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

2021/22

December 2022

Contents

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

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

The contents of this report relate only to 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.

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.

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 7th 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 7th 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 remining 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 for 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 indictive 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.

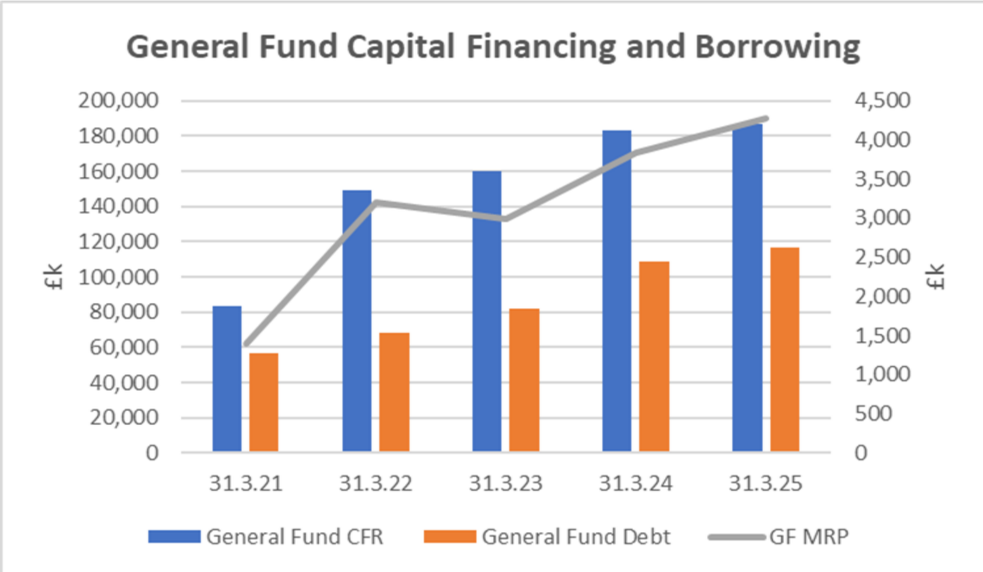
Capital strategy and treasury management

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
Total Debt	**73.2**	**31.0**	**47.2**	**27.2**	**178.6**
Total Financing	**96.3**	**70.2**	**71.3**	**39.4**	**277.2**

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.

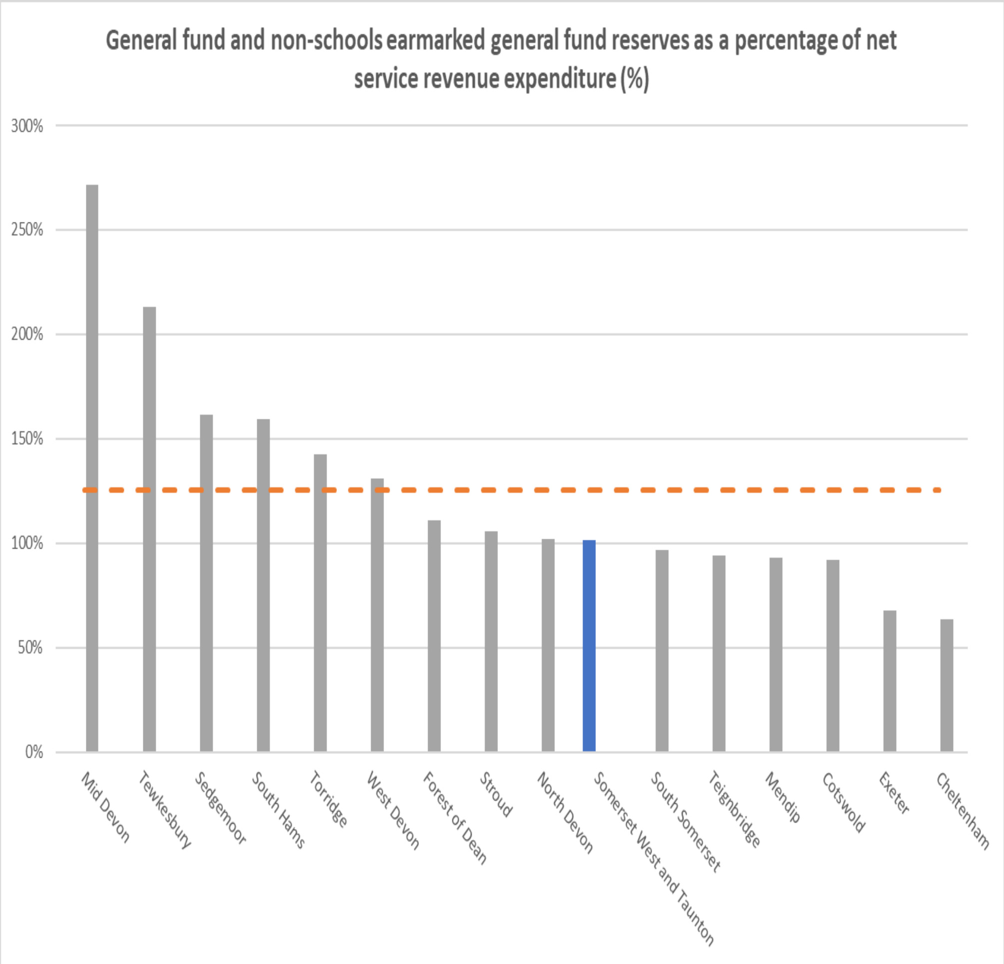
The Council also has earmarked reserves which can be used to mitigate financial risk. As at 31 March the Council had £28m of earmarked reserves. The budget for 2022/23 does forecast that £12.9m of these reserves will be utilised during the year, largely due to the draw down of funding earmarked for specific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

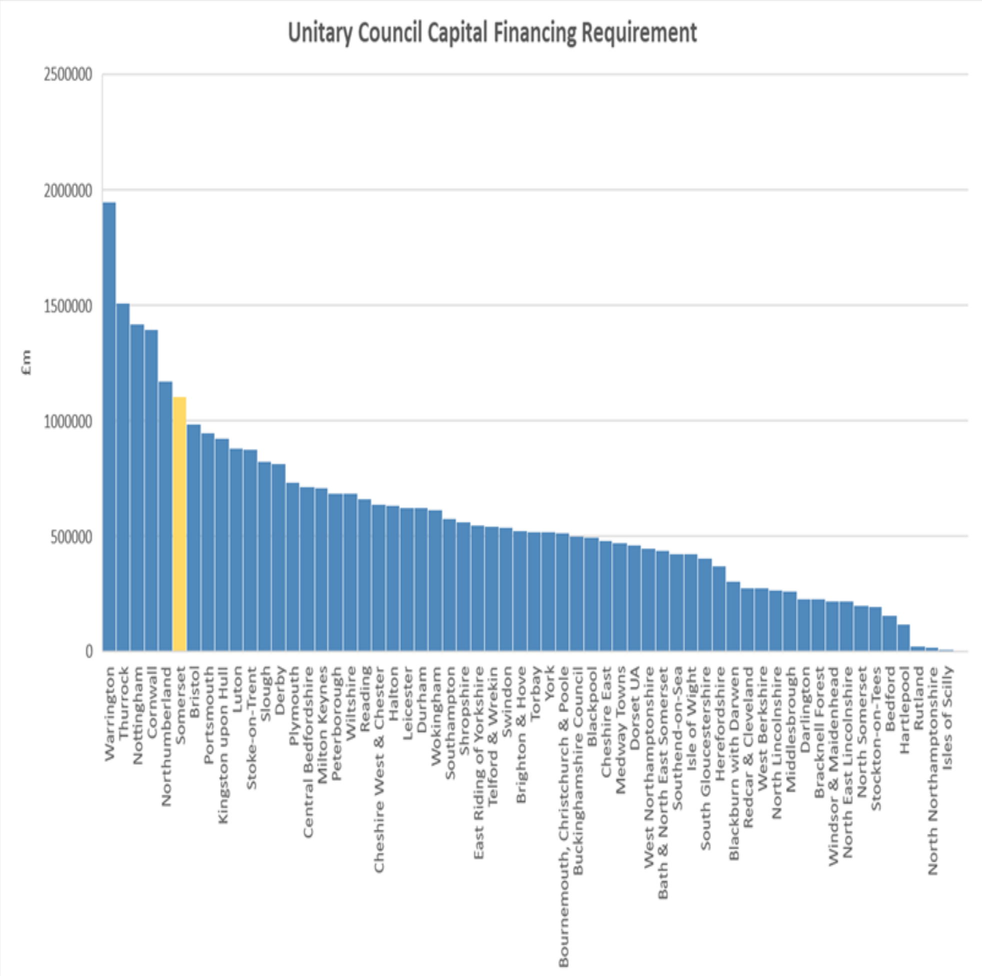
Somerset Council will also inherit a significant CFR from the five predecessor authorities. Analysis of the CIPFA capital estimate returns for 2021/22 shows that Somerset Council would have a combined CFR of £1.1bn as at 31 March 2022. This would be the sixth highest CFR in England when compared to all 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.

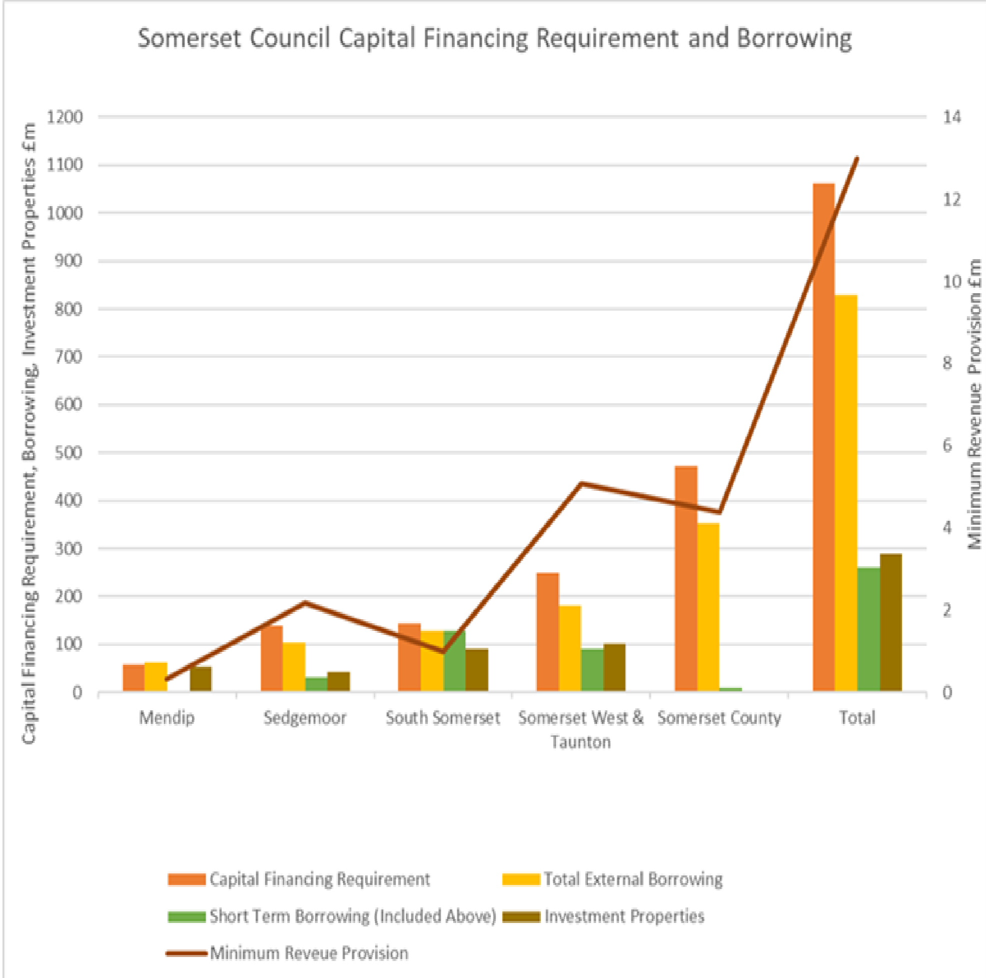
It should be noted that Somerset West and Taunton Council and Sedgemoor District Council are both housing authorities with a Housing Revenue Account. An element of their CFR therefore results from investment in housing stock which is not subject to the same requirement to charge the General Fund with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





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.

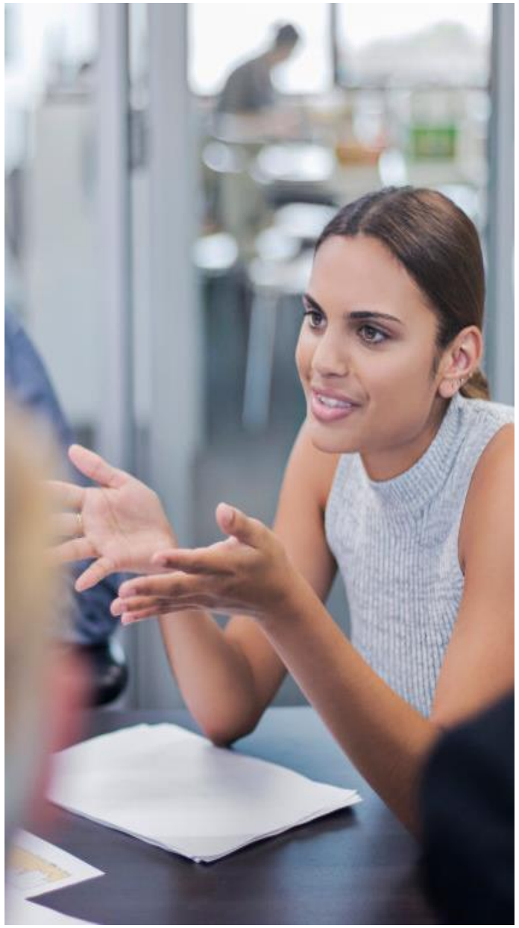
In preparation for transformation, Somerset County Council will be required to approve key organisational enablers such as the staff structure, target operating model and the Council Plan for the new unitary authority. The Target Operating Model should provide the benchmark against which to assess the 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

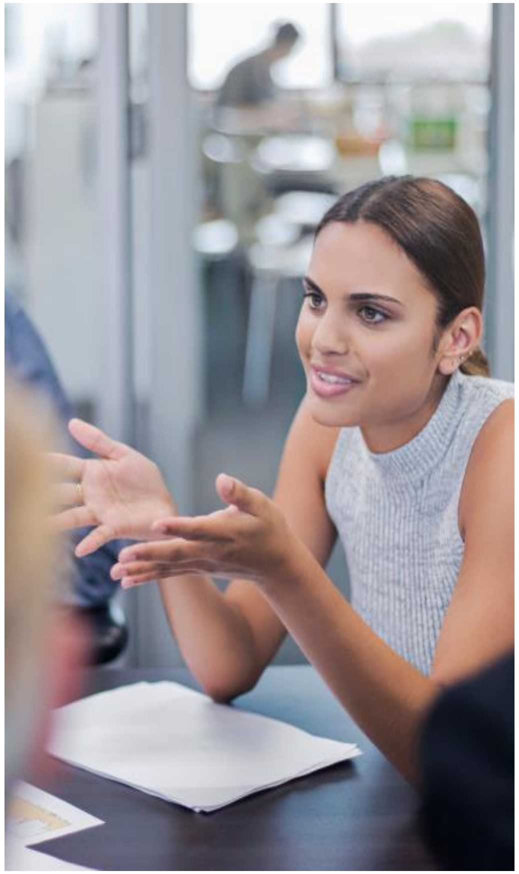
Recommendation 2	The risk register reported to Members through the Corporate Performance Reports should include mitigating actions, gross and residual risk scores, and risks should be mapped to corporate objectives.
Why/impact	Including these elements of best practice in risk reporting will ensure that 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.

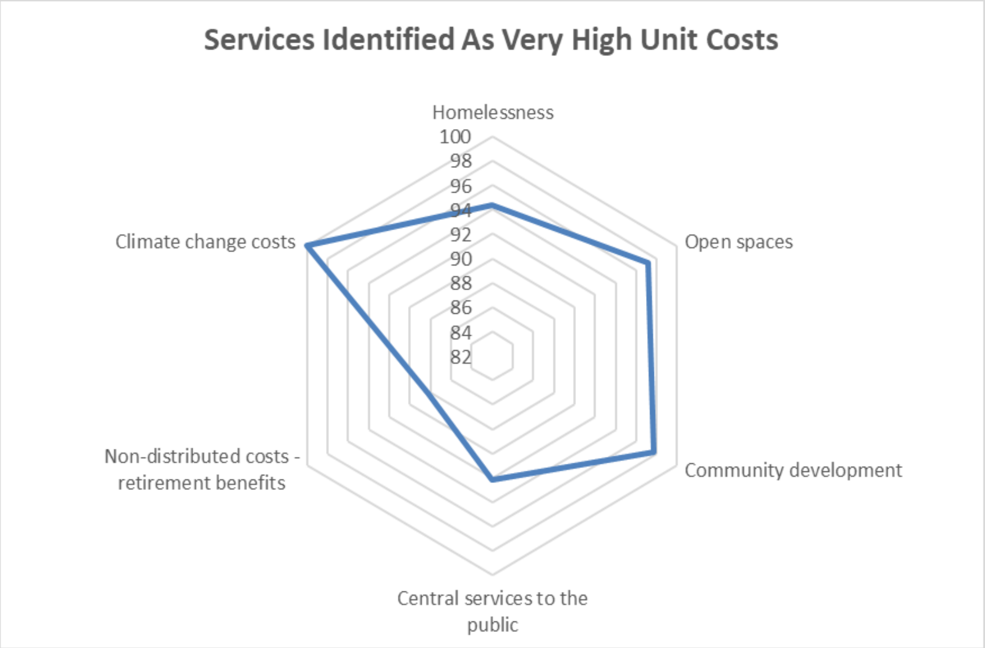
We noted in the Auditor's Annual Report 2020/21 that the Council does not routinely undertake financial or performance benchmarking with other local authorities, and made an improvement recommendation that this should be carried out. In view of the limited time between the recommendation being made and 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 and 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 explantations 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 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.

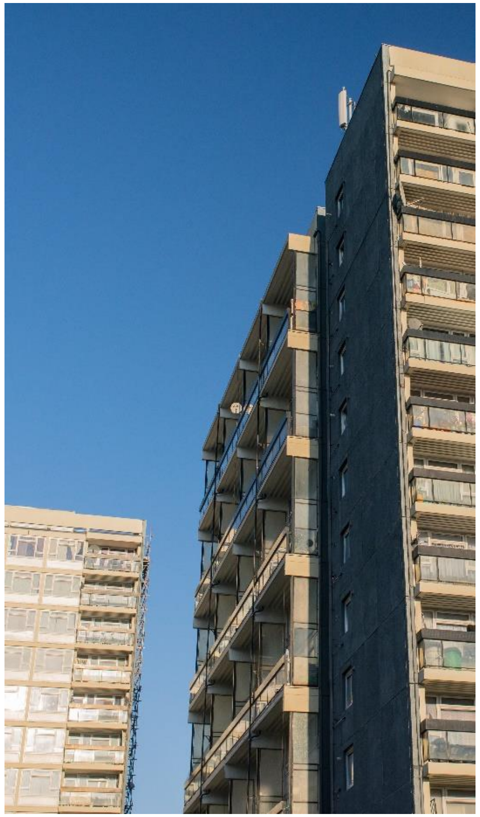
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

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

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



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

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

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was 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.