTC's S151 Officer has advised the SCC S151 Officer of this recommendation. SWTC Officers including the S151 Officer are working collaboratively, as part of the LGR Programme, to support financial planning for the new Council which includes supporting the measures proposed in this recommendation.



The range of recommendations that external auditors can make is explained on Page 5.

# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Risk management

The Council's Annual Governance Statement (AGS) for 2020/21 noted weaknesses in risk management arrangements, with actions identified to improve the process for 2021/22. From the work we have undertaken, the Council can evidence that arrangements for managing risk have been strengthened during 2021/22.

The Audit, Governance and Standards Committee approved the updated Risk and Opportunity Management Strategy in February 2021. This incorporated previous recommendations for improvement made by internal audit in relation to providing guidance on risk identification and documenting service risk.

During 2021/22 performance reports, including a risk management update, were considered by Executive and Corporate Scrutiny Committee on a quarterly basis. Key business risks are reported to Members through the Corporate Risk Register, which contains risks with a current score of 15 or more. Information is provided in the risk register for risk cause, impact, current score, risk owner and Red/Amber/Green (RAG) rated indicators for the status of mitigation plan development and implementation. Red RAG rated corporate issues are also reported through the performance reports.

An improvement recommendation was identified in the Auditor's Annual Report 2020/21 that risk management reporting should include details of mitigating actions, timescales for implementation, and gross compared to residual risk scores. The information reported within the risk register in 2021/22 is more detailed compared to the previous year. However, we note that risks are no longer mapped to corporate objectives, there is no detail on the mitigating actions in place, and the impact on risk scores from the management of risk is not evident. Therefore we have made a further improvement recommendation that arrangements would be strengthened if they included these elements.

The Audit and Governance Committee approved the 2022/23 Risk and Opportunity Management Strategy in March 2022. This update included reference to preventing fraud and corruption as an objective for risk management and included the reporting of fraud as an employee responsibility. Strategic and economic risks were updated to reflect local government reorganisation, inflation and rising interest rates.

We note that internal audit provided a reasonable assurance opinion for risk management following their review of arrangements in October 2021.

We have found no risk of significant weakness with regard to the Council's arrangements for risk management. The Risk and Opportunity Management Strategy is regularly updated and approved, and key risks are reported quarterly to Members. We have identified an improvement recommendation to further strengthen risk management reporting.

# Governance

## Internal control

The Council's internal audit function is undertaken by the South West Audit Partnership (SWAP). The annual audit plan is developed with senior management to provide sufficient coverage of key corporate objectives and their associated risks, as well as coverage of core financial and governance systems. The annual audit plan is approved by the Audit and Governance Committee.

The Audit and Governance Committee receives regular internal audit update reports during the year that include progress made implementing audit recommendations, as well as progress against the audit plan and a summary of work completed.

Internal audit had completed 93% of the 2021/22 audit plan by June 2022 and provided a reasonable assurance annual audit opinion for the year.

The Council's AGS 2021/22 does not identify any significant internal control issues, although recommendations for improvement are set out in the AGS Action Plan. These include ensuring that outstanding internal audit recommendations relating to the limited assurance opinions for health and safety, data centre, procurement cards, and stores audits are actioned. The judgements made in the AGS 2021/22 are consistent with our understanding of arrangements developed through our value for money work and we concur with the Council's view that successfully implementing these actions is a priority.

The Council also reports on progress against the AGS Action Plan 2020/21, demonstrating that weaknesses in arrangements previously identified by the Council are addressed and monitored. Actions relating to the Constitution, risk management, and information published on the Council's website are largely complete. Other actions such as developing a Communications Strategy, Data Quality Policy and Workforce Strategy are now being considered as part of the wider work towards LGR.

From our work we have found no risk of significant weakness with regards to internal control. There is an effective internal audit function in place, which reports regularly to the Audit and Governance Committee. There are no significant weaknesses in internal control identified in the Annual Governance Statement 2021/22.

## Monitoring standards

We noted the Auditor's Annual Report 2020/21 that ethical governance and culture had been given a limited assurance opinion by internal audit in February 2021. Weaknesses in arrangements included key policies being out of date, and that training and improved awareness on the expected ethical standards was required.

The Council has made progress during 2021/22 to improve arrangements with regard to ethical governance. Executive approved the Anti-Fraud and Corruption Strategy, Anti-Bribery Policy and Whistleblowing Policy in April 2021.

The AGS 2021/22 action plan recognises that ethical awareness needs to be improved for Members, with training to be held twice a year and an ethical newsletter to be published regularly during the year. The LGR governance workstream is considering Member training requirements as part of work to transition to the new unitary council.

We note that Members have received two ethical newsletters to date in 2022/23. These aim to promote high standards of behaviour and provide updates on the Council's ethical framework and appropriately set tone and expectations.

The Audit and Governance Committee has received regular updates from internal audit on the progress made against the baseline assessment of arrangements to prevent and detect fraud. The Council can demonstrate progress is being made to address areas where internal audit identified that arrangements could be improved, such as in the review of key policies, presenting an annual fraud outturn report to Audit and Governance Committee, and requiring staff to complete e-learning modules in relation to fraud prevention.

The Annual Fraud Plan 2022/23 was approved by the Audit and Governance Committee in June 2022. The plan includes ensuring staff complete the required training, providing training to Members, and a quarterly review of the fraud risk assessment. This is in addition to counter fraud work and carrying out fraud investigations as required.

The Constitution sets out the legal and procedural framework under which the Council operates and includes the Financial Procedure Rules and Contract Procedure Rules. The Officer Scheme of Delegation requires that the appropriate level of professional officer

# Governance

ensures that all relevant laws and regulations are complied with. The Constitution also includes Officer and Member Codes of Conduct which set out the expected standards of behaviour, including the requirement to register interests, gifts and hospitality.

During 2022 all councils within Somerset have adopted a revised Member Code of Conduct, based on the Local Government Association's Model Code with local revisions. This ensures that all Members within Somerset are subject to the same Code in the transition to the new unitary council in April 2023. SWT Council adopted the revised Code in September 2022.

From our work and discussions with officers we are not aware of any instances of significant non-compliance with the Council's Constitution or with legislation or regulatory standards during the year.

We have not found any significant weaknesses with the arrangements in place to ensure compliance with ethical and regulatory standards. The Council can demonstrate that arrangements continue to be strengthened in this area, and that an appropriate ethical culture is promoted.

## Local government reorganisation – governance arrangements

We identified in the Audit Plan 2021/22 that there is a risk of significant weakness with regard to the arrangements in place to support a successful transition to the new Somerset Council on 1 April 2023. In response to this risk we have undertaken additional work to assess the programme's governance arrangements.

Governance structures to manage and oversee the LGR programme were established following the decision of the Secretary of State in July 2021 and have adapted as the LGR programme has developed. Arrangements are in place to support democratic decision making and ensure adequate Member oversight. Initially an LGR Joint Committee was established as a collaborative committee to oversee the LGR implementation plan, with membership including the Leaders of all five sovereign councils in Somerset. Following the Structural Changes Order, the Joint Committee was replaced by the LGR Implementation Executive that maintained the same membership and was created to ensure the efficient and timely transition to the new council.

As SCC is the continuing authority, since the May 2022 elections the SCC Executive became

the decision-making Member body responsible for the implementation of LGR. In order to maintain a collaborative approach and appropriate Member oversight, the SCC Executive is supported by the Implementation Board made up of the Leaders or relevant portfolio holders from the four districts and five SCC Members, including the Leader and Leader of the Opposition. The Implementation Board oversees and reviews the implementation plan and provides advice and recommendations to Executive as appropriate. The Implementation Board meets regularly to review programme update reports, the risk register and assurance reports from PwC.

There are additional layers of governance in place. The LGR Programme Board includes the Chief Executives from the existing five councils plus the SCC S151 Officer and Monitoring Officer, and reports to the Implementation Board. The Programme Board makes decisions relating to the six LGR workstreams, who are supported by a Programme Steering Group and Programme Management Office (PMO).

There is a detailed Implementation Plan that sets out the strategic objectives and key deliverables of the programme. There are three phases to the plan, with products essential to be delivered to achieve a safe and legal vesting day (T1), products that are desirable for vesting day (T2), and products to be delivered as part of transformation post vesting day (T3).

To ensure delivery of products and milestones are kept on track, the PMO maintains a detailed Programme Plan which combines all workstream plans. The PMO makes good use of Sharepoint to provide real time monitoring of workstream delivery and to create monthly progress reports and scorecards for the Programme and Implementation Boards. The PMO monitors workstream progress on a weekly basis and maintains an 8-week rolling plan to identify T1 products that are due for delivery. This allows for the early identification of, and mitigation for, potential delays to the plan.

The reliance on workstreams to deliver LGR products is a decentralised approach, which encourages collaboration, but which risks inconsistency between workstreams and inconsistency of reporting. This risk is recognised within the LGR programme and is mitigated through the weekly workstream monitoring by the PMO, monthly quality assurance sessions, change control processes, and the assignment of project managers to each workstream.



# Governance

The LGR programme has good governance arrangements in place that allow for effective monitoring, timely reporting and the identification and management of risk to programme delivery. Arrangements also support a collaborative approach. Our work has identified the following examples of strong governance arrangements and good practice:

- Member oversight from all existing councils through the Implementation Board;
- LGR Joint Scrutiny Committee comprising Members from all Somerset councils;
- tiered programme governance structure allowing for escalation of decisions as required;
- county council and district council workstream leads for each of the six workstreams;
- a strong Programme Management Office providing project management and detailed monitoring for individual workstreams within the programme;
- arrangements are in place to identify, report and mitigate risks through the LGR programme risk register which is reported to the Implementation and Programme Boards, LGR Joint Scrutiny Committee and the SCC Audit Committee;
- change control process to ensure changes to product target dates, scope, cost or benefit are agreed with the PMO;
- independent assurance provided on implementation progress, through PwC for the LGR programme and Socitm for MS Dynamics; and
- review of the governance arrangements to ensure that they remain fit for purpose and that the resources within the Programme Steering Group are best utilised.

The status of programme delivery as reported in the September Programme Update is an overall RAG rating of amber due to some slippage and resource pressures in key areas. At that point it was reported that out of 277 T1 and T2 products, there were eight deemed at risk or off track. From discussions with officers we understand that the current position is that there are only two T1 products currently at risk. These relate to the recruitment protocol and costed service structures, and would not have a material impact on vesting day.

The greatest risks to the LGR programme identified in the risk register relate to the budget gap for 2023/24 and the loss of staff deemed essential to programme delivery. The arrangements for setting a balanced budget for 2023/24 are considered in the Financial Sustainability section of this report.

Risks relating to availability of officer resources to deliver the programme are managed through the Recruitment and Mutual Aid Protocols, approved through the Implementation Plan. These seek to promote collaboration and manage resources to reduce potential redundancy costs, but also ensure individual councils have the capacity to deliver LGR. Staff are being supported through the change process through a programme of staff engagement exercises, frequently asked questions and weekly newsletters. Staff surveys have also been conducted to determine engagement levels, awareness and commitment to the LGR programme.

Resources to deliver the programme are likely to remain high risk however due to the scale of the programme and necessary speed of implementation. With officers fully engaged in delivering multiple products over different workstreams, resilience is low and there could be a significant impact on the programme should key officers be absent. The programme clearly recognises this risk and mitigates it as much as possible through a strong Programme Management Office alongside staff support and engagement initiatives.

From our discussions with Chief Executives and senior officers across Somerset, it is evident that there is a strong culture of collaboration within the LGR programme. Officers and Members from all the Somerset councils are working well together in order to effect a successful transition to the new council. This is to be commended.

Local government reorganisation programmes are complex activities that often require rapid implementation due to the short timescales between Secretary of State decisions and vesting day. The programme rightly prioritises the delivery of key products that are required for vesting day to create a safe and legal council.

However, there also needs to be a focus on, and adequate resources allocated to, planning and delivering the transformation of services that is required after vesting day. Transformation is required to achieve the business case benefits relating to joining up services and collaboration, but also to help bridge the significant budget gaps the new Council will need to address over the medium term.

# Governance

We have made an improvement recommendation that in order to achieve successful transformation the Council and its LGR partners should ensure adequate resources are allocated to the planning and delivery of transformation and that business as usual activities are reviewed as required to create capacity.

In preparation for transformation, Somerset County Council will be required to approve key organisational enablers such as the staff structure, target operating model and the Council Plan for the new unitary authority. The Target Operating Model should provide the benchmark against which to assess the current state of services and identify priorities for service redesign. The Council Plan will determine the priorities for the new authority and how these will be delivered, again informing the level of service redesign required.

Therefore from our work we have identified that there are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified. The programme should ensure that sufficient resources are allocated to planning the transformation stage, which will be critical to realising the benefits within the business case and in balancing the budget gap identified for Somerset Council.



# Improvement recommendations



## Governance

### Recommendation 2

The risk register reported to Members through the Corporate Performance Reports should include mitigating actions, gross and residual risk scores, and risks should be mapped to corporate objectives.

### Why/impact

Including these elements of best practice in risk reporting will ensure that the impact of mitigating actions on key strategic risks is better understood.

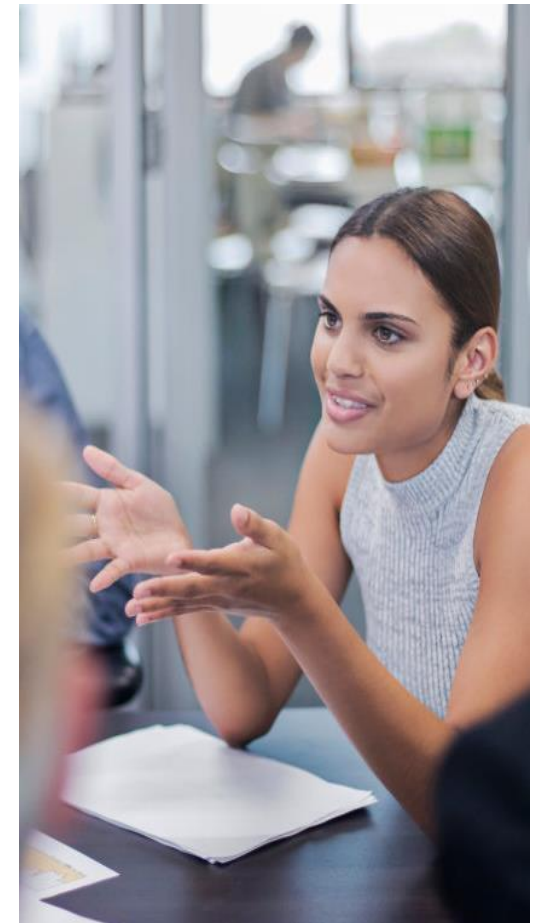
### Summary findings

Key business risks are reported quarterly to Executive and the Corporate Scrutiny Committee through the Corporate Risk Register. Information is provided in the risk register for risk cause, impact, current score, risk owner and RAG rated indicators for the status of mitigation plan development and implementation.

The information reported within the risk register is more detailed compared to the previous year, but we note that risks are no longer mapped to corporate objectives, there is no detail on the mitigating actions in place, and the impact on risk scores from the management of risk is not evident.

### Management Comments

The audit finding recognises that the level of detail has increased on the previous year, and members now regularly receive an update (RAG status) on both the development and implementation of the mitigation plan for each Key Business Risk. This approach was adopted so that more detail can be provided whilst recognising that the response to some risks is confidential and/or sensitive. Portfolio holders are briefed by directors on the relevant risks and further details can be shared with members more widely when necessary. With the move to a new Unitary authority, the risk reporting arrangements are being reviewed and a new approach will be taken forward by the new Council. This audit recommendation will be fed into the process that is developing the new Council's risk reporting arrangements to make them as robust as possible.



The range of recommendations that external auditors can make is explained on Page 5.

# Improvement recommendations



## Governance

### Recommendation 3

The Council and its LGR partners should ensure adequate resources are allocated to the planning and delivery of transformation and that business as usual activities are reviewed as required to create capacity.

### Why/impact

Transformation is required to achieve the business case benefits relating to joining up services and collaboration, but also to help bridge the significant budget gaps the new council will need to address over the medium term.

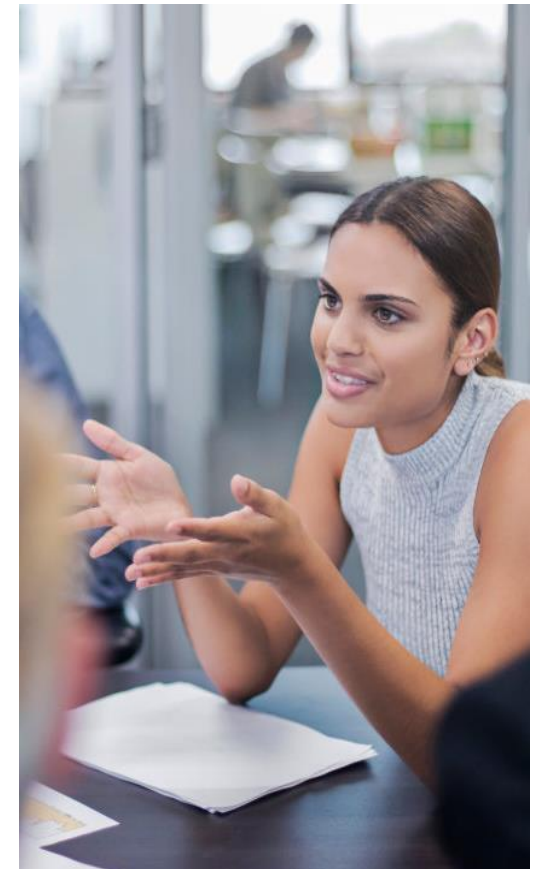
In preparation for transformation, Somerset County Council will be required to approve key organisational enablers such as the staff structure, target operating model and the Council Plan for the new unitary authority.

### Summary findings

The LGR programme rightly prioritises the delivery of key products that are required for vesting day to create a safe and legal council. However, there also needs to be a focus on, and adequate resources allocated to, planning and delivering the transformation of services that is required after vesting day.

### Management Comments

Somerset County Council (SCC) is the continuing authority responsible for implementing local government reorganisation and will be accountable for future transformation of services which will develop post vesting day, and the development and approval of the operating model, staff structures, Council Plan etc. Although not directly accountable, SWTC is engaged in the LGR Programme to support this ahead of vesting day and has set a budget of £1.375m in 2022/23 contributing towards LGR implementation costs and SWTC capacity to support transition. SWTC leadership and management continuously review capacity to ensure business as usual activities and support for LGR implementation are maintained.



The range of recommendations that external auditors can make is explained on Page 5.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Performance management

The Council's Corporate Performance Management Framework was approved in July 2021 and defines the approach to performance management to ensure consistent application across the Council. The Framework links the Corporate Strategy to Directorate plans, operational plans and personal objectives.

The Corporate Performance Management Board meets monthly to consider the corporate performance scorecard, which sets out key performance indicators (KPIs) relating to customer, people, finance and operations. The Board also considers individual Directorate scorecards, progress with key projects, corporate risk and the budget position. These meetings provide senior officers with a comprehensive overview of the Council's performance each month. Each Directorate also meets monthly to consider the performance scorecard and key projects for their service area.

Performance Reports are considered by the Executive and Corporate Scrutiny Committee on a quarterly basis. The Council increased the number of KPIs reported during 2021/22 in order to ensure sufficient coverage of services. The KPIs reported to Members were also aligned to the four key corporate priorities within the Corporate Strategy of: environment and economy; customer focused Council; homes and communities; and enterprising Council. This ensures clarity as to which priorities the KPIs are measuring progress against.

A sufficient level of detail is reported within the quarterly Performance Reports to provide a good understanding of how the Council is performing. The covering report provides an overview, highlighting overall performance against the corporate priorities, and a detailed narrative for KPIs where performance is below target. A detailed appendix provides for each detailed KPI the RAG rated performance, prior period comparative, direction of travel, and target. The calculation for the KPI is included to aid the transparency of reporting and allow for more effective challenge of data.

The Council's Annual Plan 2021/22 details the specific actions and projects which are important to the delivery of corporate priorities. Progress against these actions is reported to Members every six months within the Performance Reports.

The 2021/22 outturn performance reported to Executive in July 2022 identified that of the 29 KPIs, 22 were RAG rated green, with one amber and six red. Red RAG rated KPIs included call time and complaint response times, planning appeals overturned and void management for council homes. Explanations and mitigating actions for below target performance are identified where appropriate. There were no red RAG rated Annual Plan commitments at the year end. Therefore there are no indications of significant weakness in arrangements with regards to the Council's year-end performance, in what was another challenging year as the Council supported the community's recovery from the pandemic.

The Council has sound arrangements in place for the monitoring, reporting and management of performance. We have found no significant weaknesses in the Council's arrangements and have not identified any improvement recommendations.

# Improving economy, efficiency and effectiveness

## Benchmarking and learning from others

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with peers in order to identify areas for improvement. The Council makes use of benchmarking within some specific services, such as Housemark for housing services.

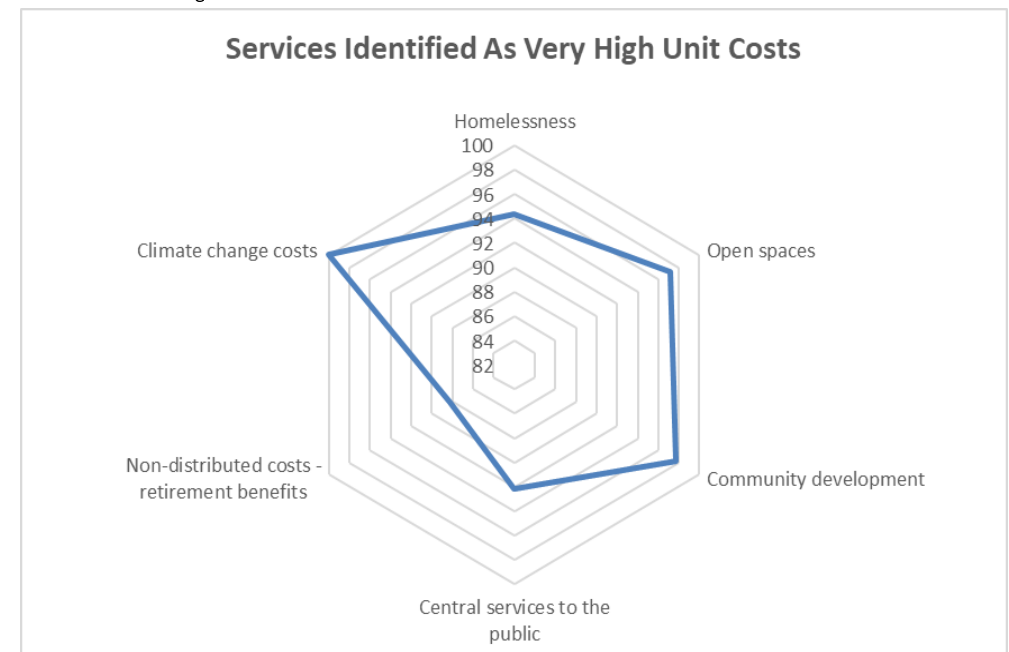
We noted in the Auditor's Annual Report 2020/21 that the Council does not routinely undertake financial or performance benchmarking with other local authorities, and made an improvement recommendation that this should be carried out. In view of the limited time between the recommendation being made and vesting day for the new unitary council, management's view was that this would be highlighted to the successor council for consideration.

From discussion with officers working within LGR workstreams, we understand that there is a Digital, Data and Technology sub-workstream. Work is progressing on developing a Digital Strategy and Data Strategy for the new unitary council which will promote a digital culture and define the principles for the effective use of data. A related Business Intelligence Strategy will promote the use of data for business intelligence purposes to enable services to compare and benchmark services.

We have undertaken benchmarking using the CFO Insights tool to identify services which have very high unit costs in comparison to other district councils. These are identified in the chart opposite. It should be noted that the benchmarking is based on unit costs derived from the budgeted service cost divided by the relevant population. This does not take account of local corporate priority decisions and the associated allocation of resources, for example in relation to climate change costs.

We have discussed these service unit costs with the finance team in order to assess whether the very high unit costs are indicators of weaknesses in arrangements to achieve value for money. From our work we have not identified any evidence of weakness in arrangements or inefficiency within services. The Council is aware of what makes up the relevant service costs, with support service recharges accounting for a significant proportion of cost in most cases. Support services can be accounted for differently by councils when completing the statistical returns on which the data is based. The exception to this is for retirement benefit costs, which reflect payments to reduce the deficit on the pension fund over a prudent period as agreed with the Actuary.

We have not found any significant weakness in arrangements with regards to benchmarking or service costs. We recognise that resources are focused on local government reorganisation, and that progress is being made to consider benchmarking arrangements for the new authority.



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

The data is based on the 2021/22 Revenue Account submissions to the government.

# Improving economy, efficiency and effectiveness

## Partnership working

We have reviewed how the Council interacts with key partners to develop meaningful actions to be delivered, and how the performance of partners is monitored and fed back to Members. The key partnerships we have considered include:

- Health and Wellbeing Board – a statutory body for local services to work together to produce a Health and Wellbeing Strategy, oversee the local health system and promote partnership working and integration;
- Single Homelessness and Rough Sleeper Accommodation Strategy and Delivery Plan – the strategy puts in place a process of interventions from early help to tenancy support and relies on strong partnership working with accommodation providers such as the YMCA and support partners including the NHS to deliver housing management and support services. The ambition is to end rough sleeping in the Council area by 2027 by increasing bedspace capacity;
- Heart of the South West Joint Committee – a strategic committee with the objectives of improving the economy and maximising economic opportunities within the area;
- Somerset Building Control Partnership – a local authority partnership to deliver building control services and governed by a Joint Committee; and
- Somerset Waste Partnership – a partnership of local authorities in Somerset to collect and recycle waste, contributing to climate resilience and sustainable service priorities.

The AGS Action Plan 2020/21 included an action to develop a partnership register and this was also an improvement recommendation within the Auditor's Annual Report 2020/21. Partnership registers ensure that councils understand who their key partnerships are, how they contribute to achieving corporate priorities, and what risks the partnership is exposed to.

We understand that this action has not been progressed, although as part of the work to transition to the new unitary authority, councils in Somerset are working to develop a county-wide partnership strategy and framework. We have made an improvement recommendation

that the Council should ensure that its strategic partners are recorded in a register that identifies the corporate priorities that they contribute to and the risks associated with the partnership. This can then be used to inform the development of a county wide partnership register as part of local government reorganisation.

Therefore the Council can demonstrate that it is working with partners to achieve corporate priorities and has adequate arrangements in place on an individual partnership basis. We have made an improvement recommendation to strengthen arrangements through the creation of a partnership register.

## Procurement and contract management

The Executive approved the Procurement Strategy 2021-24 in March 2021. The Strategy seeks to ensure compliance with government procurement legislation and identifies procurement priorities for the period to 2024.

Internal audit provided a limited assurance opinion for the Council's procurement arrangements in 2020/21 due to the lack of an up to date Procurement Strategy, and a lack of guidance and training in place for officers. From discussions with officers we understand that due to LGR, resources have been diverted away from implementing some of the recommendations relating to procurement. While a new Strategy is in place and revised Contract Procedure Rules were approved in February 2022, procurement training has not been rolled out.

We have made an improvement recommendation that the Council should highlight to the LGR Programme previous internal audit recommendations relating to procurement so that robust arrangements are put in place for Somerset Council.

The Council can demonstrate that robust arrangements are in place for managing major contracts. Performance against the leisure services contract with Everyone Active is monitored through monthly contract meetings. The Community Scrutiny Committee receives reports every six months that highlight progress against performance and financial targets set out in the service specification.

Similarly, the street cleansing contract with Idverde is managed through monthly operational

# Improving economy, efficiency and effectiveness

meetings supplemented by quarterly strategic meetings. Idverde produce performance reports every six months, including an annual contract report which highlights performance against KPIs and service standards. Reports include a financial overview and identification of potential areas to achieve savings against the contract cost.

The Council is undertaking significant regeneration projects which include Firepool and Coal Orchard, and can demonstrate that there are robust arrangements in place to monitor, control and report on these major capital projects.

We note that internal audit provided a substantial assurance audit opinion following their review of regeneration programme governance in September 2022. The review found that there are well defined governance arrangements in place which include regular project board meetings, clear templates and project gateways, and regular reporting of scheme progress.

The Firepool scheme is not part of the formal regeneration programme governance, and is a major project in its own right. It is managed through monthly project team meetings to review project risk, cost and progress, and which feed into programme management office reports to the monthly executive steering group. In addition monthly Directorate Board meetings review the risks, issues, gateways and budgets for the project. Quarterly reporting back to the Future High Street Fund is undertaken in line with the agreed monitoring and evaluation process.

From our work we have not identified any risk of significant weakness with regard to the Council's arrangements for managing procurement and major contracts. The Council should ensure that when LGR workstreams develop the Procurement Strategy and procedures for Somerset Council, that previous internal audit recommendations should be considered so that robust arrangements are put in place for the new council.





# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 4

The Council should ensure that its strategic partners are recorded in a register that identifies the corporate priorities that they contribute to and the risks associated with the partnership.

## Why/impact

Partnership registers ensure that councils understand who their key partnerships are, how they contribute to achieving corporate priorities, and what risks the partnership is exposed to. Once a Council partnership register is produced, it can then be used to inform the development of a county wide partnership register as part of local government reorganisation.

## Summary findings

The AGS Action Plan 2020/21 included an action to develop a partnership register and this was also an improvement recommendation within the Auditor's Annual Report 2020/21.

We understand that this action has not been progressed, although as part of the work to transition to the new unitary authority, councils in Somerset are working to develop a county-wide partnership strategy and framework.

## Management Comments

SWTC Officers will support the work of the LGR Programme in developing a county-wide partnership strategy and framework for the new unitary authority; and recommend a partnership register is developed as part of this work.



The range of recommendations that external auditors can make is explained on Page 5.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 5

The Council should highlight to the LGR Programme previous internal audit recommendations relating to procurement.

## Why/impact

LGR workstreams can use the learning from previous weaknesses identified with procurement arrangements to ensure that robust arrangements are put in place for Somerset Council.

## Summary findings

Internal audit provided a limited assurance opinion for the Council's procurement arrangements in 2020/21 due to the lack of an up to date Procurement Strategy, and a lack of guidance and training in place for officers. From discussions with officers we understand that due to LGR, resources have been diverted away from implementing some of the recommendations relating to procurement. While a new Strategy is in place and revised Contract Procedure Rules were approved in February 2022, procurement training has not been rolled out.

## Management Comments

Agreed. The SWTC S151 Officer will inform the SCC S151 Officer of previous audit recommendations to be considered by the new Council.



The range of recommendations that external auditors can make is explained on Page 5.

# Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of the Commercial Property Investment strategy.	Key	December 2021	The Council can demonstrate that it has made progress in implementing this key recommendation and further addressing the risk associated with the commercial property portfolio. For example, through the accelerated repayment of the borrowing requirement associated with commercial property, and through updating the Commercial Strategy to reflect the completion of the portfolio.	Yes	The new unitary council will inherit a significant commercial property portfolio from all the four Somerset district councils, and will thus be exposed to continued significant risk with regard to commercial property income and financing. We have identified this as a key 2023/24 budget risk for the new council.
2	The Council should consider whether there would be benefit in producing a budget book.	Improvement	December 2021	The 2022/23 budget report is accompanied by a budget book which provides additional information on the cost of services through a detailed subjective analysis.	Yes	None.
3	Capital monitoring and outturn reports should include explanations for slippage.	Improvement	December 2021	The 2021/22 quarter three monitoring report and outturn report include explanations for capital slippage and budget reductions.	Yes	None.
4	Risk management reporting should include details of mitigating actions, timescales for implementation, and both gross and residual risk scores.	Improvement	December 2021	The information reported within the risk register is more detailed compared to the previous year, but we note that risks are no longer mapped to corporate objectives, there is no detail on the mitigating actions in place, and the impact on risk scores from the management of risk is not evident.	Partly	We have made a further improvement recommendation that risk reporting would be strengthened by the inclusion of these elements of best practice.
5	The Council should undertake corporate benchmarking of service cost and performance.	Improvement	December 2021	Management noted this recommendation but in view of local government restructuring proposed that this is for consideration by the successor unitary council.	N/A	None.
6	The Council should develop a partnership register.	Improvement	December 2021	This action has not been progressed, although as part of the work to transition to the new unitary authority, councils in Somerset are working to develop a county-wide partnership strategy and framework.	No	We have made an improvement recommendation that the Council should ensure that its strategic partners are recorded in a register that identifies the corporate priorities that they contribute to and the risks associated with the partnership.

# Opinion on the financial statements



## Audit opinion on the financial statements

We are currently not able to issue an audit opinion on the Council's financial statements due to a national accounting issue in respect of infrastructure assets. We expect the government to implement a statutory override in respect of this matter prior to the end of the 2022 calendar year.

## Audit Findings Report

More detailed findings to date can be found in our Audit Findings Report, which was published and reported to the Council's Audit and Governance Committee on 7 November 2022.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. These have yet to be issued for 2021/22 and so this work cannot yet be completed.

## Preparation of the accounts

The Council provided draft accounts for audit in line with the national deadline.

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

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



# Appendices

# Appendix A – Responsibilities of the Council

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

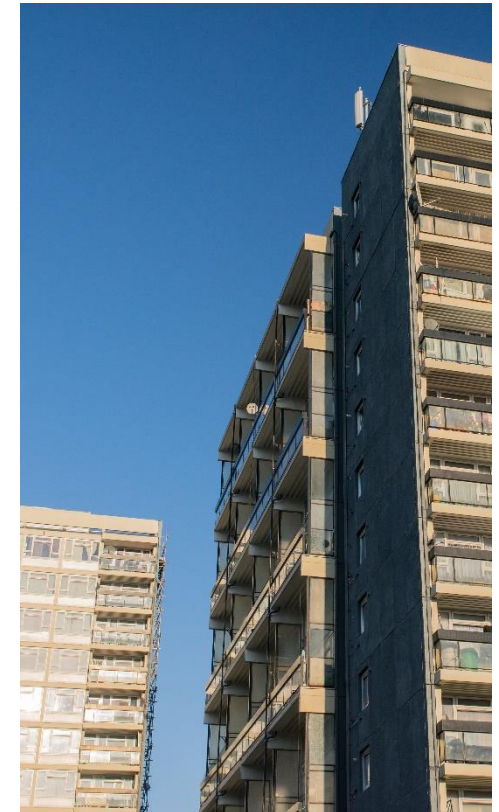
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



# Appendix B – Risks of significant weaknesses, our procedures and findings

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

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness with regard to the arrangements to transition to the new authority, see page 13 for more details.	We have undertaken additional work to assess the progress made across key financial LGR workstreams.	There is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge.	Appropriate arrangements are in place, with one improvement recommendation raised.
Governance was identified as a potential significant weakness with regard to the arrangements to transition to the new authority, see page 20 for more details.	We have undertaken additional work to assess the LGR programme's governance arrangements.	There are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified.	Appropriate arrangements are in place, with two improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness.	No additional procedures undertaken.	Appropriate arrangements are in place to improve economy, efficiency and effectiveness.	Appropriate arrangements are in place, with two improvement recommendations raised.





# Somerset West and Taunton Council

## Audit and Governance Committee – 12 December 2022

### External Audit Progress Report and Sector Update

This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen

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

#### 1 Executive Summary

- 1.1 The attached report provides the Audit and Governance Committee with a progress update regarding the work of the external auditor, Grant Thornton LLP, together with information relating to emerging issues which may be 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.

#### 4 Links to Corporate Aims / Priorities

- 4.1 This report links to the Council's aim of achieving financial sustainability and also relates to statutory requirements for financial reporting and audit arrangements.

#### 5 Legal Implications

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

Democratic Path:

- Audit and Governance Committee – 12 December 2022

Reporting Frequency: Ad hoc

#### Contact Officers

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# Somerset West and Taunton Council Audit Progress Report and Sector Update

Year ending 31 March 2022

December 2022  
Page 67



# 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 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

# Audit Market Developments

## Financial Reporting Council Report On The Quality Of Local Audit

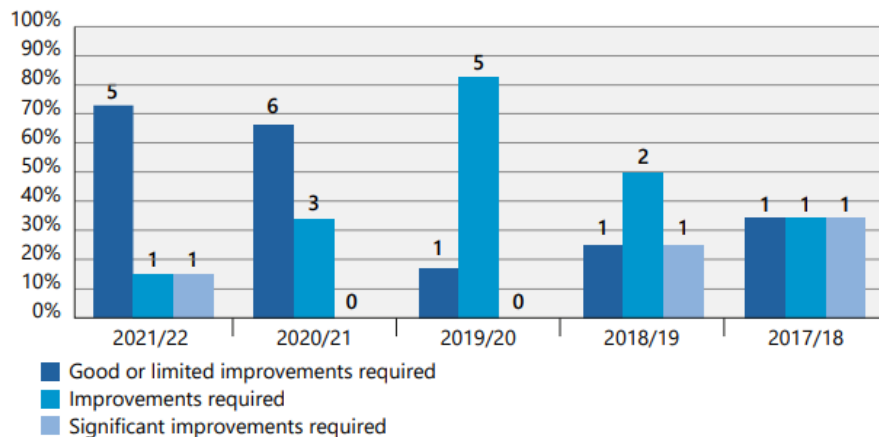
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

### Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



# Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



# Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

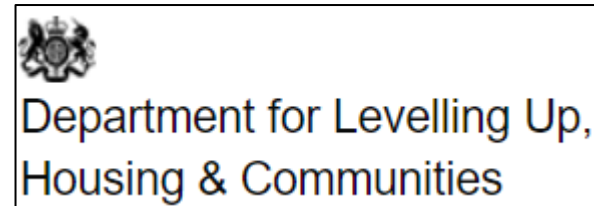
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)





# The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

## Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

## Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

## Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

## Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



# Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

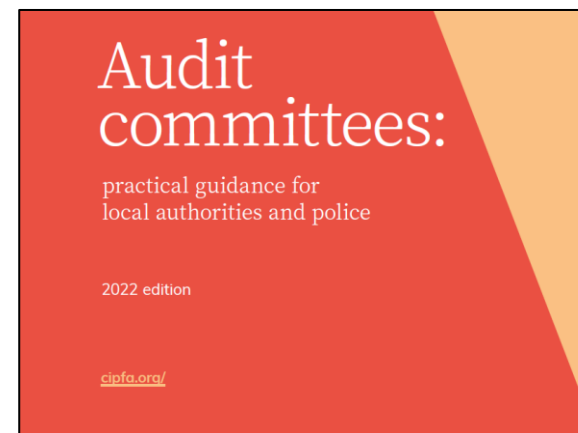
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)



# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

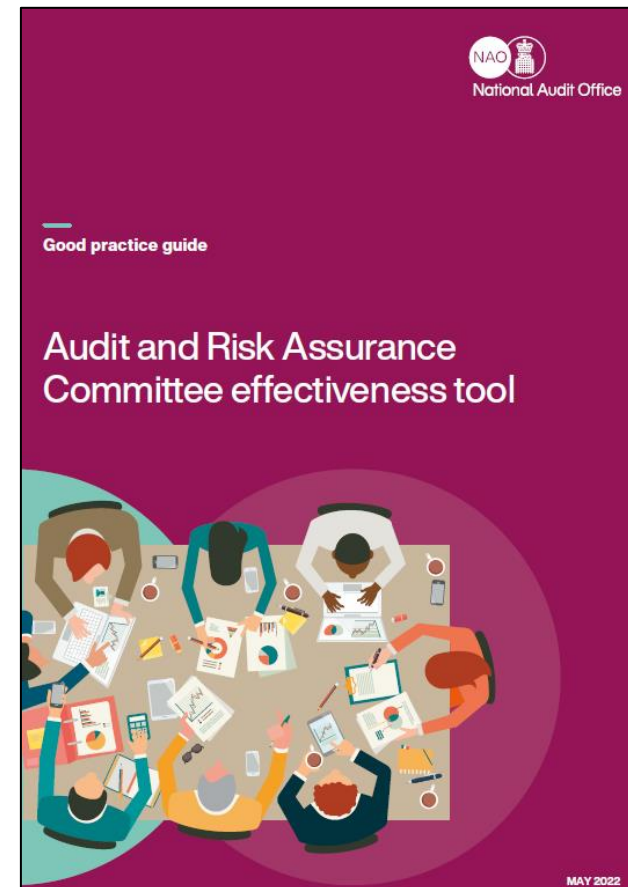
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)



*Report Number: SWT 158/22*

## **Somerset West and Taunton**

### **Audit and Governance Committee – 12 December 2022**

#### **SWAP Internal Audit – Progress Report 2022-23 Internal Audit Plan**

**This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Councillor Benet Allen**

**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 2022-23 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 2022-23 internal audit plan and significant findings since the previous update in September 2022.

#### **3 Risk Assessment**

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

#### **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 September 2022.

- 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 2022-23 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 2022-23
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# Somerset West and Taunton

## Report of Internal Audit Activity

### 2022-23 Progress Report December 2022

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# Internal Audit Plan Progress 2022-23

## 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 2022.

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 2022-23 Audit Plan was reported to the Audit, Governance and Standards Committee and approved at its meeting in March 2022. 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 2022/23. 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 September 2022.

Audit Area	Opinion
Regeneration Programme Governance	Substantial
Health and Safety Follow Up	Follow Up
Information Security Policy & Awareness	Limited
Procurement Cards Transactions Review	Advisory
Accounts Receivable Function (2nd line)	Substantial
Covid Outbreak Management Fund	Grant Certification
Income Collection – Deane Helpline	Reasonable

Please refer to Table 2 in **Appendix B** for LGR complete and on-going work.

**Appendix C** at the end of this report provides the details on Baseline Assessment for Fraud Risk to assist with the Audit Committees role in oversight of counter fraud arrangements.



## Significant Corporate Risks

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



## Significant Corporate Risks

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

In this update there are no final reports with significant (High) corporate risks.

## Completed Assignments:

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



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

There is one limited assurance opinion piece of work to bring to your attention, Information Security Policy & Awareness. A one page summary of the Key Findings identified within the audit is provided in **Appendix C**.

We have also included details on the Health and Safety Follow Up within **Appendix C**.

- Limited or No Assurance Opinions
- Follow-ups

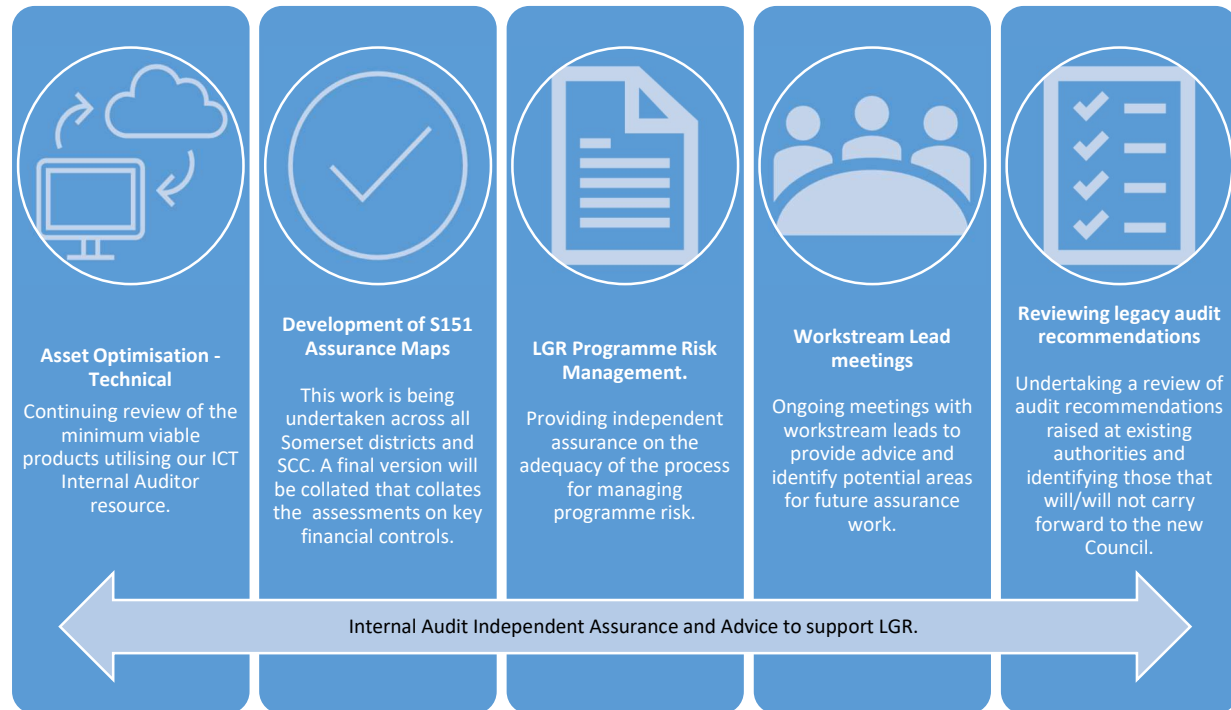


Supporting the formation of the new unitary authority by providing advice and independent assurance on activities being undertaken via the workstreams.



## Support for LGR

As part of our planning for 22/23 we have included time to provide Unitary Programme Assurance Work as well as Unitary Workstream support. Most Programme Assurance will be covered by the PWC Quality Reviews. We should be able to take assurance from their work to contribute to the Internal Audit Annual Opinion to avoid any duplication. We will provide a critical friend role to LGR work supporting delivery of outcomes. This is advisory/consultative work with rapid feedback via meetings/e-mail, or brief summary reports. Some of the areas we're focussing on are detailed in the chart below.



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

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

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

Our rolling plans are agreed with the Senior Leadership Team quarterly from the list of unscheduled audit areas that constitutes the rolling Audit Plan. Members of the Audit Committee are welcome to identify area where they need assurance for priority work to assist in their role with oversight of governance, risk and control. Quarter 3/4 audits shown in appendix B have been agreed with Senior Leadership Team since our previous update.

Revised Audit Plan	Agreed Change
Supply Chains Risk Management (including contractor management)	Agreed priority area for Q3/4
Close down/clearing suspense accounts	Agreed priority area for Q3/4
Data/Information quality	Agreed priority area for Q3/4
Procurement Card Follow Up	Agreed priority area for Q3/4
DLO Stores Follow Up	Agreed priority area for Q3/4



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.

Table 1



Audit Type	Audit Area	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
					1	2	3	
<b>Complete</b>								
Assurance	Exacom - Section 106/CIL	Complete	Substantial	0	0	0	0	
Assurance	Post payment assurance on COVID-19 grants (ARG & Restart)	Complete	Reasonable	0	0	0	0	
Assurance	Staff Retention	Complete	Advisory	4	-	-	4	
Assurance	Income Collection – Car Parking	Complete	Reasonable	1	-	1	-	Income collection audit split into three different opinions. Note: testing is still being undertaken on Deane Helpline.
Assurance	Income Collection - Litter Enforcement Fines	Complete	Substantial	-	-	-	-	
Advisory	Baseline Assessment for Maturity of Fraud Risk	Complete	Advisory	-	-	-	-	
Advisory	Unitary Preparedness – lessons learnt	Complete	Advisory	-	-	-	-	
Assurance	Regeneration Projects - Governance	Complete	Substantial	1	-	1	-	
Follow Up	Health and Safety Follow Up	Complete	Follow Up	4	-	-	4*	*See Appendix C – 2 recommendations superseded by LGR.
Assurance - ICT	ICT Security Policy & Awareness Audit	Complete	Limited	3	1	2	-	See Appendix C

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
					1	2	3	
Special Review	Procurement Card Transactions - Transactions review	Complete	Advisory	-	-	-	-	
Assurance	Accounts Receivable Function (2nd line)	Complete	Substantial	1	-	-	1	Note: Previously named Debtors
Grant Certification	Covid Outbreak Management Fund (COMF)	Complete	Advisory	-	-	-	-	
Assurance	Income Collection – Deane Helpline	Complete	Reasonable	3	-	1	2	
<b>Draft</b>								
Assurance	Records Management	Under Review						
<b>In Progress</b>								
Advisory	FTC Process Review	In Progress	Advisory					
Assurance	Creditors – incl. data analytics review	In Progress						
Assurance	Homelessness	In Progress						
<b>Not Started</b>								
Advisory	Fraud Awareness Training	Not Started						

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
					1	2	3	
Assurance	<b>New:</b> Supply Chains Risk Management (including contractor management)	Not Started						
Assurance	<b>New:</b> Close down/clearing suspense accounts	Not Started						
Assurance	<b>New:</b> Data/Information quality	Not Started						
Follow Up	<b>New:</b> Procurement Card Follow Up	Not Started						
Follow Up	<b>New:</b> DLO Stores Follow Up	Not Started						
<b>Dropped/Replaced</b>								
Grant Certification	Protect & Vaccinate	Dropped	Sign off requirements changed following initiation.					
Assurance	Income Collection	Replaced	Reported as three separate opinions on income collection for; Car Parking, Litter Enforcement and Deane Helpline.					

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**Table 2**

Audit Type	Audit Area	Status	Opinion	No of Rec	1 – Major 3 – Minor			Comments
					1	2	3	
<b>Complete</b>								
Advisory	PCIDSS	Complete	Advisory	-	-	-	-	

Audit Type	Audit Area	Status	Opinion	No of Rec	1 – Major 3 – Minor			Comments
					1	2	3	
Advisory	Data Centre	Complete	Advisory	-	-	-	-	
Advisory	IT Minimum Viable Products	Complete	Advisory	-	-	-	-	
Advisory	M365 and Active Directory	Complete	Advisory	-	-	-	-	
Advisory	Cyber Security Strategy Framework	Complete	Advisory	-	-	-	-	
Advisory	Cyber Security Training and Awareness	Complete	Advisory	-	-	-	-	
Advisory	Disaster Recovery and Incident Response	Complete	Advisory	-	-	-	-	
Advisory	S151 Assurance Map	Reporting	Advisory					
<b>In progress/Ongoing</b>								
Advisory	Risk Management Workstream Support	Ongoing	Advisory	-	-	-	-	
Advisory	Asset Optimisation: Technical Workstream Support	Ongoing	Advisory	-	-	-	-	
Advisory	Legacy Audit Recommendations & AGS Actions	Ongoing	Advisory	-	-	-	-	
Advisory	<b>New:</b> Local Community Networks (Support)	In Progress	Advisory	-	-	-	-	
Assurance	<b>New:</b> LGR Programme Risk Management	In progress						
Assurance	Business Continuity	In progress						
<b>Waiting to Start</b>								
Advisory	<b>New:</b> Service Alignment Strategy and Policy Review	Waiting to Start	Advisory	-	-	-	-	

Audit Type	Audit Area	Status	Opinion	No of Rec	1 – Major 3 – Minor			Comments
					1	2	3	
Assurance	Payroll – transfer of district staff	Waiting to Start						Post-transfer assurance
Advisory	<b>New:</b> Tech Forge Data Validation	Waiting to Start	Advisory	-	-	-	-	

Please note that PWC are the Quality Assurance provider overseeing the whole LGR programme and provide monthly updates to the Programme Board.



Information Security Policy & Awareness – September 2022

Information Security Policy & Awareness – Final Report – September 2022



**Audit Objective** To assess the adequacy of Information Security (IS) Policy, supporting governance & training at the Council and ensure staff compliance with good IS practice.

Assurance Opinion	Number of Actions	
		Priority
<p>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.</p>	Priority 1	1
	Priority 2	2
	Priority 3	0
	Total	3

Risk Reviewed	Assessment
Failure to manage information security effectively potentially leads to Data being compromised, lost, or stolen. Critical business functions being compromised. Critical business systems being exposed/infiltrated. All or any of these elements of poor information security management can result in business disruption and financial cost, potentially with a lack of awareness of the impact on the Council.	Medium

Key Findings	
	At the time of our original review (February 2022), please see <i>*Other Relevant Information below</i> , we examined the Information Security related policies and procedures available via the Council's Intranet. We noted that these documents had ineffective document control whereby some were out of date, others referenced former authorities and there was insufficient cross referencing. Additionally, the content, detail and style varied across all those documents reviewed.
	We noted that only the SW&T ICT Usage Policy was mandated for user training and it offered only high-level guidance on information security (IS). Whilst there was some reference to IS within the E-Learning modules provided, these were not mandated. We were informed of the work underway to introduce a new 'video bites' system to provide training. However, as of February 2022, these did not reference information security.
	There was also a lack of clearly defined roles and responsibilities to support Information Security (IS) governance. We encountered difficulties in establishing those responsible for IS policy creation, the organisation of staff IS training and those who would ensure that staff complied with the IS guidance provided.

Audit Scope
We examined the current information security arrangements by way of a desktop review to assess the degree of effectiveness of these arrangements in the ensuring the security of the authorities' data, and to identify any root causes of non-compliance or failure of information security arrangements.
Assurance provided will be limited to those areas covered within the scope.
Please note, the scope of this audit specifically excluded any documentation assessed by the General Data Protection Regulation (GDPR) review that was completed by SWAP in January 2022.

**\*Other Relevant information**

This audit was originally undertaken as a desktop review and we accessed what guidance was available to staff via the current Somerset West & Taunton Intranet system earlier this year. Since February 2022 (when the original draft report was produced), there has been much activity at the Council to address the Key Findings reported above. This activity is due in part to the Council's participation in the Local Government Reorganisation (LGR) Programme and Somerset Unitary Authority (SUA) preparations ahead of Vesting Day on 1<sup>st</sup> April 2023. Additionally, the Council is also receiving Data Protection guidance to ensure ongoing compliance with the General Data Protection Regulation (GDPR).

Since this activity is currently ongoing and hence information security (IS) arrangements are subject to change, it was agreed that it provided little value to the Council to start a new review. However, it was agreed with management that given the importance of good IS practice at the Council, that they would provide an update of progress to date for the Key Findings and previously raised actions. For details, please see 'Management Response and Self-Assessment' Section under each of the findings listed in the attached Appendix.

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Health and Safety Follow Up - September 2022

SWT – Health and Safety Follow Up – Final Report – August 2022



**Follow Up Audit Objective** To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 Limited opinion audit of Health and Safety report have been implemented.

Follow Up Progress Summary				
Priority	Complete	In Progress	Superseded by LGR*	Summary
Priority 1	0	0	0	0
Priority 2	3	0	0	3
Priority 3	4	2	2	8
<b>Total</b>	<b>7</b>	<b>2</b>	<b>2</b>	<b>11</b>

**Follow Up Assessment**  
 The original audit of Health and Safety was completed in August 2021 and received a Limited assurance opinion. The objective of the original audit was to provide assurance that the Council had suitable arrangements in place to manage corporate health and safety risks, that follows the HSE’s approach of Plan, Do, Check Act.  
 The follow up audit has found that seven actions are now complete, three are in progress and a further one has been superseded by LGR. Those actions not yet complete relate to minor areas. Key findings from the audit follow up have been summarised below.

- Key Findings**
- Information relating to historical insurance claims has been obtained from the Council’s Insurance Officer, but this data has not yet been analysed as the task has been deprioritised due to the additional work currently taking place in respect of LGR and it is now an activity that the new Somerset Councils’ Health and Safety and Insurance teams will possibly take forward. Also, the Terms of Reference for the new governance structure will be deferred until the formation of the new Somerset Unitary Authority.
  - Two of the Priority 3 findings have been assessed as ‘In Progress’, however these relate to the implementation of new Health and Safety Management Software. Whilst the software is planned to be implemented by December 2022, until then all health and safety data continues to be maintained on spreadsheets, and the transfer of risks between documents is still undertaken manually. Health and safety data is therefore vulnerable to overwrite, deletion and manipulation.
  - All three of the Priority 2 and four of the Priority 3 findings have been completed, which has led to improved corporate oversight and governance of Health and Safety. Health and Safety risks are now considered and are monitored through the new three tier governance structure. Health and Safety training is analysed and monitored to ensure staff receive training in the key legislation that is relevant to their roles. Whilst training has not been delivered to Members at this stage, the action has now transferred to LGR with a plan to train Members in the Autumn. We have also seen evidence of a Contractor Policy being drafted but still waiting to be approved, however, as we have seen evidence of improvement to controls in this area (including measures to ensure Contractors provide relevant H&S information) we have determined that the action is predominantly complete.

**Further Information**

Testing has been performed in relation to all Priority 2 actions and supporting evidence obtained to support implementation of actions. Follow-up of the Priority 3 actions is based on self- assessment by the responsible manager, with evidence having been provided.

Reference **Appendix A** for details of all actions. Details of any further follow up required.

It is noted that considerable progress has been made in respect of The Council’s Health and Safety arrangements. The majority of findings have been completed, and the two findings assessed as ‘In Progress’ will also be complete upon the implementation of the new Health and Safety Management Software. Two findings that will not be completed by SWT are not considered high risk and have been classed as ‘Superseded’ as part of LGR.

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# **Somerset West and Taunton Council**

## **Audit and Governance Committee – 12 December 2022**

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

**This matter is the responsibility of Cllr Benet Allen, Portfolio Holder for Communications and Corporate Resources**

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

#### **1 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 October 2022.**

#### **2 Recommendation**

- 2.1 The Committee notes the progress being made with audit actions, and that there are currently no overdue audit actions.

#### **3 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 to strengthen governance arrangements.

#### **4 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 within 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. 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> October 2022:

- 2 audit reports (Health & Safety and Purchasing Cards) with all Priority 1 and 2 actions completed since the last report (see Appendix 1).
- 7 audit actions completed since the last report (see Appendix 2).
- There are currently no overdue audit actions that are beyond their current target date.
- 5 audit actions currently open whose due date is further ahead and detailed updates will be reported nearer the time. These actions are listed along with a RAG status of progress being made in Appendix 2.

## **5 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 Finance / Resource Implications**

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

## **7 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 12 December 2022**
- **Executive – No**
- **Full Council – No**

**Reporting Frequency: Quarterly**

**Contact Officers**

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**Summary/Status of Audit Reports**

Report	Status	Date	Judgement	Priority 1 and 2 identified	Position at 31st October 2022	
					Priority 1 and 2 actions still open	Overdue (at 31/10/22)
GDPR	Final	Jan 2022	Reasonable	2	1	0
Housing Rents	Final	Apr 2022	Reasonable	2	1	0
Material Supplies Management	Final	May 2022	Limited	5	2	0
SWT Regeneration Projects	Final	Sep 2022	Substantial	1	1	0
				<b>10</b>	<b>5</b>	<b>0</b>

**Audit Reports with 1 & 2 Actions Completed (Since last report)**

Report	Status	Date	Judgement	Priority 1 and 2's identified	All 1/2 actions complete
Health & Safety	Final	Aug 2021	Limited	3	Yes
Purchasing Cards	Final	Apr 2022	Limited	7	Yes



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

Audit Report	Recommendation/Agreed Action	Priority Scoring	Responsible Officer	Target Date	Progress	RAG Status
Health & Safety	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	Specialist – Health and Safety	31/8/22	Risk scoping exercises have been completed and Risk Assessments Action Plans have been produced for each Directorate. Health and Safety Business Partners consult with and advise each Directorate on their risk assessments and review the Risk Assessments Action Plans to identify additional risk mitigation requirements. A Risk Assessment Statistic spreadsheet is also maintained to provide an overview of completed and outstanding risk assessment for each department within each Directorate. The action plans are actively monitored through each Tier 2 and 3 Sub-committee meeting and feed through to the Consolidated Action Plan. There is now a health and safety page on SharePoint for all staff to access, which contains risk profiling information. An audit framework has been implemented, with reporting to Audit and Governance Committee including information on H&S performance/KPI data overview, and an update/overview of the H&S improvement programme progress.	COMPLETED
Page 103 Purchasing Cards	The policy and guidance are being reviewed and updated. This will include tighter rules including usage to be limited to named cardholder only. Training and guidance will be provided to all cardholders as part of a card scheme 're-launch'. [Note: Card holders will only be allowed to receive / hold cards with confirmed acceptance and understanding of policy and guidance.	2	Corporate Finance Manager	31/8/22	New Policy and Guidelines and agreed next steps including relaunch with training approved at SMT 31/08/22. This will now be promptly rolled out. Action can be closed with roll out now in train.	COMPLETED
Purchasing Cards	Process to manage registration of card and policy acceptance to be reviewed and implemented. Recent agreement with bank that opportunity to be taken to replace all cards with new Mastercard debit cards; this will ensure cards will only be provided following declaration of acceptance by prospective card holder.	2	Corporate Finance Manager	31/8/22	New cardholder declaration form approved by SMT with new Policy and Guidelines on 31/08/2022. Approach to implement new cards clarified with the bank. Action can be closed with roll out now in train.	COMPLETED
Purchasing Cards	The policy and guidance are being reviewed and updated. This will tighten rules and clarify that usage shall be limited to the named cardholder only, with misuse subject to card blocking and/ or disciplinary action. In meantime, cardholders will be reminded they are responsible for all transactions on their cards; and requested to cease sharing details or allowing others to use their card pending the policy review that is underway. Departments will be required to nominate a co-ordinating officer who may make on-line purchases on behalf of colleagues so that card details are not passed to other officers; those transactions will be verified by originating officers.	1	Corporate Finance Manager	31/8/22	Actions reinforced through new Policy and Guidelines approved by SMT 31/08/2022. It is clear that sharing of card details is prohibited. Reminders not to share details issued to cardholders in April 2022. Action can be closed.	COMPLETED

Audit Report	Recommendation/Agreed Action	Priority Scoring	Responsible Officer	Target Date	Progress	RAG Status
Purchasing Cards	Process to be reviewed to include confirmation of card administrator/ co-ordinator within cardholders' service areas prior to cards being issued. To ensure independent checks are in place, this may either require card holders to administer their transactions with a nominated second officer verifying, or a nominated administrator administering all department transactions (not same as cardholder). New guidance to include requirement for cardholder to identify budget and coding in advance of purchase, or in timely manner post purchase when used under urgency, and good practice for maintaining logs and coding after each transaction.	2	Systems and Project Accountant	31/8/22	New Policy and Guidelines approved by SMT 31/08/2022, includes details of process and controls that will mitigate the issues highlighted. Actions therefore completed. Action can be closed with roll out now in train.	COMPLETED
Material Supplies Management	Management should restructure and reallocate responsibilities so that only skilled team leaders are approving orders and payments, and this should include the reintroduction of separation of duties in the process.	2	Assistant Director – Housing Property	30/11/22	A process to ensure separation of duties for purchase, goods receipt and invoice payment has been implemented.	COMPLETED
Material Supplies Management	Management should ensure that suppliers only fulfil orders that are supported by an approved requisition, in advance of supply.	2	Assistant Director – Housing Property	30/11/22	Suppliers have been advised that they may only fulfil orders that are supported by an approved requisition, in advance of supply, to ensure payment can be made.	COMPLETED



There are a further 5 actions listed below where the due date is further ahead and detailed updates will be reported nearer the time.

Audit Report	Recommendation/Agreed Action	Priority Scoring	Responsible Officer	Target Date	RAG Status
GDPR	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	31/12/22	In Progress
Housing Rents	The Housing Service has an established process to maximise uptake of capital works by tenants. This includes major contracts including specifications for tenant liaison as part of the implementation by contractors. This tenant liaison will include attempts at written and phone contact to persuade the tenant to participate. Where this is unsuccessful, the Tenancy Management team will also try and advocate the case to the tenant to allow access to undertake the works. We will investigate the option to bring in a bespoke Resident Liaison Officer into the structure, if this is affordable, to improve uptake of major works – particularly for tenants who are vulnerable and anxious about disruption.	2	AD (Housing Property) & AD (Housing & Communities)	28/02/23	In Progress
Material Supplies Management	Management should ensure a physical count of all stock levels is performed on an annual basis to ensure that records are brought up to date.	1	Assistant Director – Housing Property	30/04/23	In Progress
Material Supplies Management	Management should introduce a process for vans to be stocked with basic supplies, which are recorded on a van inventory and that it is maintained by operatives, with any surplus stock recorded.	2	Assistant Director – Housing Property	30/11/22	In Progress
SWT Regeneration Projects Governance	To introduce a risk register for the regeneration programme and ensure all new and ongoing projects have a risk register in place managed by the Council. To ensure a requirement to produce and maintain a risk register is included in the PMO How To documentation.	2	Programme Manager - Regeneration	31/3/23	In Progress



Report Number: SWT 160/22

# **Somerset West and Taunton Council**

## **Audit and Governance Committee – 12 December 2022**

### **Treasury Management Mid-Year Update Report 2022/23**

**This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen**

**Report Authors: John Dyson, Corporate Finance Manager (Interim)  
Steve Plenty, Finance Specialist**

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

- 1.1 To provide Members with an update on the Treasury Management activity of Somerset West and Taunton Council and performance against the Prudential Indicators in respect of the first six months of 2022/23.
- 1.2 It provides a view of the Council's borrowing and investments at the mid-point of the year. As we progress towards the formation of the new Unitary Council, there will be very little borrowing activity in this financial year because needs were satisfied by prompt acquisition of borrowing during 2021/22 ahead of rising interest rates. Instead, treasury activities have focussed on safeguarding investments and managing liquidity.

#### **2 Recommendations**

- 2.1 To note the Treasury Management position as at 30<sup>th</sup> September 2022 and compliance with the Prudential Indicators.

#### **3 Risk Assessment**

- 3.1 The Council has an agreed Treasury Management Strategy (TMS) and effective management practices to ensure compliance and risks are monitored and managed.

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

- 4.1 The Council invests and borrows 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 and investment returns. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.
- 4.2 CIPFA published its revised Treasury Management Code of Practice (the TM Code) and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if

they wish, which this Council has elected to do.

- 4.3 Treasury risk management at the Council is conducted within the framework of the TM Code, which now also includes extensive additional requirements for service and commercial investments, far beyond those within the former 2017 version of the Code.
- 4.4 The TM Code requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a half-year and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 4.5 These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.
- 4.6 The Prudential Code includes a requirement for local Councils to provide a Capital Strategy, a summary document approved by Full Council covering capital expenditure and financing, treasury management and non-treasury investments. This Council's combined Capital, Investment and Treasury Strategies for 2022/23, comply with CIPFA's requirement and were approved by Full Council on 29<sup>th</sup> March 2022.
- 4.7 Overall responsibility for treasury management remains with the Council with operational responsibility delegated to the S151 Officer. So that Members may appreciate the scope of their own responsibilities and those of officers, 'treasury management' is defined as:
- "The management of the local Council's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
- 4.8 No treasury management activity is without risk. Thus the effective identification and management of risk are integral to the Council's treasury management objectives.

## **5 External Context – Analysis by Arlingclose**

- 5.1 Members and readers of this report will be closely aware of the heightened economic strains faced across this country and globally. Appendix A to this report contains commentary relating to the external context and economic analysis, which has been provided for the Council by Arlingclose, the Council's treasury management advisors.

## **6 Local Context**

- 6.1 The Council's Statement of Accounts were reviewed by the Audit and Governance Committee on 7<sup>th</sup> November 2022 following completion of the audit work leading to the external auditor's Audit Findings Report. Before final approval of the accounts, only one issue remains outstanding, which is outside the Council's control. The Council awaits the government passing a statutory override in connection with Infrastructure Assets, being a material item on the Balance Sheet.
- 6.2 At the Balance Sheet date, 31<sup>st</sup> March 2022, the Council held net cash investments of £37.081m arising from its revenue and capital income and expenditure. This is

derived from the components set out in Table 1, below. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

**Table 1: Balance Sheet Summary**

	<b>31.3.22 Actual £m</b>
General Fund CFR	135.864
HRA CFR	113.284
<b>Total CFR</b>	<b>249.148</b>
External borrowing	-180.500
<b>Internal borrowing</b>	<b>68.648</b>
Less: Usable reserves	-84.638
Add: Working capital	-24.927
<b>Net Investments</b>	<b>-40.917</b>

6.3 The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

6.4 The investment and borrowing positions as at the mid-point of the financial year, 30 September 2022, and the movements over the preceding six months since the Balance Sheet date, are shown in Table 2, below:

**Table 2: Treasury Management Summary**

	<b>31.3.22 Balance £m</b>	<b>Movement £m</b>	<b>30.9.22 Balance £m</b>
Long-term borrowing	-105.500	10.000	-95.500
Short-term borrowing	-75.000	2.000	-73.000
<b>Total borrowing</b>	<b>-180.500</b>	<b>12.000</b>	<b>-168.500</b>
Long-term investments	0.003	0	0.003
Short-term investments	0	0	0
Cash and cash equivalents	40.914	-7.287	33.627
<b>Total investments</b>	<b>40.917</b>	<b>-7.287</b>	<b>33.630</b>
<b>Net Borrowing</b>	<b>-139.583</b>	<b>4.713</b>	<b>-134.870</b>

### **Borrowing Update**

6.5 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that 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.

- 6.6 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council therefore intends to avoid this activity in order to retain any entitlement it may have to future PWLB loans.
- 6.7 The Council currently holds £98.965m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code in December 2021. The borrowing requirement has been reduced through financing part of the upfront costs using revenue resources and through revenue provisions for debt repayment, such that the projected capital financing requirement regarding these investments is reduced to £91.5m as at March 2023. Before undertaking future borrowing the Council would ordinarily review the options for exiting these investments, ensuring that such withdrawal is both prudent, affordable and ensures that its service delivery obligations are met. Such consideration will now be undertaken by Somerset County Council in collaboration with district S151 officers through the LGR financial and treasury planning arrangements ahead of the new unitary council formation on 1 April 2023.

### **Borrowing Strategy and Activity during the period**

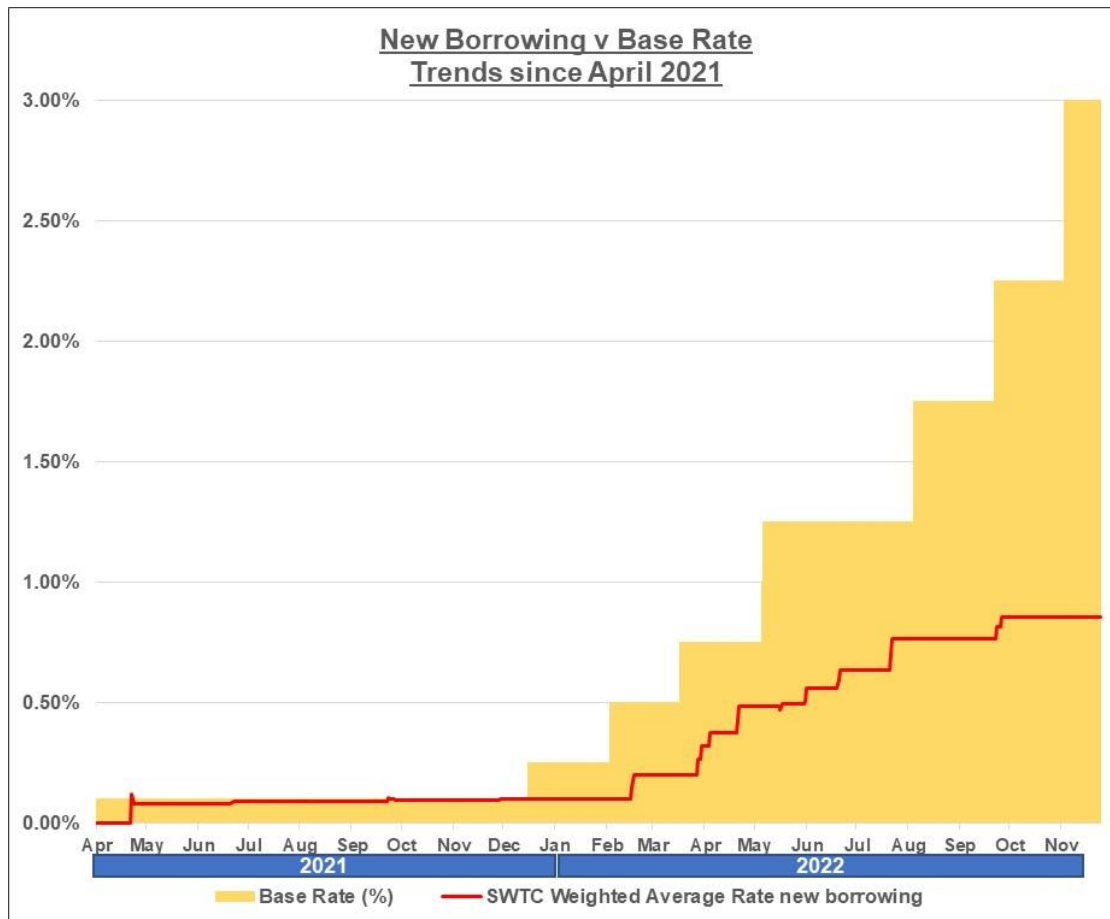
- 6.8 At the mid-point of the financial year, 30 September 2022, the Council held external loans amounting to £168.500m, representing a decrease of £12.000m compared to 31 March 2022. This falls within the Council's strategy for funding previous and current years' capital programmes. Outstanding loans on 30 September 2022 are summarised in Table 3, below, according to the sources of borrowing:

**Table 3: Overall Borrowing Position with movement during the first half-year**

	<b>31.3.22 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.22 Balance £m</b>
Public Works Loan Board (Long-term)	87.500	0	87.500
Public Works Loan Board (Short-term)	5.000	0	5.000
Banks (Long Term)	3.000	0	3.000
Local Councils (Long-term)	15.000	-10.000	5.000
Local Councils (Short-term)	70.000	-2.000	68.000
<b>Total borrowing</b>	<b>180.500</b>	<b>-12.000</b>	<b>168.500</b>

- 6.9 During this first half of the financial year 2022/23, £60.0m loans matured and new loans totalling £48.0m were taken out. The new loans were required to maintain adequate cashflow balances by replacing maturing debt. The net reduction of £12.0m borrowing takes advantage of cashflow balances that reduces the cost of borrowing overall and reduces the risk of exposure to investment losses.
- 6.10 Officers have been responsive to both economic conditions and to the need for maintaining sufficient liquidity.
- 6.11 Economic conditions have taken on a new level of volatility. The bank Rate (Base Rate) has risen from a sustained period of historically low rates (as low as 0.1%) to a series of stepped increases, mainly in response to rapidly rising UK inflation and the deteriorating value of Sterling currency. During the period since April 2021 in particular, officers have paid particularly close attention to market forecasts because of the Council's requirement to finance its Commercial Property programme.

6.12 As the Programme progressed, the adequacy and timing of new borrowing was set as a high priority. As a result of decisive action, in conjunction with regular referral to our Treasury Management Advisors, the cost of new borrowing has been contained. This is illustrated in the graph. The graph maps out the movement in Bank Rate since 1 April 2021 until the time of writing this report in November 2022, as depicted by the solid shaded area, and sets out the weighted average interest rate of new borrowing that was taken out and held during that same time period.



6.13 The Council’s chief objective when borrowing has remained to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. It is important to note that, as the transfer across to the new Unitary Council draws nearer, long-term borrowing has been curbed pending the review of the combined cashflow and liquidity positions of the merging authorities. That review work also needs to consider the impact of financing future capital investment commitments and the future plans for retaining commercial properties. In response to this evolving picture, in 2021/22 and 2022/23 SWTC officers have taken a blend of two to four-year borrowing alongside short-term borrowing (with under one year to maturity). That short-term borrowing has been timed to mature across a period that straddles Vesting Day (1 April 2023), so that there is no risk that substantial borrowing may be required on one date alone.

6.14 The surplus of liquidity in the local authority to local authority lending market has been particularly advantageous in sourcing loans at affordable interest rates. Also to the Council’s advantage, it has been cost effective in the near-term to use internal borrowing. Internal borrowing (principally using cashflow balances) has also been used as far as possible so that investment risk may be minimised whilst protecting longer-term investments, which generate favourable levels of yield for the Council.

6.15 The Council has an increasing Capital Financing Requirement (CFR) due to the requirements of new projects in the capital programme. From this, an estimated borrowing requirement is determined by the Liability Benchmark, which also considers usable reserves and working capital. Turning to the Council's complete borrowing portfolio this currently has £95.50m of longer-term borrowings (over one-year to maturity) in respect of the Housing Revenue Account and General Fund, details of which are shown in Table 4, overleaf. These loans provide some longer-term certainty and stability to the debt portfolio, many of which have taken advantage of historically low longer-term interest rates that will continue to provide security for longer-term resource planning. It is important to note that the entire borrowing portfolio has been developed over many years, with some loan commitments dating back to when interest rates may have been considerably higher than in recent years. These too are identifiable in Table 4.

**Table 4: Long-term Borrowing Position as at 30 September 2022**

Long-dated Loans borrowed	Amount £m	Rate %	Start Date	Maturity Date
<u>General Fund</u>				
Waverley Borough Council	5.000	0.70	16 Feb 2022	16 Feb 2026
<u>HRA</u>				
Public Works Loan Board	7.000	2.70	28 Mar 2012	28 Mar 2024
Public Works Loan Board	6.000	2.82	28 Mar 2012	28 Mar 2025
Public Works Loan Board	7.000	2.92	28 Mar 2012	28 Mar 2026
Public Works Loan Board	16.000	3.01	28 Mar 2012	28 Mar 2027
Public Works Loan Board	7.000	3.08	28 Mar 2012	28 Mar 2028
Public Works Loan Board	5.000	3.15	28 Mar 2012	28 Mar 2029
Public Works Loan Board	5.500	3.21	28 Mar 2012	28 Mar 2030
Public Works Loan Board	1.000	8.38	26 Sep 1996	03 Aug 2056
Public Works Loan Board	1.000	7.38	28 May 1997	06 May 2057
Public Works Loan Board	2.000	6.63	22 Oct 1997	05 Sep 2057
Public Works Loan Board	10.000	1.64	12 Nov 2020	12 Nov 2070
Public Works Loan Board	20.000	1.89	26 Mar 2021	26 Mar 2071
Barclays	3.000	4.25	14 Jun 2007	14 Jun 2077
<b>Total borrowing</b>	<b>95.500</b>			

6.16 The Council's borrowing decisions are not predicated on any one outcome for interest rates, which is why we maintain a balanced portfolio of short-term and long-term borrowing. The bulk of longer-term loans were taken when the Housing Revenue Account was required to adopt the process of Self-Financing by the Government. At that time, the best value option for local authorities was the PWLB.

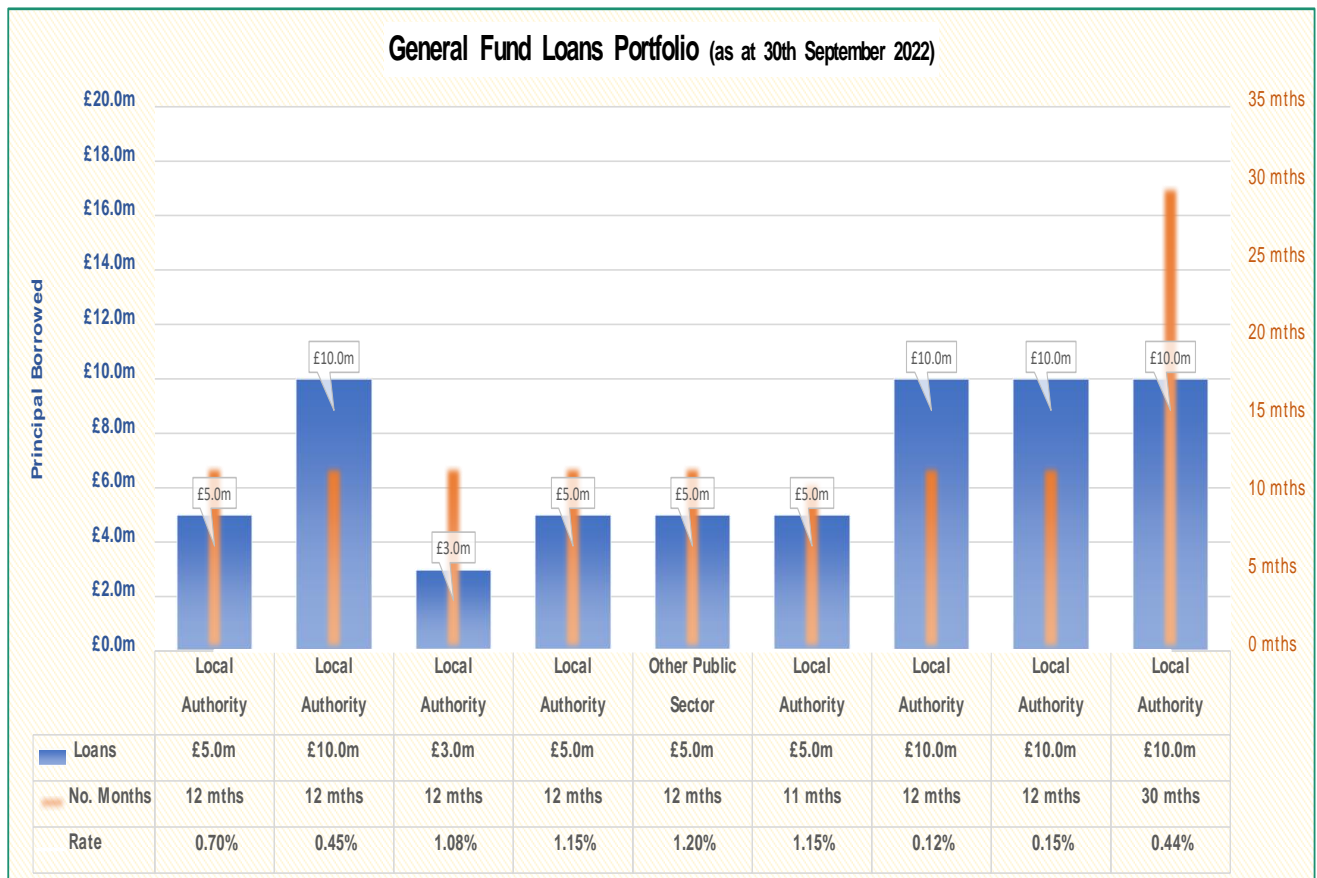
6.17 The graphics that follow on the next pages (Graphics A to C) are a new addition to the Treasury Management report. They are intended to provide an at-a-glance view of recent developments in the Council's borrowing portfolios for the General Fund and HRA.

6.18 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%. This Council, working with its advisor Arlingclose, and the forthcoming Unitary Council should continue to evaluate and pursue these lower cost solutions and opportunities.



## Graphic A

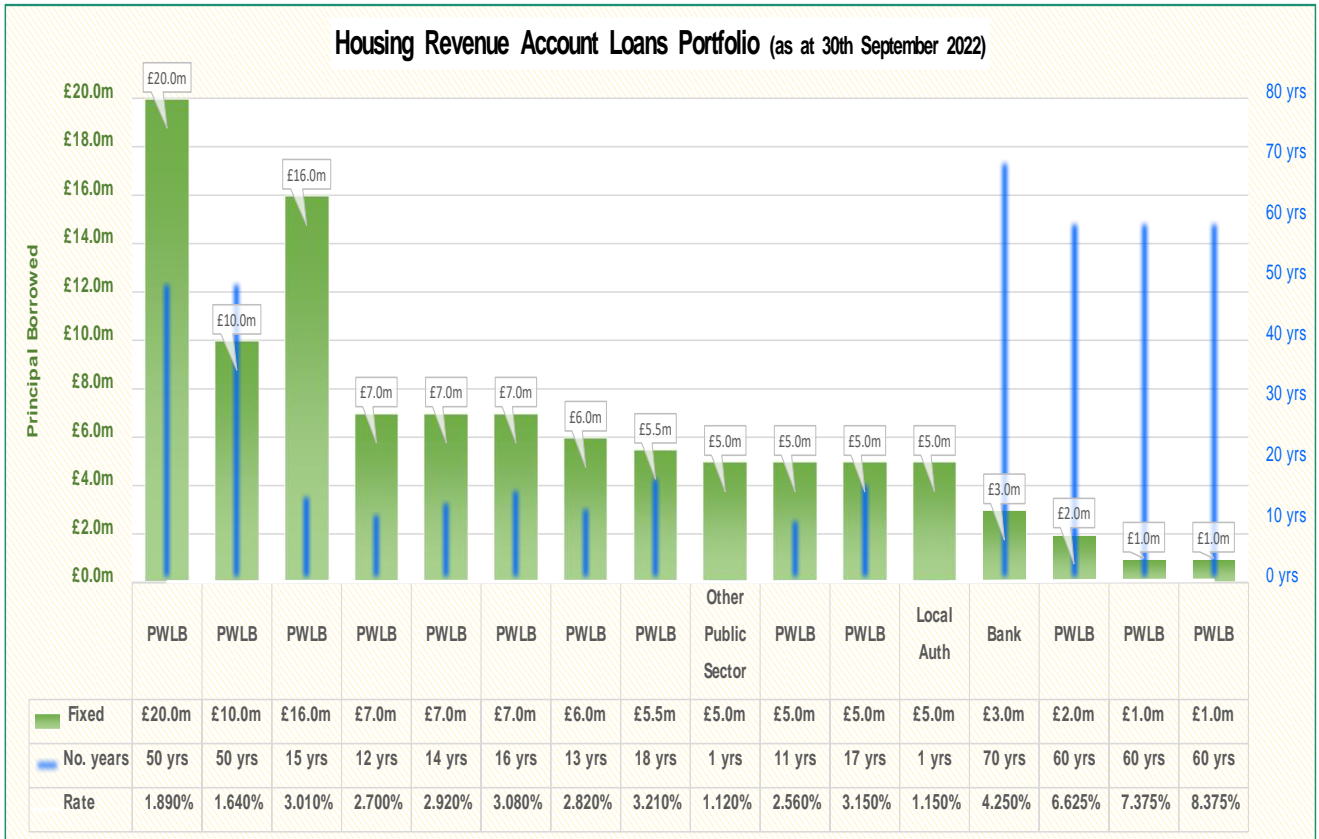
The following graph illustrates the General Fund borrowing portfolio as at 30<sup>th</sup> September 2022. It identifies sums borrowed, the term of each loan (from date of advance to maturity) and the rates secured. All but one loans were advanced by other local authorities, the exception being from a public sector housing authority.



The wide blue bars indicate amounts borrowed, measured against the vertical left-hand axis, whilst the faint orange lines indicate the duration of each loan, measurable against the right-hand vertical axis.

## Graphic B.

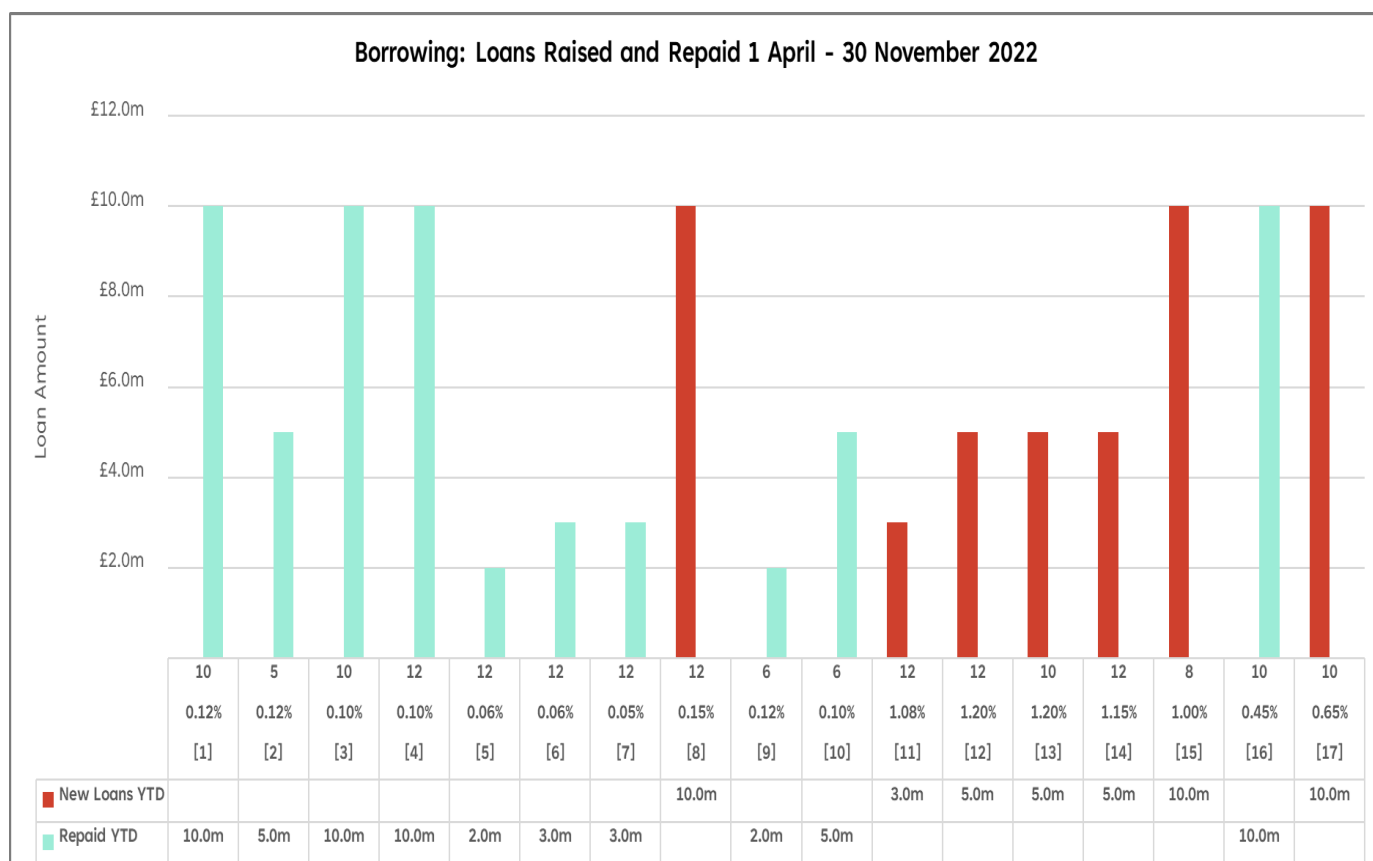
As with Graphic A, above, the following graph illustrates the borrowing portfolio of the Housing Revenue Account as at 30<sup>th</sup> September 2022. Showing sums borrowed, the term of each loan and the interest rates on those, we can clearly see that advantage was taken of long-term borrowing when Self-Financing was brought in for the HRA. All but three of the loans were advanced by the Public Works Loan Board, the exceptions being one from another local authority, one from a public sector housing authority and one from a UK Bank.



The wider green bars indicate amounts borrowed whilst the blue lines indicate the duration of each loan.

**Graphic C** highlights all new borrowing (red bars) and all borrowing repaid (green bars) during the financial year to date (to 30 November 2022).

### Borrowing: Loans Raised and Repaid 1 April - 30 November 2022



### Key to Lenders

- |  |   |  |
|--|---|--|
| [1] West of England Combined Authority       | [7] Vale of Glamorgan Council           | [13] West Midlands Combined Authority      |
| [2] Liverpool City Region Combined Authority | [8] West of England Combined Authority  | [14] Guildford Borough Council             |
| [3] West Yorkshire Combined Authority        | [9] Tendering DC                        | [15] Oxfordshire County Council            |
| [4] Northern Ireland Housing Executive       | [10] Nottingham City Council            | [16] Greater Manchester Combined Authority |
| [5] Ryedale District Council                 | [11] Caerphilly County Borough Council  | [17] West Midlands Combined Authority      |
| [6] Barrow Borough Council                   | [12] Northern Ireland Housing Executive |  |

### Treasury Investment Activity

- 6.19 The CIPFA revised TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.
- 6.20 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six months to 30<sup>th</sup> September 2022, the Council's investment balances ranged between £35.681m and £61.980m, due to timing differences between income and expenditure flows. The investment position is shown in Table 5 below.

**Table 5: Treasury Investment Position**

	<b>31.03.22 Balance £m</b>	<b>Net Movement</b>	<b>30.09.22 Balance £m</b>
Banks and Building Societies (unsecured)	2.664	-2.183	0.481
Government (including local authorities)	2.899	6.999	9.898
Money Market Funds	17.905	-11.505	6.400
Cash Plus Funds	0.983	0.014	0.997
Strategic Bond Funds	1.984	0.094	2.078
Equity Income Funds	1.985	0.026	2.011
Property Funds	5.741	-0.865	4.876
Multi Asset Income Fund	6.756	0.130	6.886
<b>Total Investments</b>	<b>40.917</b>	<b>-7.290</b>	<b>33.627</b>

- 6.21 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.22 With increases in Bank Rate over the period under review and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.
- 6.23 By the end of September 2022, the rates on the government's debt management account deposit facility (which we use as a particularly secure investment option) typically ranged between 0.55% and 2.15%. The return on the Council's Money Market Funds (Sterling-based low volatility liquid investments) typically ranged between 0.50% - 0.65% per annum in early April and between 1.94% and 2.14% at the end of September 2022.
- 6.24 Given the risk of short-term unsecured bank investments, the Council has maintained its investments in alternative and higher yielding asset classes, included in Table 5 above.
- 6.25 The progression of risk and return metrics are shown in the extracts from Arlingclose quarterly investment benchmarking in Table 6, overleaf.

**Table 6: Investment Benchmarking – Treasury investments managed in-house**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>Weighted Average Maturity (days)</b>	<b>Rate of Return %</b>
31.03.2022	4.54	A+	87%	1	3.87%
<b>30.09.2022</b>	<b>3.51</b>	<b>AA-</b>	<b>40%</b>	<b>1</b>	<b>0.55%</b>
Similar Local Authorities	4.34	AA-	57%	42	0.90%
All Local Authorities	4.29	AA-	55%	18	1.47%

- 6.26 Arlingclose provided the Council with a report as at 30<sup>th</sup> September 2022 which shows that £13.254m of the Council's investments are held in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations and the objectives, instead, are regular revenue income and long-term price stability. These funds generated dividends of £606k in the year to 30<sup>th</sup> September 2022, an annualised income return of 4.36% which is used to support services in year, and an unrealised capital loss of £638k since purchase.
- 6.27 The following commentary has been provided by Arlingclose for the benefit of this mid-year report:
- 6.28 "The April-September period was a very difficult environment for bonds engendered by global central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. The sell-off in gilts, other sovereign bonds and corporate bonds with a rise in gilt/bond yields (i.e. a fall in price) was reflected in the Authority's bond and multi-asset income funds. The increase in policy rates in the UK, US and Eurozone and the prospect of low to no growth and a recessionary period ahead was also a challenging period for equities, the FTSE All Share index falling from 4187 on 31st March to 3763 on 30th September, whilst the MSCI World Index fell from 3053 to 2378 over the same period. The fall in equity valuations is reflected in the equity and multi-asset income funds.
- 6.29 Significant financial market volatility and uncertainty remain due to stagflation fears, little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 30 months, yet to be fully resolved.
- 6.30 The change in the Council's funds' capital values and income earned over the 6-month period is shown in Table 5.
- 6.31 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 medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that, over a three- to five-year period, total returns will exceed cash interest rates. Investments within these funds have been maintained during the six months to 30<sup>th</sup> September 2022."

### **Non-Treasury Investments**

- 6.32 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and for commercial purposes (made primarily for financial return).
- 6.33 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

6.34 The Council also holds £98.965m as investments in directly owned property and £4.781m as loans to local businesses, charities, partnerships and sports clubs as at 30<sup>th</sup> September 2022. In the financial year 2021/22, the investments in directly owned property generated £4.048m in annual rental income, with a net yield of 4.09%. The loans to local businesses, charities, partnerships and sports clubs have generated £0.329m of investment income for the Council, representing an average rate of return of 3.12% in the six months to 30<sup>th</sup> September 2022.

### Treasury Performance

6.35 The Council measures the financial performance of its treasury management activities in terms of its impact on the revenue budget, combining investment and borrowing portfolios for both the General Fund and Housing Revenue Account. The mid- year projections are shown in Table 7 below.

**Table 7: Performance**

<b>2022/23 Interest</b>	<b>Current Budget</b> £m	<b>Forecast</b> (Sep 22) £m	<b>Variance</b> (Forecast v Revised Budget) £m
Interest Payable on Borrowing	3.831	3.412	-0.419 (favourable)
Interest Receivable on Investments	-0.798	-1.217	-0.419 (favourable)

6.36 Whilst the Treasury Team has secured favourable rates of interest on new borrowing, the Team has been particularly successful in using internal borrowing (i.e. cashflow availability from its bank and investment balances) in place of external borrowing. This has been partly helped by utilising COVID grant balances not yet applied or returned to the Government, as well as other sources of liquidity. It has proven to be advantageous because, not only have borrowing costs been reduced, the security of the Council's balances has also been optimised (i.e. lower investments result in a reduced risk of losses from the potential failure of financial institutions). Scaling down of the General Fund Capital Programme has also contributed to containing borrowing costs. Hence, with the combination of these factors, the forecast outturn cost of borrowing is currently £419k below the revised budget for the current financial year. This forecast is subject to some change as the year progresses due to interest rate volatility, although any further variation is anticipated to be minor because we have secured fixed rate borrowing and met substantially all the Council's borrowing needs in year.

6.37 Forecast interest estimates will continue to be closely monitored, especially given the growing upward pressure on Money Market rates.

6.38 The favourable forecast variance on investments is indicative of expected levels by high-performing longer-term investments and general increases in interest rates across the whole portfolio of liquid investments.

### Compliance

6.39 The Section 151 Officer reports that all treasury management activities undertaken during the year fully complied with the CIPFA Code of Practice, and with all the

Council's approved Treasury Management Strategy parameters – see Table 8 and paragraphs 6.40 to 6.42, below.

**Table 8: Investment Limits**

	<b>2022/23 Maximum</b>	<b>30.9.22 Actual</b>	<b>2022/23 Limit</b>	<b>Complied</b>
UK Government	£16.808m	£7.898m	Unlimited	Yes
Local Authorities and Other Government Entities	Nil	Nil	£7m	Yes
Secured Investments	Nil	Nil	£7m	Yes
Banks (unsecured)	£2.297m	£0.481m	£7m	Yes
Building Societies (unsecured)	Nil	Nil	£7m	Yes
Registered Providers	Nil	Nil	£7m	Yes
Money Market Funds	£7.000m	£5.400m	£7m in each Fund	Yes
Strategic Pooled Funds	£5.000m	£5.000m	£7m in each Fund	Yes
Real Estate Investment Trusts	Nil	Nil	£7m in each Trust	Yes
Other Investments	Nil	Nil	£5m	Yes

6.40 During the first six months to 30 September 2022, there were no occasions when the Council exceeded its overnight limit of investment with its banker, NatWest.

6.41 There were also no occasions in the six-month period to 30<sup>th</sup> September 2022 when the Council went into an unforeseen overnight overdraft position.

6.42 Compliance with the authorised limit and the operational boundary for external debt is demonstrated in Table 9 below:

**Table 9: Debt Limits**

	<b>2022/23 Maximum £000</b>	<b>30.9.22 Actual £000</b>	<b>2022/23 Operational Boundary £000</b>	<b>2022/2023 Authorised Limit £000</b>	<b>Complied</b>
Borrowing	180.500	168.500	310.000	370.000	Yes
<b>Total debt</b>	<b>180.500</b>	<b>168.500</b>	<b>310.000</b>	<b>370.000</b>	

### Treasury Management Indicators

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

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

	<b>30.9.22 Actual</b>	<b>2022/23 Target</b>	<b>Complied</b>
Portfolio average credit rating	AA-	A-	Yes

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

	<b>30.9.22 Actual</b>	<b>2022/23 Target</b>	<b>Complied</b>
Total cash available within 3 months	£33.63m	£20.00m	Yes

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

	<b>30.9.22 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	31.45%	100%	0%	Yes
12 months and within 24 months	10.09%	100%	0%	Yes
24 months and within 5 years	20.18%	100%	0%	Yes
5 years and within 10 years	10.39%	100%	0%	Yes
10 years and above	27.89%	100%	0%	Yes

- 6.47 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.

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

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£25m	£25m	£25m
Complied	Yes	Yes	Yes

## 7 Links to Corporate Aims / Priorities

- 7.1 The Capital, Investment and Treasury Management Strategies support the delivery of the Corporate Aims.

## 8 Finance / Resource Implications

- 8.1 The Treasury Management function has been well-managed during the year in compliance with the Treasury Management Strategy. As economic volatility has led to an upward shift in interest rates, there has been some scope to generate a modest



increase in income through short-term investments; the use of cashflow balances to provide internal borrowing as an alternative to external borrowing has provided further benefit in reducing borrowing costs during 2022/23; this benefit has been complemented by the early and decisive sourcing of new borrowing prior to interest rate increases. The new borrowing has been restricted to shorter-period loans in readiness for the new Unitary Council.

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

- As at 31<sup>st</sup> March 2022, Somerset West and Taunton Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £249.148m; usable reserves and working capital, which were the underlying resources available for investment, were £84.638m and £24.927m respectively.
- As at 30<sup>th</sup> September 2022, Somerset West and Taunton Council had external borrowing of £168.500m, with £105.500m attributable to the Housing Revenue Account and £63.000m attributable to the General Fund.
- Somerset West and Taunton Council also had £33.627m of investments as at 30<sup>th</sup> September 2022.
- The Council's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- The forecast for interest on borrowing and investment income in 2022/23 indicates a combined favourable variation of approximately £838k; however, the market for borrowing and investments has recently become more volatile with rising inflation and UK domestic and international trading concerns. Any changes in cashflow movements from projected estimates would also result in further variances as the year progresses.

## 9 Legal Implications

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

## 10 Climate and Sustainability, Safeguarding and/or Community Safety, Equality and Diversity, Social Value, Partnership, Health and Wellbeing, Asset Management, Data Protection and Consultation Implications

10.1 None in respect of this report.

### Democratic Path:

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

**Reporting Frequency: Annually**

**List of Appendices**

Appendix A	External Context – Analysis by Arlingclose
Appendix B	List of Investments as at 30 September 2022
Appendix C	Arlingclose Economic Outlook for the remainder of 2022/23 (based on 26 <sup>th</sup> September 2022 interest rate forecast)

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### External Context – Analysis by Arlingclose

#### External Context

**Economic background:** The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the ‘fiscal event’ increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers’ cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China’s zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and -2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of -44 in August, down -41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August’s rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from -0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

**Financial markets:** Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

**Credit review:** In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority

to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Investments as at 30<sup>th</sup> September 2022

<b>Borrower</b>	<b>Amount £</b>	<b>Rate of Interest %</b>	<b>Date of Investment</b>	<b>Date of Maturity</b>
NatWest	480,850	0.00	N/A	On Demand
Aberdeen Standard Liquidity MMF	1,000,000	Variable	N/A	On Demand
Federated MMF	5,400,000	Variable	N/A	On Demand
CCLA Local Authority Property Fund	1,114,003	Variable	29/05/2014	On Demand
CCLA Local Authority Property Fund	985,973	Variable	28/04/2015	On Demand
CCLA Local Authority Property Fund	2,776,011	Variable	30/09/2017	On Demand
Columbia Threadneedle Strategic Bond Fund	2,078,431	Variable	09/10/2017	On Demand
Ninety-One Diversified Income Fund	2,922,485	Variable	09/07/2017	On Demand
Aegon Diversified Monthly Income Fund	1,883,026	Variable	21/01/2020	On Demand
Payden and Rygel Sterling Reserve Fund	2,010,452	Variable	N/A	On Demand
Royal London Enhanced Cash Plus Fund	997,284	Variable	25/10/2017	On Demand
Schroder Income Maximiser Fund	2,080,510	Variable	06/09/2019	On Demand
Debt Management Office	3,000,000	1.60	15/06/2022	15/12/2022
Debt Management Office	3,000,000	2.15	15/08/2022	15/02/2023
Debt Management Office	1,000,000	1.85	30/09/2022	03/10/2022
Debt Management Office	2,898,000	1.59	18/07/2022	17/10/2022
<b>TOTAL</b>	<b>33,627,025</b>			

## Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 26th September 2022 interest rate forecast)

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>Official Bank Rate</b>													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Arlingclose Central Case</b>	<b>2.25</b>	<b>4.25</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	<b>4.75</b>	<b>4.25</b>	<b>3.75</b>	<b>3.25</b>
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year. This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

### **Background:**

Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.



Report Number: SWT 161/22

## **Somerset West and Taunton Council**

### **Audit and Governance Committee – 12 December 2022**

#### **Health & Safety Management System – Performance framework and Improvement Programme**

**This matter is the responsibility of the Portfolio Holder for Communications and Corporate Resources, Cllr Benet Allen**

**Report Authors:**

**Sean Papworth – Assistant Director, Corporate Services**

**Mike Barter – Health & Safety Business Partner**

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

**1.1** The purpose of this report is to provide the Audit and Governance committee with:

- A) a progress update on the Health & Safety Performance.
- B) a progress update against delivery of the H & S Management System (HSMS) Improvement Programme.

**1.2** The HSMS Improvement Programme sets out the various workstreams within the programme, including the H & S Committee governance structure. All Improvement delivery activity will be tracked within a single consolidated action plan (implemented since November 2021) and through the established Corporate Programme Management Office (PMO).

#### **2. Recommendations**

**2.1** The committee is asked to note and endorse:

- A) the H & S Performance Scorecard data, together with the observations/recommendations/conclusive summary (appendix A)
- B) the HSMS Improvement Programme progress update (detailed in section 4.4)

#### **3. Risk Assessment**

**3.1** An efficient and effective H & S Management System helps the council comply with its duties under the Health & Safety at Work Act (1974) and the Management of Health & Safety Regulations 1999. This will thereby mitigate the legal, financial, and reputational risks associated with non-compliance of these key legal requirements and associated legislation, based on operational activity.

**3.2** Subsequently, effective measurement of the performance of Health & Safety systems will galvanise the continuous improvement of risk mitigation controls.

**3.3** During Quarter 1 (2021/22) an audit on Health & Safety was carried out by SWAP – this was reported to the Audit & Governance committee 13<sup>th</sup> September 2021, with an audit opinion reported as ‘limited assurance’.

3.3.1 A summary of the work completed and findings by SWAP is as follows:

- “The Council has a statutory duty to keep its employees, members, customers, contractors and anyone else who uses its services safe from risks to their health and safety under the Health and Safety at Work Act 1974. The failure to adhere to relevant health and safety legislation and regulations puts health and safety at risk and exposes the Council to legal, finance and reputational damage.
- The Council had not received an audit of corporate health and safety since 2014 and therefore assurance was sought by senior management that the Council was adhering to health and safety legislation and regulation and the risks in these areas were minimised. Despite the absence of a recent audit the Council has been developing its approach to health and safety and this continues to be work in progress. The audit scope was designed around the Health and Safety Executive’s HSG65 framework”. (please see para 4.2 for further details of HSG65)
- The Council is currently at the ‘PLAN’ and ‘DO’ stages of HSG65 and therefore only limited testing could be done under ‘CHECK’ and ‘ACT’. Our audit focussed on the high priority areas the Council need to address and therefore contractors were only looked at briefly. When looking at accidents and incidents we relied upon second line of defence controls. Landlord Health and Safety was considered out of scope for this audit. This area has been covered by previous audit work.
- There were three Priority 2 recommendations - *“Important findings that need to be resolved by management”* (and eight Priority 3 recommendations) made within this review. The three priority 2 recommendations raised in our report are detailed below. Health and Safety is on the Senior Management Issue log to monitor improvements. The recommendation made in this review will be followed up to ensure they have been implemented and reported back to the Audit Committee.
  - **SWAP recommendation 1)** Corporate Governance matters need to be strengthened, including raising the profile of health and safety through a Member Champion and reporting of health and safety work to Members. Sub-Committees would be advisable for all Directorates, as currently they only exist for Housing & Communities and External Operations.
  - **SWAP recommendation 2)** While the Risk Assessment Scoping sessions have been scheduled and are underway, they are not complete, therefore the Council does not have a complete record of the health and safety risks it needs to manage. To date the Audit Framework has not been developed.
  - **SWAP recommendation 3)** Health and Safety training is being carried out upon induction and refresher training is also being delivered, however Members have not received any. Reports can also be run from Learning Management System (LMS), but analysis in this area could be better and this would provide greater assurance that staff and Members know to manage health and safety.

**3.4** Subsequent to the SWAP audit (outlined above), together with an additional External Audit report (August 2021) - commissioned by the Director of Housing & Communities - on some of our operational / trade services by the Building Safety Group (BSG), plus internal reviews by the H & S team, it was decided by SMT to include H & S on the Corporate Issues Register.

- The summary Issue description is - "Low maturity health and safety management systems"
- The key impacts of this issue are stated as - "To date we have seen the impact through personal injury and associated insurance claims. We have continued risk of further injury, financial and reputational damage".

### **3.5 Actions in Response to Audit recommendations (SWAP & BSG)**

Further information detailing the recommendation responses can be found in 4, and the committee should note that a review of the 2021 SWAP audit was completed and commented on during the last committee meeting. In summary all recommendations have been actioned with those remaining either linked to the implementation of the Assure H&S system or wrapped into the H&S LGR workstream.

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

**4.1** The Health & Safety at Work Act 1974 contains general and specific duties with which all workplace environments (public authorities such as the Council) must comply. The general duty requires a robust HSMS structure to deliver to the requirements of the Act, within a framework recommended by The Health & Safety Executive (this is known as the HSG65 framework). This constitutes implementing process controls for:

- H & S Policy and Procedure
- Risk Management and Risk Assessment
- Safe Systems of Work/Safe Work Procedures
- Audit Framework
- Mechanisms for continuous improvement

These process controls all form part of the HSMS Improvement Programme outlined in section 4.4 of this report.

**4.2** Under Section 2 (4-7) of The Health & Safety at Work Act (H&SaWA), law also stipulates a link to the Safety Committee and Safety Representatives Regulation 1977. This outlines the legal requirement to ensure that a suitable safety committee is in place (where necessary) and that key H & S Performance indicators are monitored, to measure the effectiveness and efficiency of the HSMS. There areas are namely:

- Changes to workforce that could affect H & S
- Accidents/Incidents/Near Miss
- Risk Management & Risk Assessment
- Occupational Health/Sickness/Wellbeing
- H & S Training
- Emergency Arrangements (Evacuation/First Aid/Emergency Response)
- Audit/Inspection – conclusive reporting

4.2.1 The Audit & Governance committee should note that the 'Safety committee' referred to above in 4.2 is what is in place through the 'Tier 2' H & S Committee (Officers) - which is specifically to comply with H&SaWA obligations. As part of the

'Tier 1' governance arrangements, however, Elected Members are involved through the Audit & Governance committee.

4.2.2 As part of the response to the corporate risk and issue (as outlined in the Risk assessment – section 3 above), a new governance structure for H & S Committee was launched in November 2021, implementing a 3-tier approach:

- **Tier 1** – Senior Management Team
- **Tier 1** – Elected Members and Executive Portfolio Holder, Audit & Governance Committee
- **Tier 2** – H & S Committee (Consultative & Reporting)
- **Tier 2** – H & S Committee (Corporate Management Group) – steering and decision making
- **Tier 3** – Directorate Groups (x4)

### **4.3 H & S Performance Framework**

4.3.1 Focusing on the key reporting requirements (4.2), Tiers 1, 2 & 3 have reporting mechanisms to measure these categories of performance.

4.3.2 **Scorecard** – the content of the scorecard reporting categories is summarised in appendix A. Reporting will also include a summary of observation/recommendation and conclusive actions. Scorecard reporting is reflected from Tier 3 up to Tier 1.

#### **4.3.3 Progress Update:**

- Directorate Scorecards are in place and deliver a statement of health, reporting on all key indicators identified in 4.2. Reporting has been developed (within Power BI software) to allow a 3-year analysis across all data sets.
- We are now able to draw information from the Assure H&S system which once fully implemented will replace the need for Power BI reporting. Until this time, we will report in a hybrid manner to ensure all data is captured.

### **4.4 HSMS Improvement Programme**

4.4.1 In addition to the implementation of the new governance arrangements described in 4.2.2 above, the response to the corporate risk and issue (as outlined in the Risk assessment – section 3 above) has also been to implement a robust programme management approach. The H&S Improvement Programme exists to manage a series of projects and initiatives to ensure the organisation transforms to an improved operational state, as well as responding to recommendations made within SWAP & BSG Audits.

#### **4.4.2 Progress Update**

- Following a year of successfully implementing the programme, the associated projects have reduced with most elements becoming Business as Usual ('BAU'). At this stage it is just the H&S system, small amounts of Risk and Policy work that remain.
- As delivery of the remaining elements concludes we will seek to close the programme if agreed at all appropriate levels.

#### 4.4.3 HSMS Improvement Programme Work-stream progress summary:

**a. Governance work-stream:**

- Concluded – governance arrangements have all now been adopted as part of ‘BAU’.

**b. Policy work-stream:**

- The Contractor and CDM polices are in the final review stage at time of writing and will conclude the policy workstream with any further work and Local Government Reorganisation (‘LGR’) policy writing sitting within BAU or the LGR workstream.

**c. Risk Management work-stream:**

- All relevant risk assessments are being loaded onto the Assure H & S system and will shortly go live giving our operatives access to dynamic risk assessments on their phones at the point of work.
- Lone Working – through the Risk Management process, it has been identified that SWT does not have a complete understanding of the current lone working across the Authority and what equipment is required to ensure all staff are safe (this also encompasses the duty of care with many staff homeworking). As such, this is now included as a separate corporate issue and is a high priority on the H & S Improvement action plan.
  - A survey has been completed by SWT managers to gather information around teams and individuals lone working operations. Identifying specific numbers in each of the High, Medium & Low risk categories.
  - Working alongside SCC, we are utilising spare capacity within the current pool of safety tools to mitigate the risk.

**d. People work-stream:**

- Concluded – continued improvement to training reports continues as BAU within the Learning & Development (‘L&D’) team.
- A monthly joint meeting for the H & S and HR/People teams has been implemented allowing for all pertinent data and cases to be reviewed and actions identified, at the current time no obvious themes are evident from the data across all Directorates.
- The recently refreshed / revised H & S Policy is now being communicated to all staff through the corporate e-learning system as a mandatory module

**e. Contractor work-stream:**

- Concluded - Significant progress has been made in relation to Contractor Management: A database of all Construction Industry Scheme (‘CIS’) contractors has been produced, with an accurate picture of all active contractors now available. Figures are reviewed and updated weekly and will shortly be moved into the Assure system for ongoing management.

**f. H & S Support & Systems work-stream:**

- H & S software solution
  - H & S event reporting (accidents / incidents / near misses) - went live at the end of September 2022
  - Risk management (i.e. dynamic risk assessment) - stage 2 – to be implemented early December 2022

- Contractor management – stage 3 – to be implemented in early January 2023.

The software will also enable the H & S Team to undertake risk auditing and profiling, monitor risk assessment completion, and identify and track risk mitigation actions.

## **5. Business as Usual ('BaU') Updates**

**5.1** Member H & S – the H&S team working alongside the Governance Team have developed a Member Risk assessment and Members guidance pack, this is currently undergoing review and will be circulated shortly, with the intention it can be utilised in the future Somerset Council too.

**5.2** Site H&S Inspections – We continue a programme of planned and ad-hoc site H & S inspections. The intent of a site inspection is to benchmark the safety practices observed on site against relevant criteria in legislation and regulations.

- Following inspections action plans are developed to assist the site in recording and monitoring any recommended corrective actions.
- The inspections also extend to the monitoring of contractor safety performance and compliance with the implementation of their risk assessments and method statement pertaining to the work being undertaken.

**5.3** Officer Engagement – We are seeing a continued increase in the proactive engagement of officers across the council, seeking advice and support in advance of matters becoming safety critical, a key cultural indicator of the advances we are making as an organisation.

## **6. Links to Corporate Strategy**

**6.1** Paragraphs 4.1, 4.2 and 4.3 above outline legal and statutory responsibilities for Health and Safety, for which of course the Council must comply in the delivery of all its operations.

**6.2** In addition, the delivery of a robust H & S function – both internally, and externally (e.g. to contractors and partners), with transparent monitoring and reporting – relates to the corporate aim of being 'a transparent and customer-focussed council'.

## **7. Finance / Resource Implications**

**7.1** There are no financial / resource implications directly because of this report.

**7.2** The Health & Safety Management System provides a vehicle for the avoidance of detrimental financial risks and may even present opportunities for cost savings (e.g., reductions in insurance premiums and claim payments).

**7.3** There are approved operational budgets in 2022/23 to enable the delivery and improvement of the H & S function

## **8. Legal Implications**

**8.1** There are no legal implications directly because of this report.

**8.2** The Health & Safety at Work Act 1974 places duties and obligations upon the Council. The Health & Safety Management System provides a vehicle to meet those obligations to ensure compliancy, and therefore for the avoidance of detrimental legal risks, and may even present opportunities for cost savings (e.g., reductions in insurance claim payments).

## **9. Climate and Sustainability Implications**

**9.1** There are no Climate and Sustainability implications directly as a result of this report.

## **10. Safeguarding and/or Community Safety Implications**

**10.1** There are no Safeguarding and/or Community Safety implications directly because of this report.

**10.2** Improved Health & Safety processes and effective risk management assist the mitigation of risk and promote the welfare of vulnerable children and adults. Operational procedure is strengthened by integrated Health & Safety and Safeguarding processes, in turn providing the necessary protection for vulnerable groups and individuals delivering the services.

## **11. Equality and Diversity Implications**

**11.1** There are no Equality and Diversity implications directly because of this report.

**11.2** The Health & Safety at Work Act 1974 places duties and obligations upon the Council. The Health & Safety Management System provides a vehicle to meet those obligations to ensure compliancy, and therefore for the avoidance of detrimental Equality and Diversity risks (e.g., disability / pregnancy & maternity risk assessments).

## **12. Social Value Implications**

**12.1** There are no Social Value implications directly because of this report.

## **13. Partnership Implications**

**13.1** There are no partnership implications directly because of this report.

**13.2** The HSMS Improvement Programme is made of actions that are deliverable within the H & S Committee Corporate Structure at all three 'tiers.' Various specialist Workstream Leads have been identified within the Committee Management Group (Tier 2) therefore all partnerships at the present time are associated to internal services.

## **14. Health and Wellbeing Implications**

**14.1** There are no Health and Wellbeing implications directly because of this report.

**14.2** The Health & Safety at Work Act 1974 places duties and obligations upon the Council. The Health & Safety Management System provides a vehicle to meet those obligations to ensure compliancy, and therefore for the avoidance of detrimental Health

& Wellbeing risks, and may even present opportunities for improved Health and Wellbeing (e.g. reduced staff sickness levels).

## **15. Asset Management Implications**

**15.1** There are no Asset Management implications directly because of this report.

**15.2** The Health & Safety at Work Act 1974 places duties and obligations upon the Council. The Health & Safety Management System provides a vehicle to meet those obligations to ensure compliancy, and therefore for the avoidance of detrimental Asset Management risks, and may even present opportunities for improved asset management (e.g., through robust 'FABRIC' assessments – buildings / assets / locations / places)

## **16. Data Protection Implications**

**16.1** There are no Data Protection implications directly because of this report.

## **17. Consultation Implications**

**17.1** There are no Consultation implications directly because of this report.

**17.2** The introduction of the new 3-tier governance arrangement provides significant opportunities for consultation on Health & Safety matters with all levels and areas of the Council.

## **18. Scrutiny/Executive Comments / Recommendation(s) - N/A**

### **Democratic Path:**

- **Scrutiny / Corporate Governance or Audit Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

**Reporting Frequency: Quarterly**

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

Appendix A	H & S Scorecard High Level Summary (with observations & recommendations)
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**Contact Officers**



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## **Glossary of Terms**

<b>Abbreviation</b>	<b>Full Description</b>
CDM	Construction Design Management
COSHH	Control of Substances Hazardous to Health
CPP	Construction Phase Plan
H & S	Health & Safety
HAVS	Hand Arm Vibration Syndrome
HSE	Health & Safety Executive
HSMS	Health & Safety Management System
IP	Injured Party
LGR	Local Government Reorganisation
LOLER	Lifting Operations and Lifting Equipment and Regulation
PCI	Pre-Construction Information
PQQ	Pre-Qualification Questionnaire
PUWER	Provision and Use of Working Equipment Regulation
RA	Risk Assessment
RAMS	Risk Assessment and Method Statement
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation
SAN	Safety Action Notice
SSOW	Safe System of Work
SWT	Somerset West and Taunton

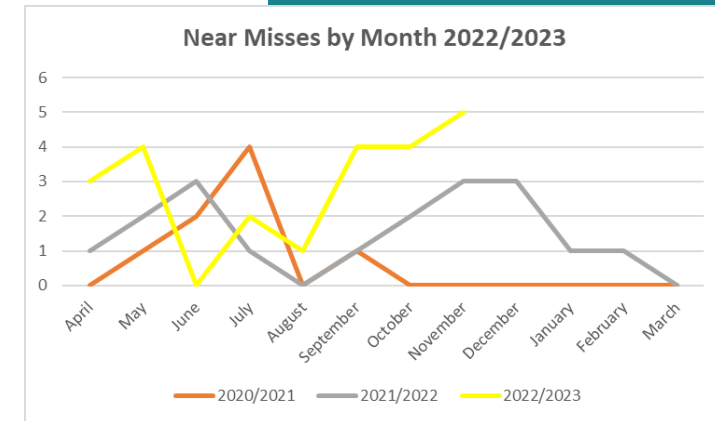
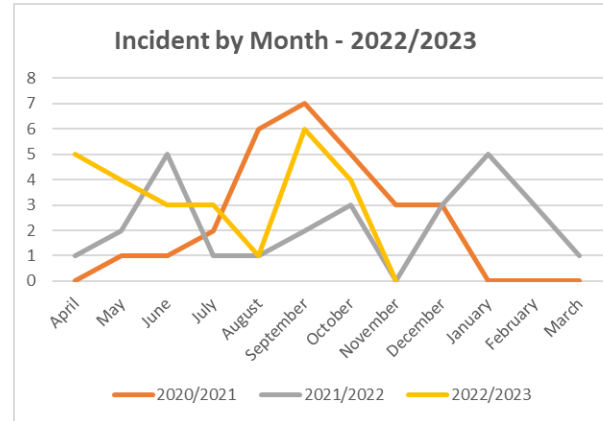
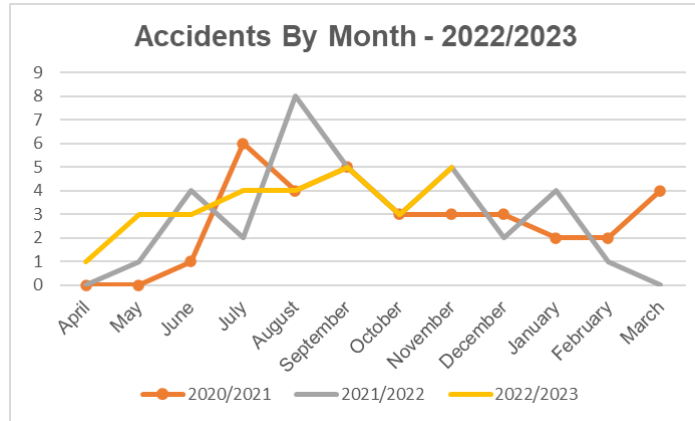


# Health & Safety progress update

Appendix A

(for Audit & Governance committee report December 2022)

## Annex A - H & S Performance



### General Observations

- Stats for Year to date – Accidents:- 28, Incidents:- 26, Near Misses:- 19.
- Accidents – The most common cause remains Slips, Trips and Falls at the same level with 9 so far this year (5 Members of Public and 4 Employees)
- Incidents – Incident frequency has dropped markedly over the last 3 months, with zero reported in November.
- Near Miss reporting has increased significantly since August. Ease of reporting these events is proving to be key obtaining accurate data.
- SANs – Main Reasons for Issue - failed risk assessments/risk assessment not present, failure to report incidents, Contractors are the main recipient of SANs.
- Lone Worker risk assessment questionnaire sent to all managers to assess risks teams encounter- 29 staff identified as 'High Risk'
- Contractor Management – Greater communication with procurement and engaging managers to assist with vetting and management.
- 2 RIDDORS since September – 1 for 7+ day absence for back injury and one for asbestos release by a contractor working on a void property (Prohibition Notice issued).

### Actions

- Regular un-announced audits of both staff and contractors continue.
- Access to risk assessment/SSOW – employee declarations (strengthen ownership)- Digital solution being implemented for sharing and reviewing (H&S Software).
- H&S Software is showing improved ease and accuracy of reporting events such as Accident, Incident and Near Miss. Actions are now able to immediately be allocated to managers/stakeholders.
- Contractor Management module of software will allow swift and accurate induction, allocation of work permits and monitoring of contractors. This module is due to be launched in January.
- Links between H&S and HR are being galvanised to synchronise workstreams and allow better data sharing re. OH concerns and completion of ERAs.
- Audit of processes of the contractor involved in the RIDDOR to be carried out by end January 2023 by SWT H&S Team as part of the conditions of removal of the Notice.

# Somerset West and Taunton Council

## Audit and Governance Committee – 12 December 2022

### Landlord Health and Safety Property Compliance Update Report

This matter is the responsibility of the Portfolio Holder for Housing, Cllr Francesca Smith

Report Author: Ian Candlish, Assistant Director Housing Property

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

- 1.1 This report provides an updated position for the main landlord health and safety property compliance disciplines. Despite ongoing challenges with resourcing issues for both in-house staff and contractors, we nevertheless continue to maintain 100% compliance in the majority of workstreams and improved performance overall.
- 1.2 The information within this report summarises the current compliance of Somerset West and Taunton Council in relation to the following key areas:
  - Asbestos management
  - Electrical safety
  - Fire safety
  - Gas safety
  - Passenger lift and stairlift management
  - Water safety
  - Non-Gas heating safety
  - Radon safety
  - Street lighting
  - Smoke and Carbon Monoxide Alarms

Each compliance area is monitored separately as defined by properties contained within either the Council's Housing Revenue Account (HRA) or General Fund (GF) accounts. HRA Blocks refer to all communal area(s) within the block (including any meeting halls), HRA Commercial refers to non-residential properties (e.g. shops or offices), HRA Dwellings refers to the individual property (e.g. house, bungalow, flat, etc.) and GF Property refers to the entire building.

- 1.3 The report identifies:
  - Somerset West and Taunton Council's current compliance status (as of 18<sup>th</sup> November 2022).
  - Comparative performance from the previous report submitted on 13th June 2022 wherever possible. This is shown in brackets on each dataset on the relevant table.
  - Achievements and successes since the last report.
  - Issues adversely affecting compliance and action being taken.

- Regulations / legislation which affects the way Somerset West and Taunton Council manages its property safety compliance.

#### 1.4 Risk ratings and timescales:

- Somerset West and Taunton Council will review and where suitable use the ratings and timescales suggested by its approved contractors when receiving an inspection report.
- Where no timescales are given by the contractor, Somerset West and Taunton Council timescales as set out in its relevant policies will be adopted.
- Hazards deemed as urgent or as emergency works will be actioned as soon as reasonably practicable. This may include restricting access to areas immediately until the hazard can be removed.
- Somerset West and Taunton Council may at times review hazards and change their priority if the original priority does not reflect the current use of the building or if there have been additional measures put in place that reduces the overall risk.

#### 1.5 The information presented within this report has been compiled from data supplied by the Housing and Communities teams, the Facilities team and external contractors.

#### 1.6 A summary of key activities and successes since the last report include:

- Implementation of new iAuditor software to assist with compliance data collection enabling improvements in the following areas: Emergency lighting visual inspections, fire door inspection, fire safety housekeeping 'sterile communal area' checks (flat block inspections), water risk assessments in dwellings and fire risk assessments.
- Additional procurement activity to deliver compliance programmes, including air source heat pump (ASHP) servicing, and extension of our stair-lift contract.
- A review of Non-Gas heating servicing schedules and validation surveys undertaken to ensure accurate data held on properties with open fires, solid fuel, air source heat pumps and oil heating systems.
- Mobilisation of new radon monitoring contract.
- Completion of a street lighting safety assessment survey programme.
- Completion of all water risk remedial actions raised from Water Risk Assessments.
- Completed up-to-date Fire Risk Assessments for all properties, including those not previously required under the Regulatory Reform Fire Safety Order 2005, as amended by the subsequent change in legislation under the Fire Safety Act 2021.
- Maintaining 100% compliance for annual gas safety checks.
- Maintaining 100% compliance for annual asbestos re-inspections (excluding dwellings).
- Maintaining 100% compliance for fire detection and emergency lighting inspections.
- Maintaining 100% compliance for passenger lift inspections.
- Commenced development of a Building and Resident Health and Safety Strategy, as required by the Building Safety Act. This legislation has wide-ranging implications and as such is intended to be implemented by Central Government over a transitional timetable extending into 2024. This is also the case for many of the reforms and changes intended to be introduced by

the Social Housing Regulation Bill 2022. We will keep the committee informed of these requirements and our response to them as they are introduced within the relevant legislation.

- Installation of alarms as required under the Smoke and Carbon Monoxide Alarm (Amendment) Regulations 2022.

- 1.7 Whilst the works outlined in this report are undertaken to ensure safety, several of them have a consequential effect of mitigating negative impacts on the environment and climate change. For example, regular servicing of gas boilers to maximise their efficiency, and fire safety measures to reduce the likelihood of fires occurring (such as fire safety housekeeping) both minimise the release of harmful emissions.

## **2 Recommendation**

- 2.1 The contents of the report and progress being made in relation to landlord property safety compliance be noted.

## **3 Risk Assessment**

- 3.1 Somerset West and Taunton Council has an obligation to comply with landlord statutory health and safety responsibilities. The required arrangements for managing these responsibilities are in place and activities are carried out in accordance with the relevant regulations, approved codes of practice and associated HSE guidance. These provide the default position of the organisation whether internal procedures, policies and practices exist.

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

### **4.1 Asbestos Management**

- 4.1.1 Asbestos management activities continue for all property types, both for new management surveys and re-inspections. However, progress on undertaking new management surveys to HRA dwellings is behind programme due to both specialist consultancy resource availability, and access issues from tenants not wishing a survey to be undertaken in their home. We are continuing to work closely with our asbestos consultancy to prioritise this work, as well as increasing our in-house resources (both from the housing tenancy and housing property compliance team) to resolve 'no access' issues.

- 4.1.2 Somerset West and Taunton Council has a legal duty to manage asbestos containing materials within areas deemed as non-domestic, as outlined in Regulation 4 of the Control of Asbestos Regulations 2012 (CAR2012). It should be noted that any domestic property where works are to be undertaken is deemed as a workplace under the Health and Safety at Work Act 1974, and therefore will require asbestos information to be supplied as part of the pre-construction information. This is a requirement of the Construction (Design and Management) Regulations 2015 (CDM 2015).

- 4.1.3 Somerset West and Taunton Council holds an Asbestos Register containing relevant asbestos information to keep its staff, contractors and visitors safe during normal

activities. This information is held within a cloud-based server and as a hard copy (commercial properties only) in the building compliance folder.

4.1.4 Somerset West and Taunton Council holds asbestos information on both its housing stock and GF Property. However, following a review of the data held, it has been decided that only surveys undertaken after August 2018 (which follow a more robust methodology) will be used to manage asbestos containing materials and supplied to contractors as pre-construction information. This will ensure that a detailed asbestos register of SWT's stock portfolio is maintained, and surveys are suitable for works being carried out. Asbestos surveys to communal areas where required by Regulation 4 of CAR2012 have been undertaken, and a programme of updated domestic surveys to validate those currently held by the Council is underway. The approved Asbestos Procedures document allows for safe management of asbestos pending completion of these surveys, i.e. prior to undertaking construction work when asbestos-containing materials are most likely to be disturbed a 'refurbishment and demolition survey' is undertaken, and all void properties have an asbestos management survey undertaken prior to re-letting.

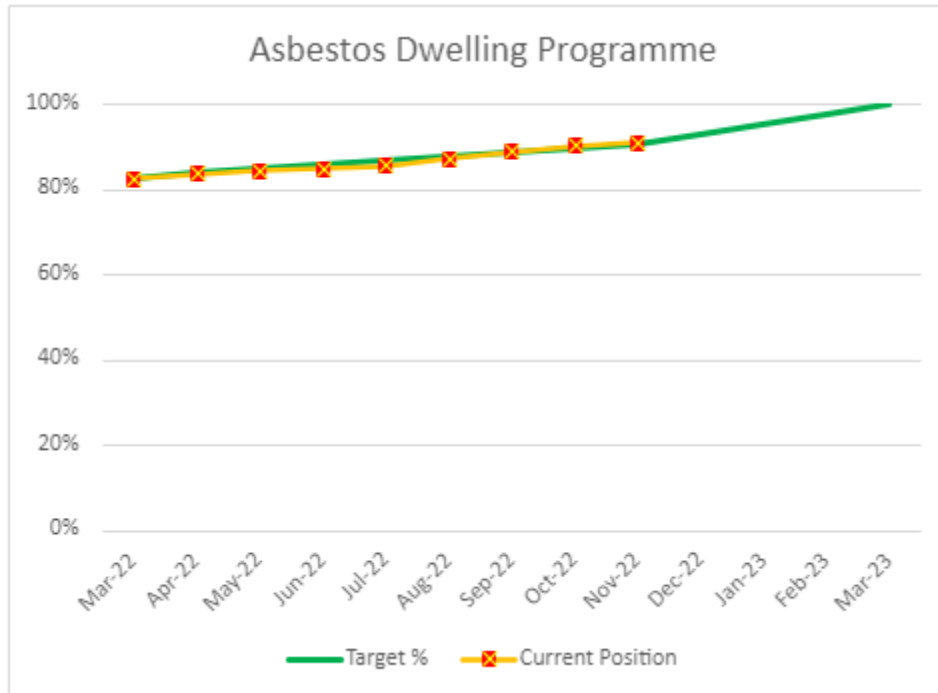
4.1.5 The following table shows the current position for asbestos surveys undertaken post-August 2018. Where properties are found to contain asbestos (except for dwellings) they will be subject to future re-inspection.

<b>Property Account Type</b>	<b>Number of Properties</b>	<b>Number Surveyed</b>	<b>Future Re-inspection</b>	<b>Re-inspection surveyed</b>	<b>Percentage Surveyed</b>
HRA - Blocks	524	524	402	402	<b>100%</b> (100%)
HRA – Meeting Halls	18	18	8	8	<b>100%</b> (100%)
HRA – Guest Rooms	10	10	6	6	<b>100%</b> (100%)
HRA – Dwellings	5519	5016	N/A	N/A	<b>91.05%</b> (84.45%)
HRA - Commercial	2	2	1	1	<b>100%</b> (100%)
GF – All Properties	49	49	20	20	<b>100%</b> (100%)

Note: The HRA dwelling programme for asbestos surveys undertaken post-August 2018 has achieved 91.05% completion, although if all surveys are considered this would rise to an overall percentage surveyed figure of 95%.



4.1.6 The following graph shows the current position for the HRA Dwellings asbestos management survey programme:



Note: As detailed in 4.1.1 above, the programme of asbestos management surveys for HRA Dwellings is behind programme, with 494 surveys still required out of 5519, and has been extended due to complete March 2023. In addition to this programme however, it should be noted that the ongoing need for 'refurbishment and demolition surveys' to capital investment programmes, together with surveys to void properties, continues to be undertaken.

## 4.2 Electrical Safety

4.2.1 Electrical safety checks continue for all property types. However, progress on undertaking testing, including any consequent remedial works, to some property types is behind programme due to a lack of staff resource capacity by both our external contractors and our in-house electrical team, as well as an ongoing high level of remedials being found during testing. Recruitment of appropriately qualified and experienced electricians remains an issue generally within the sector and we continue to undertake an active recruitment exercise for our own in-house electrical team. In addition, a new contract has recently been mobilised which will provide certainty of work to the contractor for a longer period and thus facilitate their recruitment and retention of qualified electricians to deliver for the council on this important compliance work area.

4.2.2 Somerset West and Taunton Council have a duty to periodically inspect and test electrical installations within its stock. All void properties have an electrical inspection undertaken prior to re-letting.

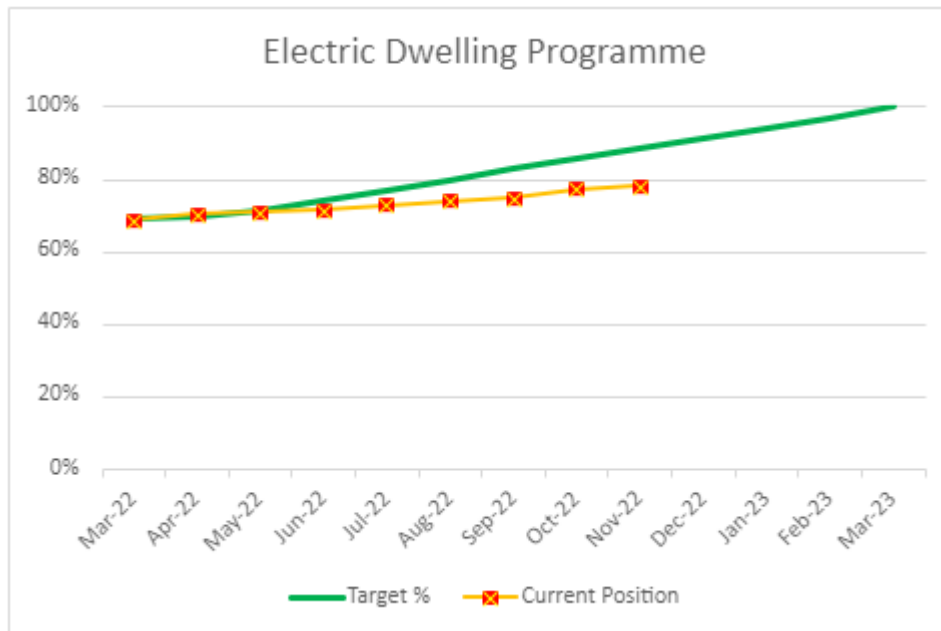
- 4.2.3 Somerset West and Taunton Council have an Electrical Safety Policy and associated procedures in place.
- 4.2.4 Somerset West and Taunton Council have adopted the following periodic inspections:
- Domestic Properties – 5 yearly cycles
  - Common Parts of domestic buildings – 5 yearly cycles
  - Commercial buildings owned and operated by SWT – As recommended from the most recent previous test certificate
- 4.2.5 Inspections are actively monitored by the Housing Property Compliance team to ensure that the periodic inspection regime is suitable from the amount and type of remedial works that are identified following inspection.
- 4.2.6 All electrical inspections are undertaken by both our in-house electrical team and external contractors.
- 4.2.7 All Code 1 hazards ('Danger present - Risk of injury') which are identified during the inspection are rectified on site, and if they cannot be rectified the areas are made safe until works can be completed. Code 2 hazards ('Potentially dangerous') are programmed to be undertaken urgently. Any Code 3 hazards ('Improvement recommended') are reviewed and, if required, are included in future planned programmes.
- 4.2.8 The following table shows the current position for electrical inspections:

<b>Property Account Type</b>	<b>Number of Properties</b>	<b>Number Inspected</b>	<b>Percentage Compliant</b>
HRA - Blocks	338	338	<b>100%</b> (100%)
HRA – Meeting Halls	18	18	<b>100%</b> (100%)
HRA – Guest Rooms	10	10	<b>100%</b> (100%)
HRA - Dwellings	5677	4434	<b>78.10%</b> (71.43%)
HRA - Commercial	3	3	<b>100%</b> (100%)
GF - Properties	56	54	<b>96.49%</b> (96.49%)

Note: The HRA Dwellings completed figure in the table above excludes those properties where a satisfactory EICR has been undertaken, but we are awaiting receipt of the certificate to complete the quality assurance process – if these are included the overall percentage compliant would rise to 81.73%.

For GF Properties we have two properties outstanding, although all works have been completed, we are awaiting certificates.

4.2.9 The following graph shows the current position for the HRA dwellings programme for electrical inspections:



4.2.10 Portable Appliance Testing (PAT) is a statutory requirement under the Health and Safety at Work Act 1974, Electricity at Work Regulations 1989, Provision and Use of Work Equipment Regulations 1988, and the Management of Health and Safety Regulations 1999 to ensure electrical safety of portable electrical appliances.

The following table shows the current position for electrical portable appliance testing:

Property Account Type	Number of Properties	Number Inspected	Percentage Compliant
HRA - Blocks	0	0	N/A
HRA – Meeting Halls	18	13	<b>72.22%</b> (100%)
HRA – Guest Rooms	9	6	<b>66.67%</b> (100%)
HRA - Commercial	3	3	<b>100%</b> (100%)
GF - Properties	12	12	<b>100%</b> (100%)

**Note:** Due to high number of staff vacancies and current sickness levels within the in-house electrical team, five meeting halls and three guest rooms PAT appointments have had to be rescheduled. These are programmed for completion during December 2022.

### 4.3 Fire Safety

- 4.3.1 We have maintained achievement of 100% up-to-date Fire Risk Assessments (FRAs) for all property types, and a further reduction in associated remedial actions.
- 4.3.2 The Chief Executive is Somerset West and Taunton Council's responsible person – as defined in Article 3 of the Regulatory Reform (Fire Safety) Order 2005 (RRFSO2005). Article 9 of the RRFSO2005 requires that the responsible person must make a suitable and sufficient assessment of the risks to which relevant persons are exposed for the purpose of identifying the measures they need to take. To satisfy this requirement, Somerset West and Taunton Council undertake fire risk assessments to all properties deemed as non-domestic, including the communal areas of domestic buildings.
- 4.3.3 The duty to ensure that Article 9 of the RRFSO2005 is met is the responsibility of the Assistant Director Housing Property.
- 4.3.4 Somerset West and Taunton Council have a Fire Safety Policy and associated Procedures to ensure it manages this compliance activity in its property portfolio safely and in line with relevant legislation.
- 4.3.5 Current legislation states that Fire Risk Assessments should be reviewed regularly or when circumstances change relating to the property and / or its occupants.
- 4.3.6 Somerset West and Taunton Council have adopted the following timescales for fire risk assessment based on a risk rating:
- Communal areas to domestic blocks (excluding sheltered blocks) – Biennial with a review annually
  - Communal areas to sheltered blocks - Annually
  - Commercial Properties – Annually
  - Any high-risk properties identified via FRA's – Annually
- 4.3.7 All HRA blocks are 'low rise' (the majority of which are two storey), are mainly of traditional construction, and do not have any aluminium composite material (ACM) type cladding.

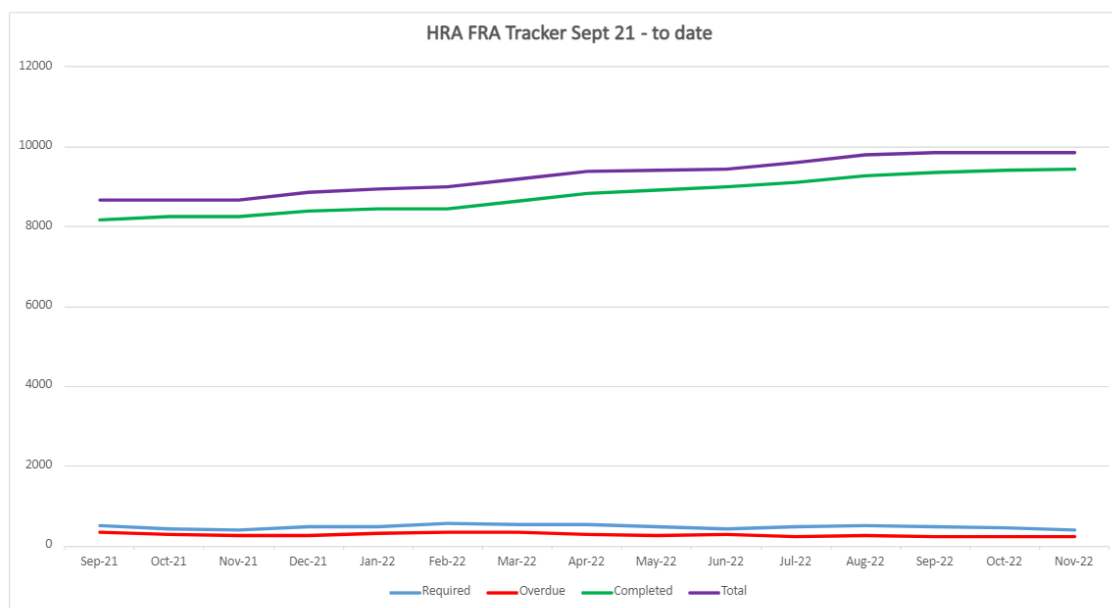
The following table shows the current position for fire risk assessments:

<b>Property Account Type</b>	<b>Number of Properties</b>	<b>Number Inspected</b>	<b>Percentage Compliant</b>
HRA - Blocks	517	517	<b>100%</b> (100%)
HRA – Meeting Halls	18	18	<b>100%</b> (100%)
HRA – Guest Rooms	10	10	<b>100%</b> (100%)
HRA - Commercial	3	3	<b>100%</b> (100%)
GF - Properties	30	30	<b>100%</b> (100%)

Note: Property numbers on blocks have increased significantly since the last report, this is due to legislative changes brought by the Fire Safety Act 2021 to include shared-roof properties for consideration if applicable to the Fire Safety Order 2005. All assessments have been completed and included within the above tables. Following these assessments, the number of properties will reduce to only those blocks with communal areas which are subject to future fire risk assessments.

4.3.8 All remedial actions raised from FRA's are validated and required works managed by the Housing Property teams (Compliance, Maintenance and Capital Programme) and the Housing teams (Sheltered and Tenancy). Works are either undertaken as repairs, management actions or added to capital programmes.

The following graph and table show the current position for FRA remedial actions:



Date	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Required	510	421	412	484	489	562	551	535	476	444	493	524	489	451	403
Overdue	334	280	264	259	333	341	342	282	272	280	244	251	241	243	228
Completed	8161	8250	8266	8378	8446	8448	8632	8842	8927	8990	9106	9265	9361	9401	9449
Total	8671	8671	8678	8862	8935	9010	9183	9377	9406	9434	9599	9789	9852	9852	9852
New Actions	94	0	7	184	73	75	173	194	29	28	165	190	63		

Note: Both outstanding and overdue actions have reduced following completed remedial works, safety checks and subsequent smoke alarm upgrades, and work incorporated into capital works programmes.

For context, it is also worth noting that over the last 24 months 9449 FRA remedial actions have been addressed and we maintain a strong focus on continuing to deliver both the programme of FRAs and the recommended remedial actions.

The following table shows the current position for FRA remedial actions:

<b>Remedial Action Type</b>	<b>Number of Outstanding Actions</b>	<b>Number of Overdue Actions</b>
Bin Store	0	0
Communal Fire Doors	0	0
Compartmentalisation	214	174
Compliance Management	50	4
Detection and Alarm	13	9
Electrical Improvement	9	1
Emergency lighting	3	0
Fire Signage	1	1
Flat Entrance Fire Doors	0	0
Flat Store Fire Doors	0	0
Flooring	0	0
Housekeeping	0	0
Means of Escape	0	0
Miscellaneous Actions	0	0
Records, Testing and Maintenance	13	4
Tenancy Management	100	35
Arson Risk	0	0
<b>Total</b>	<b>403</b>	<b>228</b>

**Notes:**

The number of outstanding actions changes as the recommended remedial actions from the latest FRA's are received, as these will supersede previous FRA's. As works are undertaken to resolve existing remedial actions, and potentially additional recommended remedial actions are added from new FRA's (e.g. due to changes in legislation or best practice), then this becomes, in effect, a moving target. For reference, an additional 446 actions were raised on updated FRA's during the period since the last report to the committee.

Compartmentalisation remedial actions are being progressed via two contracts, i.e. one relating specifically to fire door installations and associated fire stopping works, and an additional recently procured contract to address fire stopping requirements not associated with the fire door programme. Tenancy management actions continue to be progressed by carrying out person centred risk assessments and personal emergency evacuation plans.

4.3.9 The following table shows the current position for fire detection and emergency lighting inspections:

<b>Property Account Type</b>	<b>Inspection Type</b>	<b>Number of Properties</b>	<b>Number Inspected</b>	<b>Percentage Compliant</b>
GF – Properties	Fire Alarm: weekly test	19	16	<b>88.89%</b> (100%)
	Fire Alarm: 6 monthly service and test	19	19	<b>100%</b> (100%)
	Emergency Lighting: monthly service and test	28	26	<b>92.86%</b> (100%)
	Emergency Lighting: annual service and test	28	28	<b>100%</b> (100%)
HRA - Blocks	Fire Alarm: weekly test	8	8	<b>100%</b> (100%)
	Fire Alarm: 6 monthly service and test	8	8	<b>100%</b> (100%)
	Emergency Lighting: monthly service and test	117	117	<b>100%</b> (100%)
	Emergency Lighting: annual service and test	117	117	<b>100%</b> (100%)
HRA – Meeting Halls	Fire Alarm: weekly test	11	11	<b>100%</b> (100%)
	Fire Alarm: 6 monthly service and test	11	11	<b>100%</b> (100%)
	Emergency Lighting: monthly service and test	13	13	<b>100%</b> (100%)
	Emergency Lighting: annual service and test	13	13	<b>100%</b> (100%)
HRA - Guest Rooms	Fire Alarm: weekly test	0	0	N/A
	Fire Alarm: 6 monthly service and test	0	0	N/A
	Emergency Lighting: monthly service and test	1	1	<b>100%</b> (100%)
	Emergency Lighting: annual service and test	1	1	<b>100%</b> (100%)
HRA - Commercial	Fire Alarm: weekly test	1	1	<b>100%</b> (100%)
	Fire Alarm: 6 monthly service and test	1	1	<b>100%</b> (100%)
	Emergency Lighting: monthly service and test	2	2	<b>100%</b> (100%)
	Emergency Lighting: annual service and test	2	2	<b>100%</b> (100%)

Note: GF properties fire alarm weekly test and monthly emergency light inspections have been completed, however we await the contractor service reports prior to updating compliance records.

#### 4.4 Gas Safety

- 4.4.1 Gas safety checks and servicing to 'domestic' type boilers are undertaken by the in-house Gas team and works to commercial boilers are carried out by external contractors.
- 4.4.2 Somerset West and Taunton Council has a duty under Regulation 36 of the Gas Safety (Installation and Use) Regulations 1988 to carry out annual safety checks on gas appliances / flues and implement an on-going maintenance regime to ensure the safe operation of gas appliances and associated pipework where gas is present.
- 4.4.3 Somerset West and Taunton Council have a Gas Policy and associated Procedures to ensure that they meet their statutory requirements.
- 4.4.4 Landlord Gas Safety Record (LGSR) certificates are provided to tenants following gas safety checks.
- 4.4.5 Somerset West and Taunton Council also undertake responsive repairs on gas appliances and systems owned by the Council, either following annual checks or breakdowns, together with a programme of planned replacements.
- 4.4.6 The following table shows the current position for gas safety:

<b>Property Account Type</b>	<b>Number of Properties with Gas</b>	<b>Number Inspected</b>	<b>Percentage Compliant</b>
HRA – Dwellings	4450	4450	<b>100%</b> (100%)
HRA – Blocks	3	3	<b>100%</b> (100%)
HRA – Meeting Halls	13	13	<b>100%</b> (100%)
HRA - Guest Rooms	0	0	N/A
HRA – Commercial	2	2	<b>100%</b> (100%)
GF – Properties	20	19	<b>95%</b> (100%)

Note: GF Properties have one location where the gas apparatus has been isolated, and our contractors are undertaking the annual service.

#### 4.5 Passenger Lifts and Stairlifts



- 4.5.1 We continue to undertake service and inspections of stairlifts, passenger lifts and through-floor lifts.
- 4.5.3 Regulation 9 of the Lifting Operations and Lifting Equipment Regulations 1998 (LOLER), requires Somerset West and Taunton Council to ensure all lifting equipment that is provided for use in work activities are inspected by a competent person at regular intervals.
- 4.5.4 Somerset West and Taunton Council have a Lift Policy and associated Procedures to ensure that they meet their statutory requirements.
- 4.5.5 Somerset West and Taunton Council have currently adopted the following intervals for service and inspection:
- Stairlifts – Annual service and inspection
  - Passenger lifts and through-floor lifts – 6 Monthly service and inspection
- 4.5.6 The following table shows the current position for passenger lifts and stairlifts service and inspection:

<b>Property Account Type</b>	<b>Inspection Type</b>	<b>Number of Properties</b>	<b>Number Inspected</b>	<b>Percentage Compliant</b>
HRA - Dwellings	Stairlifts: Annual service and inspection	62	61	<b>98.39%</b> (100%)
HRA - Dwellings	Through-floor lifts: 6 monthly service and inspection	3	3	<b>100%</b> (100%)
HRA - Blocks	Stairlifts: Annual service and inspection	7	7	<b>100%</b> (100%)
HRA - Blocks	Passenger lifts: 6 monthly service and inspection	3	3	<b>100%</b> (100%)
GF - Properties	Passenger lifts: 6 monthly service and inspection	4	4	<b>100%</b> (100%)

Note: For HRA – Dwellings we currently have one property where the resident is in hospital, and we are unable to access the property to complete the annual service. This work will be undertaken as soon as access is obtained.

## **4.6 Water Safety**

- 4.6.1 Water safety continues to be a key priority, with maintenance of 100% up-to-date Water Risk Assessments (WRAs) for GF properties and HRA meeting halls, guest rooms and commercial properties. All remedial actions have been completed.

- 4.6.2 Following 'go-live' of the new Open Housing and Open Asset IT system, we are now developing an updated stock condition survey template process for WRAs to HRA dwellings. In the interim, we have implemented new iAuditor software and trained our in-house teams to undertake HRA dwelling WRAs, and subsequently any identified remedial actions will be carried out.
- 4.6.3 The Control of Substances Hazardous to Health Regulations 2002 and the HSE Approved Code of Practice (L8) The Control of Legionella Bacteria in Water Systems identifies Somerset West and Taunton Council's requirement to minimise the potential of legionella growth within its stock, including communal areas.
- 4.6.4 Somerset West and Taunton Council have a Water Safety Policy and associated Procedures to ensure that they meet their statutory requirements.
- 4.6.5 Somerset West and Taunton Council have adopted the following inspection regime:
- Risk assessments – interval period for re-inspection based upon recommendation in accordance with the HSE ACoP and Guidance L8
  - Tank inspections (Communal stored water only) – Annual
  - Domestic property inspections within a block where there is communal stored water – 100% inspection over 5 years (minimum of 20% per year)
  - Void Properties – Inspected at the time of being vacant (including undertaking any remedial works and flushing prior to re-letting)
  - Domestic Properties (no communal stored water) – programme in development
- 4.6.6 Remedial actions, identified for correction from water risk assessments undertaken, are carried out by external contractors and our in-house property maintenance team. We have had 651 water risk remedial actions raised over this calendar year and all have been completed.

4.6.7 The following tables shows the current position for water safety:

*Water Risk Assessments*

<b>Property Account Type</b>	<b>Properties Requiring a Water Risk Assessment</b>	<b>Properties with a Water Risk Assessment</b>	<b>Percentage Compliant</b>
GF - Properties	54	54	<b>100%</b> (100%)
HRA – Meeting Halls	18	18	<b>100%</b> (100%)
HRA – Guest Rooms	10	10	<b>100%</b> (100%)
HRA – Commercial	3	3	<b>100%</b> (100%)

*Monthly Temperature Checks*

<b>Property Account Type</b>	<b>Properties with Stored Communal Water</b>	<b>Properties with a monthly temperature check</b>	<b>Percentage Compliant</b>
GF - Properties	40	40	<b>100%</b> (100%)
HRA – Meeting Halls	18	18	<b>100%</b> (100%)

HRA - Blocks	5	5	<b>100%</b> (100%)
HRA – Guest Rooms	10	10	<b>100%</b> (100%)
HRA – Commercial	3	3	<b>100%</b> (100%)

#### 4.7 Non-Gas Heating Safety

- 4.7.1 A number of the HRA Dwelling properties are heated by various Non-Gas heating systems and these also require regular safety checks, servicing and repairs.
- 4.7.2 Somerset West and Taunton Council have a Non-Gas Policy and associated Procedures to ensure that they meet their statutory requirements.
- 4.7.3 Somerset West and Taunton Council also undertake responsive repairs on Non-Gas appliances and systems owned by the Council, either following annual checks or breakdowns, together with a programme of planned replacements.
- 4.7.4 The following table shows the current position for Non-Gas safety:

Fuel Type	Number of Properties	Number Inspected	Number Requiring Validation	Compliance %
Open Fires	33	24	8	72.73%
ASHP	688	452	28	65.70%
Oil	5	5	0	100.00%
Solid Fuel	36	27	8	75.00%

**Notes:**

Both open fires and solid fuel properties each have one overdue service due to 'no-access'. We are liaising with the tenants to arrange for these services to be undertaken urgently. In addition, we have 8 properties in each of these fuel types where historic data indicates that these systems were installed. Validation of this data is being undertaken to ascertain whether this equipment remains and, if so, it will be added to the programme of safety checks and servicing.

Air Source Heat Pumps continue to be serviced by our outgoing contractor. We are awaiting approval from Somerset County Council to enable Somerset West and Taunton Council to enter into a contract with a newly procured contractor. In the meantime, we are liaising with the current contractor and the tenants to arrange for outstanding services to be undertaken urgently. The 28 properties noted as requiring validation are newly commissioned installations where we are awaiting a commission installation report (although these have been added to the future servicing schedule).

#### 4.8 Radon Safety

- 4.8.1 Radon gas comes from uranium and is a colourless, odourless, radioactive gas occurring everywhere in rocks and soils. The radon level in the air we breathe outside is very low but can be higher inside buildings, warm air rising can draw radon from the ground underneath a building into indoor spaces, with the highest levels usually found in basements. The radioactive elements formed by the decay of radon can be inhaled and enter our lungs. Inside the lungs, these elements continue to decay and emit radiation, most importantly alpha particles. These are absorbed by the nearby lung tissues and cause localised damage. This damage can lead to lung cancer.
- 4.8.2 The amount of radon is measured in becquerels per cubic metre of air (Bq m<sup>-3</sup>). The average level in UK homes is 20 Bq m<sup>-3</sup>. For levels below 100 Bq m<sup>-3</sup>, your individual risk remains relatively low and not a cause for concern. However, the risk increases as the radon level increases. The Radon Action Level is the recommended limit for the activity concentration of radon in UK homes. The Radon Action Level is 200 Bq m<sup>-3</sup>, expressed as the annual average radon gas concentration in the home. Radon Affected Areas are those parts of the country with a 1% probability or more of present or future homes being above the Action Level. Radon UK publishes a map of the UK – this shows that parts of Somerset West and Taunton are within higher risk areas.
- 4.8.3 Somerset West and Taunton Council have a statutory duty as outlined in Ionising Radiation Regulations 2017 and other relevant technical guidance to manage the control of Radon gas within its asset portfolio.
- 4.8.4 Somerset West and Taunton Council have a Radon Safety Policy and associated Procedures to ensure that they meet their statutory requirements and ensure best practice is always maintained.
- 4.8.5 To allow Somerset West and Taunton Council to suitably manage radon gas within its property portfolio, an appropriate inspection programme needs to be followed. Following a desk top exercise to identify properties higher than one percent as shown on the Radon UK map, radon monitoring has commenced with a pilot programme of 520 properties where detection devices have been placed within the property for a period of 90 days. The devices will be collected at the end of the period and sent to an independent laboratory for analysis. We have identified 1590 SWT tenanted properties within a radon affected area and will extend the initial pilot programme to all properties identified. Following analysis, we will develop a programme of works to undertake suitable and sufficient control measures and/or remedial work, appropriate to the levels of radon detected within the type of property and its occupancy.

## **4.9 Street Lighting**

- 4.9.1 A number of HRA Dwellings are sited on land owned by Somerset West and Taunton Council which have streetlights as part of the amenity provided. The condition of these streetlights needs to be periodically inspected to ensure public safety.
- 4.9.2 Somerset West and Taunton Council have appointed a specialist contractor to undertake a condition survey of all of the streetlights in its ownership. This survey includes a visual condition assessment inspection, electrical safety test, numbering (as per Somerset County Council methodology), and type identification. This survey has now been completed and the data is being analysed.
- 4.9.3 Following analysis of the data, a remedial programme will be developed and implemented to undertake any necessary replacements or repairs.

4.9.4 Post-vesting day, Somerset Council will have responsibility for these streetlights as part of their overall streetlight asset base and the data will be uploaded into their computer management system (i.e. the existing Somerset County Council system).

#### **4.10 Smoke and Carbon Monoxide Alarms**

4.10.1 The Smoke and Carbon Monoxide Alarm (Amendment) Regulations 2022 came into force on 1 October 2022. From that date, all relevant landlords must:

- i. Ensure at least one smoke alarm is equipped on each storey of their homes where there is a room used as living accommodation.
- ii. Ensure a carbon monoxide alarm is equipped in any room used as living accommodation which contains a fixed combustion appliance (excluding gas cookers).
- iii. Ensure smoke alarms and carbon monoxide alarms are repaired or replaced once informed and found that they are faulty.

4.10.2 In preparation for the amendment, Somerset West and Taunton Council have installed detectors during the year leading up to the change through the gas, open fire, solid fuel, and oil-fired servicing programmes to ensure we are compliant.

#### **5 Links to Corporate Strategy**

No direct links.

#### **6 Finance / Resource Implications**

Landlord health and safety property compliance funding costs are incorporated into the annual budget approved by Full Council. The required funding is in place for the 2022/23 financial year.

#### **7 Legal Implications**

As noted in Section 3 of this report, Somerset West and Taunton Council has an obligation to comply with landlord statutory health and safety responsibilities. All of the specific legislative requirements are outlined under the relevant activity areas in Section 4 of this report.

#### **8 Asset Management Implications**

The property stock portfolio owned by Somerset West and Taunton Council is a substantial asset. This report outlines how property health and safety compliance for this asset base is being managed.

