

# Review of the Council's Arrangements for Securing Financial Resilience for South Somerset District Council

**Year ended 31 March 2013**

August 2013

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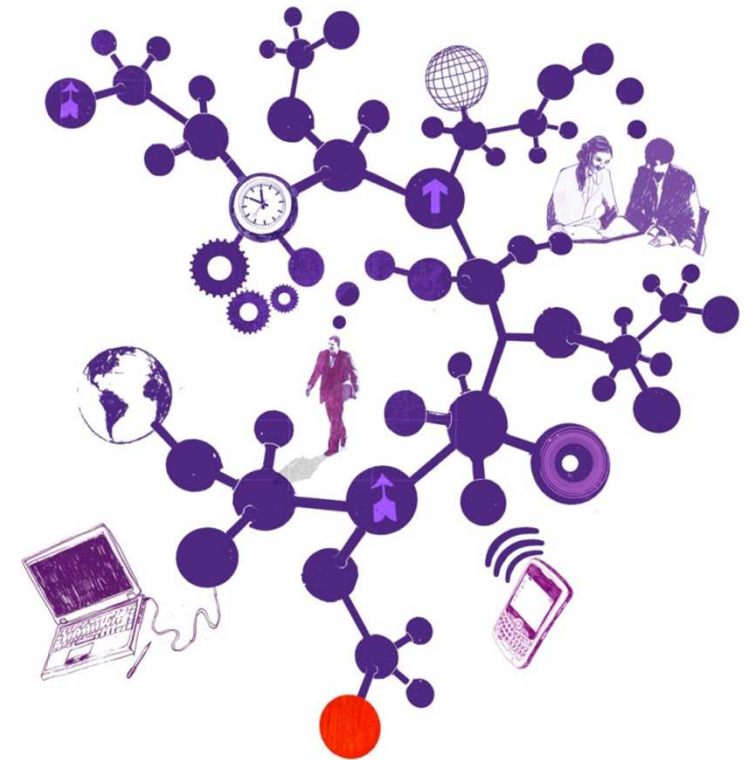
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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# Executive Summary

## Our approach

### Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- key indicators of financial performance;
- its approach to strategic financial planning;
- its approach to financial governance; and
- its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that the Council has adequate arrangements in place to secure financial resilience in the short term. Over the longer term, the uncertainties in the public sector finances will continue to affect the Council.

In a period of austerity, the Council has to date managed its finances effectively. Therefore, we assess the current arrangements for achieving financial resilience as adequate.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	<b>Arrangements meet or exceed adequate standards.</b> Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	<b>Potential risks and/or weaknesses.</b> Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	<b>High risk:</b> The Council's arrangements are generally inadequate or may have a high risk of not succeeding

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# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

### Local Context

South Somerset is predominantly an agricultural area with over 40% of the population living in settlements of fewer than 2,500 people and 30% of the workforce is employed in manufacturing – nearly double the national average.

The Council employs 451 full time equivalent staff who work together with 60 elected councillors. It covers one of the biggest districts in the country, both in terms of geographical size and population.



The baseline figures in the settlement overall reduced grant by £0.39million or 5.7% for 2013/14 and £1.1 million or 29.35% for 2014/15. This will mean that South Somerset District Council will have had a cut in grant of £3.7 million or 41% over the Comprehensive Spending Review period.

South Somerset faces financial challenges as significant reductions in Central Government funding have continued to impact on the funding available to provide statutory services and deliver the Council's priorities. However the Council will benefit from increased receipts from new homes bonus.

The Council has adopted a strategy of managed use of balances, releasing the previous year's new homes bonus to support revenue expenditure. In 2012/13 the Council has been successful in delivering £1.3 million from an ambitious savings target of £1.5 million.



# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Key Indicators of Performance</b>	<p>The Council has a relatively high working capital ratio (second highest in its comparator group) which reflects the decision by the Council to disinvest in long term investments (typically Eurobonds) into short term investments. This allows the Council more flexibility to respond to changes in market conditions.</p> <p>The Council has achieved significant underspends against its original and revised budgets in each of the past five years. The cumulative underspend in those 5 years against the original budgets was £2.3m.</p> <p>The Council has relatively high levels of usable reserves (53% of gross revenue expenditure), the highest in its comparator group. However, most of this balance £37.8m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure.</p> <p>Days lost due to sickness at South Somerset had been consistently lower than the local government average over the period 2007/08 to 2011/12 but there was a significant increase in 2012/13, due to increased number of days lost to long term sickness.</p>	 Green
<b>Strategic Financial Planning</b>	<p>The Council annually produces a five-year Medium Term Financial Plan (MTFP). The MTFP covers financial issues that the Council will face during the five year period. The Council has developed a strategy for dealing with the financial difficulties it is facing which include:</p> <ul style="list-style-type: none"><li>• Making annual savings</li><li>• Managed use of balances</li><li>• Partial use of new homes bonus</li><li>• Council tax increase</li><li>• Growth in business rates</li></ul> <p>The current MTFP shows a budget gap of £2.2m in 2014/15 but the underspends from previous years and use of new homes bonus should help address this gap. The Council has sufficient balances and reserves to address any budget shortfall in the short term.</p>	 Green

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Financial Governance</b>	<p>The Management Board and District Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of Council tax benefits and the pooling of business rates.</p> <p>The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council.</p> <p>There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders.</p> <p>There is regular budget reporting to the Management Board (monthly) and to the District Executive (quarterly). Reports show the original budget, revised budget and year end forecast for each service with an explanation of any variance. There are regular updates on budget virements and progress on major savings (with a report at the end of the year detailing the savings that have been achieved).</p>	 Green
<b>Financial Control</b>	<p>In June 2013 the Council reported final outturns on its 2012/13 budget . Of the original £1.5 million planned savings, £1.3 million had been delivered. The shortfall of £0.2m related to less than anticipated car park income of £193,000 and a shortfall of £28,000 on the Streetscene post.</p> <p>The Council's savings targets are challenging but achievable. The underspend on budgets showed that the Council was able to have sufficient savings to offset any slippage.</p> <p>In its review dated July 2013 internal audit was only able to offer partial assurance on the Council's risk management system and identified that there is insufficient review of the corporate risk register at senior management and Member level. The Council has responded to the action plan and the Audit Committee is receiving the key risks from the risk register, the mitigating action being taken and the responsible officer for the residual risk.</p>	 Green



# Executive Summary

## Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Key Indicators of Performance</b>	The Council should review its collection rates for NNDR that the dip in performance in 2012/13 is addressed.	Assistant Director – Finance and Corporate Services	30/9/13	<b>We are reviewing and revising the recovery plan for 2013/14 to improve the collection rate including some additional measures that are currently being trialled.</b>
	The Council should consider its response to the increase in days lost to sickness.	Chief Executive	31/3/14	<b>The data for quarter 1 in 2013/14 compared to the first quarter 2012/13 already shows an improvement and is within target.</b>
<b>Strategic Financial Planning</b>	The current MTFP shows a budget gap of £2.2m in 2014/15 and the Council needs to identify the actions to close this gap.	Chief Executive/ Assistant Director - Finance and Corporate Services	20/2/14	<b>The budget process is now well underway and a plan to find £4 million over the next three years will be put forward to the Executive in October. We have already identified just under £0.5 million in savings in preparation for the 2014/15 budget.</b>
	The Council needs to review the robustness of the process for producing revised estimates and identify the reasons for variances in the final quarter of the year.	Assistant Director – Finance and Corporate Services		<b>We will be working with our Corporate Performance Team over the next few months to improve the understanding and accuracy of budget monitoring.</b>
<b>Financial Governance</b>	None			
<b>Financial Control</b>	The Council needs to address the weaknesses in the risk management system, identified by Internal Audit.	Assistant Director – Finance and Corporate Services	As per the agreed Action Plan	<b>We have an agreed Action Plan that will be implemented and monitored.</b>

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# Key Indicators

## Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:




- Working capital ratio
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Amber Valley Borough Council  
Babergh District Council  
Borough Council of King's Lynn and West Norfolk  
Braintree District Council  
Breckland Council  
East Lindsey District Council  
Mendip District Council  
Newark and Sherwood District Council  
South Kesteven District Council  
South Norfolk District Council  
St Edmundsbury Borough Council  
Stafford Borough Council  
Stroud District Council  
Taunton Deane Borough Council  
Wychavon District Council



# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<p>The Council has a relatively high working capital ratio (second highest in its comparator group) which reflects the decision by the Council to disinvest in long term investments (typically Eurobonds) into short term investments. This allows the Council more flexibility to respond to changes in market conditions.</p> <p>The most recent figures for Council Tax collection for 2012/13 shows South Somerset at 97.8% which is slightly below the average of the comparator group of 98.3%.</p> <p>For non domestic rates (NNDR) South Somerset's collection rate at 96.4% is again below average in the comparator group whose average is 97.9%. South Somerset is in the lowest 20% of NNDR collection rates of district councils in the country.</p> <p>Locally collected taxes from council tax and non domestic rates accounted for £19.9m and non-ringfenced government grants such as revenue support grant and new homes bonus accounted for £2.6m.</p>	 <b>Green</b>
<b>Borrowing</b>	<p>The Council does not have any long term borrowing. It has a long term liability of £0.27 million related to finance leases. The Council sets out its Treasury Management Strategy before the beginning of the financial year and reports its performance no later than 6 months after the year end. The Council monitors its performance against its prudential indicators and there is robust review from the Audit Committee</p>	 <b>Green</b>
<b>Performance Against Budgets: revenue &amp; capital</b>	<p>The Council has achieved significant underspends against its original and revised budgets in each of the past 5 years. The cumulative underspend in those five years against the original budgets was £2.3m. In the past three years, the underspend against the revised budget has been greater than that recorded against the original budget. This shows that the original budget has been a more accurate forecast of the final outturn than the revised budget.</p> <p>In 2012/13 there was a significant underspend of £5m on the capital budget of £8m. In 2011/12 the capital underspend was £2m.</p>	 <b>Amber</b>

# Key Indicators

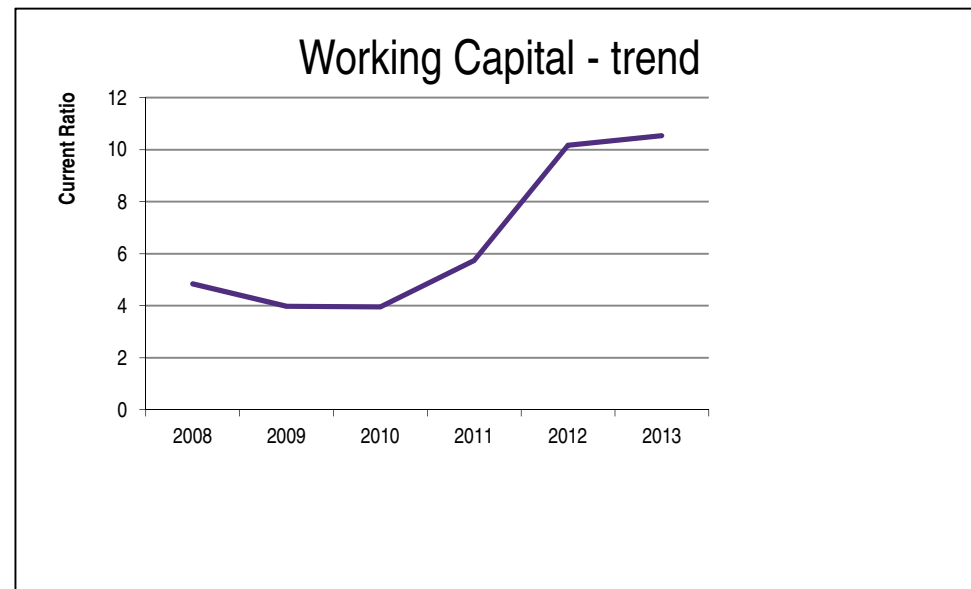
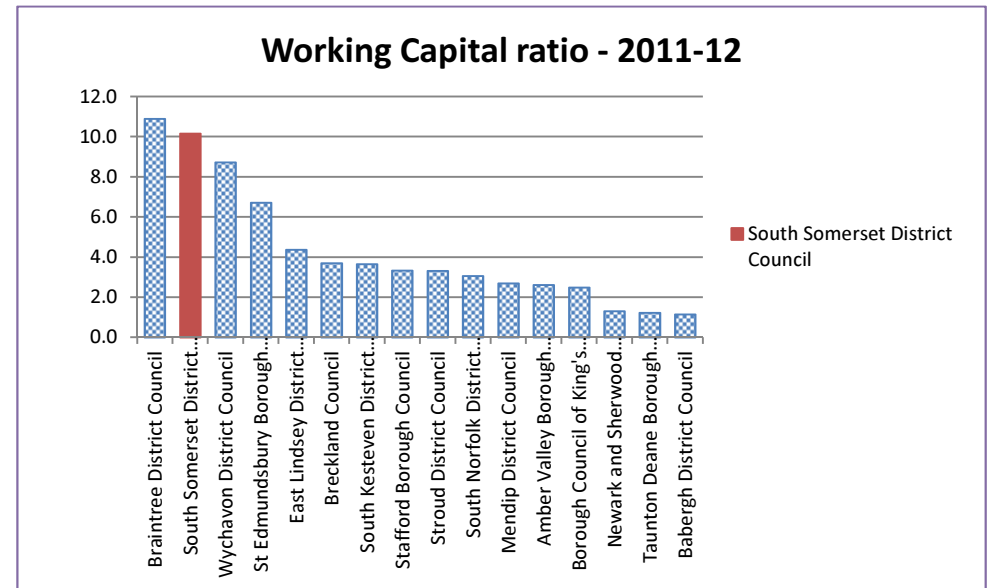
## Overview of performance

Area of focus	Summary observations	Assessment
<b>Reserve Balances</b>	<p>The Council has relatively high levels of usable reserves (53% of gross revenue expenditure), the highest in its comparator group. However, most of this balance £37.8m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure.</p> <p>The Council has consistently maintained its general fund balance above the minimum level it has set. This minimum level was increased to £2.865 m in January 2013 in response to the increased risks to financial forecasting from the uncertainty of particular Government funding reductions combined with the general impact of the economic climate.</p>	 <b>Green</b>
<b>Workforce</b>	<p>Days lost due to sickness at South Somerset had been consistently lower than the local government average over the period 2007/08 to 2011/12 but there was a significant increase in 2012/13, due to increased number of days lost to long term sickness.</p>	 <b>Amber</b>

# Working capital ratio

## Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one - i.e. current liabilities exceed current assets – may indicate potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.



## Findings

South Somerset's working capital ratio has increased from 4.8 in 2008 to 10.5 in 2013. Following the turmoil in financial markets and advice from its treasury management advisors the Council reviewed its investment portfolio.

It had significant long term investments (£15m in 2010) which had generated a higher than average return. As these investments have been realised the Council has invested in the short term investments allowing the Council more flexibility to respond to changes in the market.

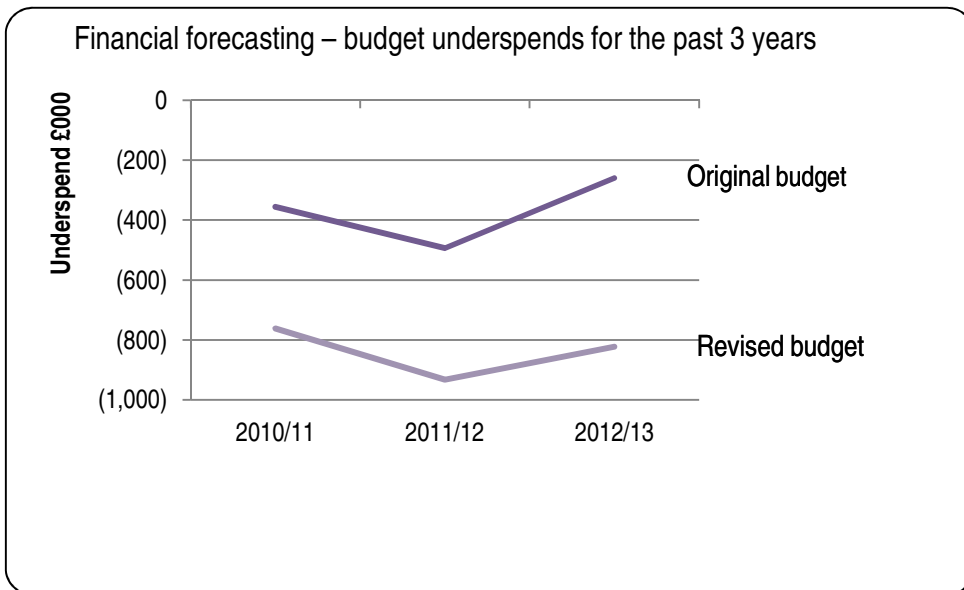
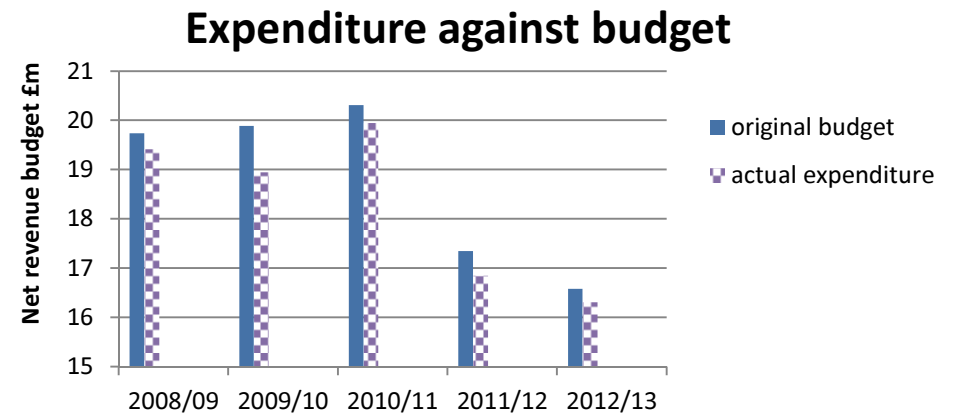
Its long term investments now stand at only £2,000.

# Performance against budget

The Council has a trend of underspending against its original budgets over the last five years which has helped it maintain a strong financial position. As well as updating financial forecasts throughout the year, the Council produces revised budgets at the same time as preparing the following year's budget. The Medium Term Financial Plan (MTFP) is revised every January.

The Foreword to the Statement of Accounts provides a thorough analysis of variances for 'above the line' revenue budgets. The efficiency savings from "LEAN" reviews have contributed to the Council's ability to reduce expenditure to meet the reduction in Government financial support.

The most significant areas of underspend are Revenues and Benefits (£197,000) and Waste and Recycling (£142,000).



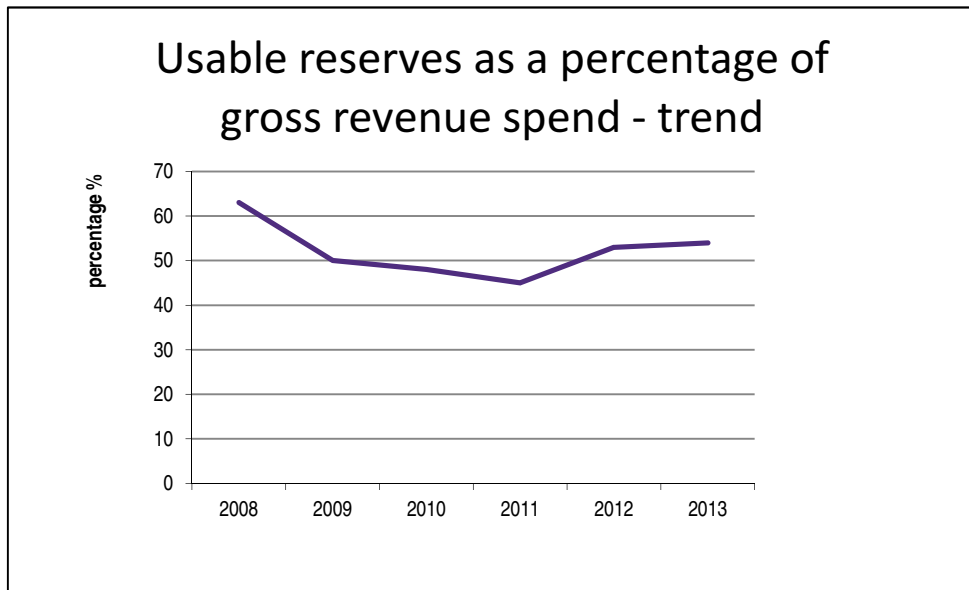
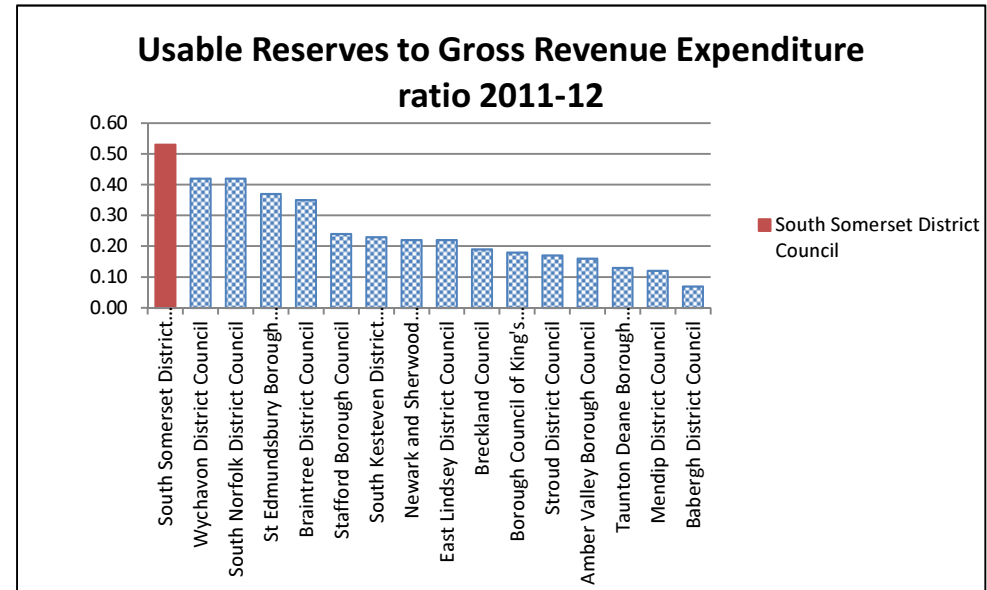
The Council has achieved significant underspends against its original and revised budgets in each of the past five years. In the past three years, the underspend against the revised budget has been greater than that recorded against the original budget. This shows that the original budget has been a more accurate forecast of the final outturn than the revised budget.

In 2012/13 there was a significant underspend of £5m on the capital budget of £8m. In 2011/12 the capital underspend was £2m.

# Reserves

South Somerset's usable general reserves at 31 March 2013 amounted to £48.8 m and as a proportion of gross revenue expenditure (53.9%).

The Council has relatively high levels of usable reserves. However, most of this balance £37.8m relates to capital receipts and capital grants which cannot be used to support day to day revenue expenditure.



There has been relatively little change in reserve levels today compared to 2007/08.

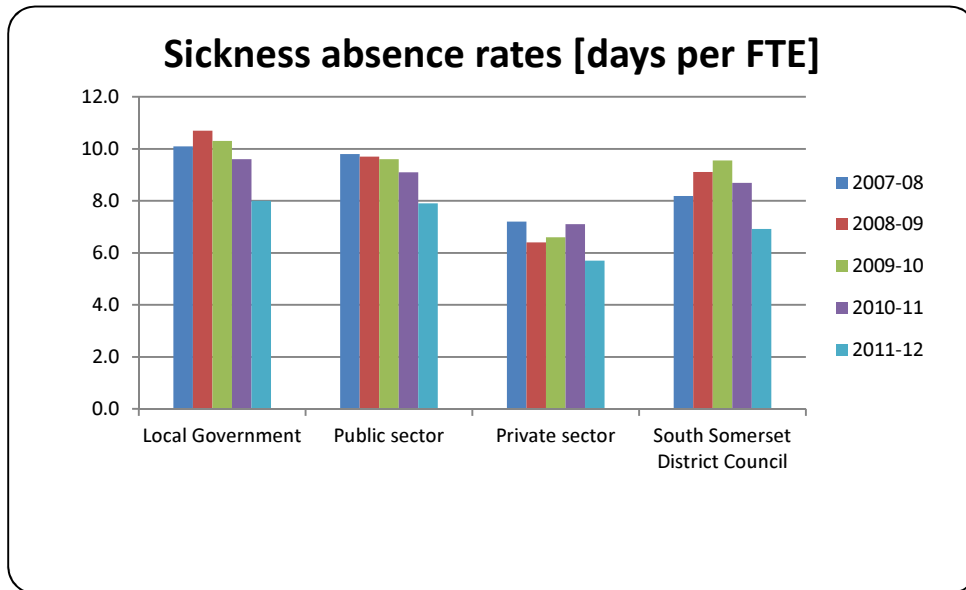
In January 2013 the Council increased the minimum level of general revenue balances from £2.2million to £2.865 million due to the uncertainty of particular Government funding reductions combined with the general impact of the economic climate. The Council undertakes a risk based calculation quarterly to ensure the level is still appropriate.



# Sickness absence levels

The average sickness absence level for the public sector in 2011/12 was 7.9 days per FTE, whilst the private sector average was 5.7 days. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities, given the context of significant pressures on staff to deliver "more for less".



## Findings

South Somerset's sickness absence levels have fluctuated over the past five years but they have been consistently below the local government and public sector average between 2007/08 and 2011/12. South Somerset's lowest sickness absence was in 2011/12 at 6.49 days. However, in 2012/13 there was a significant increase to an average of 11.49 days. There was not much of a change for short term sickness but long term sickness days lost more than doubled and accounted for the overall increase.

Sickness absence levels have an appropriate profile in quarterly performance reporting to members.

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# Strategic Financial Planning




## Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.



# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Focus of the MTFP</b>	<p>The Council's medium term financial plan (MTFP) outlines how the budget will be delivered over the medium to long term. The MTFP at South Somerset spans three years plus a further two years added to show the likely longer term picture – a total of five years. It is updated each January to inform budget setting for the following year.</p> <p>In formulating the MTFP, the Council has focussed on both the key areas of risk and uncertainty, particularly in the areas of national non domestic rate and welfare reform and the continuing pressure and uncertainty in government funding.</p>	 Green
<b>Adequacy of planning assumptions</b>	<p>The MTFP includes key assumptions covering , government funding and legislative changes, income-generating activities, inflation, managing assets effectively to help deliver strategic priorities and service need , assessment of strategic priorities and effectiveness of current priorities and savings plans.</p> <p>The most recent MTFP (January 2013) assumed a reduction of 6.82% in formula grant. In July the Government announced the formula grant for 2015/16 which saw a larger than expected reduction for local government including South Somerset. Management is confident that there is sufficient flexibility in the sources of income, such as the use of new homes bonus to allow the Council to respond to these further reductions in formula grant.</p>	 Green
<b>Scope of the MTFP and links to annual planning</b>	<p>The Strategy to deliver the MTFP links the resources required to deliver the Corporate Plan and the Council's strategies.</p> <p>There are assumptions in the MTFP that the new capital strategy will release capital receipts from 2013/14 to fund capital schemes. The Council's ICT strategy covered the potential savings of the public communicating with the Council on line. The savings are appended to the medium term financial plan and are linked with initiatives to look at alternative management arrangements of the Council's assets.</p>	 Green

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
<b>Review processes</b>	<p>The MTFP is kept under review in the light of changing events and it is updated each January before budget setting. There is also a revision in October following any Government announcement in funding arrangements. Revisions are presented to the District Executive. Members of the Scrutiny Committee have also been involved in reviewing savings plans to feed into the MTFP. There is ample opportunity for councillors to influence the financial planning at South Somerset.</p> <p>The plan takes into account changes in legislation, and announcements on Government funding, delivery of savings and LEAN reviews. Savings plans which form part of the MTFP are monitored and those above £25,000 are reported separately as part of the budget monitoring process.</p> <p>The Plan sets out the level of scrutiny of the proposed budgets and savings:</p> <ul style="list-style-type: none"><li>• The finance team</li><li>• Management Board</li><li>• Portfolio Holders</li><li>• A Scrutiny Task and Finish Group</li><li>• Scrutiny Committee</li></ul>	 <b>Green</b>
<b>Responsiveness of the Plan</b>	<p>The Council has employed realistic scenario planning in its Plan in terms of inflation and assumptions on the continuing reductions in formula grant and receipt of new homes bonus based on estimates for housing growth.</p> <p>In terms of new homes bonus, the Council has decided to use to support its revenue expenditure but in a phased way which allows one year of bonus to be held in reserve at any one time, should new homes bonus not materialise as planned. Currently there is a balance at 31 March 2013 of £1.3 million.</p> <p>The Plan sets out risks to be managed by named individual officers and the sensitivity of assumptions:</p> <ul style="list-style-type: none"><li>• Impact of the use of principal on investment income</li><li>• Business rate retention – maximum risk of £271,000</li><li>• Council tax reduction scheme</li><li>• Housing benefit subsidy</li><li>• Planning, building control and car park income</li><li>• Pay inflation. An increase of 1% equates to £142,000.</li></ul> <p>The Council has been actively reviewing alternative ways of delivering services using voluntary and community groups as well as parish councils to reduce costs, such as the management of the Community Resource Centre. South Somerset has also reviewed the operation of its area offices and generated savings to support expenditure on services.</p>	 <b>Green</b>

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# Financial Governance

## Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

### Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

### Engagement



- There is engagement with stakeholders including budget consultations.

### Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

# Financial Governance




## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Understanding the Financial Environment</b>	<p>The Management Board and District Executive clearly understand the financial environment in which they operate and there is regular communication with members regarding key changes to the financial environment such as localisation of council tax benefits and the pooling of business rates.</p> <p>Portfolio holders present savings plans to other members. They answer questions from other members including Scrutiny about the impact of savings on services. Officers provide the support to allow Portfolio holders to take on this role with confidence.</p> <p>The Medium Term Financial Plan and financial updates clearly set out the financial pressures facing the Council.</p> <p>The Council's commitment to communicating financial issues is demonstrated through the Chief Executive's presentations to staff and the financial training provided to members, including the Audit Committee.</p> <p>Financial instructions &amp; standing orders cover financial management responsibilities.</p>	 <b>Green</b>
<b>Executive and Member Engagement</b>	<p>There is strong officer and member involvement in the budget setting process. Budget workshops are held as part of the process and include officers, members and external stakeholders. The Council consults with external groups affected by proposals.</p> <p>The Assistant Director (Finance and Corporate Services) – Section 151 officer - is a member of the Corporate Management Team and attends District Executive, where she provides the financial expertise to support the decision making process. The S151 officer organises workshops with managers to discuss the financial challenges and identify savings so that staff are fully engaged in the process to find savings.</p> <p>The Audit Committee provides effective challenge on financial matters and the Scrutiny Committee is involved in the review of the savings plans and budgets before being approved by Council. For the 2013/14 budget setting process there was a Scrutiny task and finish group to look at the proposed budgets.</p> <p>Members receive training in finance as part of the induction process with additional training available if required. Members and officers are sufficiently financially aware and aware of the key risks facing the Council.</p>	 <b>Green</b>



# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	Assessment
<b>Overview for controls over key cost categories</b>	<p>The Financial Procedure Rules set out that all budgets agreed by the Council are delegated for management purposes to a named employee of the Council. That budget holder is responsible for monitoring and controlling expenditure against budget allocations and report to the District Executive quarterly in conjunction with the Assistant Director (Finance &amp; Corporate Services) on variances and the action being taken to address them.</p> <p>Budget monitoring is the responsibility of each Strategic Director or Assistant Director. Where there is likely to be a significant variation between the budget and actual expenditure the Assistant Director Finance &amp; Corporate Services is notified as soon as possible including an action plan to rectify the situation where appropriate. (Financial Procedure Rules).</p> <p>Budget monitoring reports are considered monthly by the Management Board and quarterly by the District Executive.</p>	 <b>Green</b>
<b>Budget reporting: revenue and capital</b>	<p>There is regular budget reporting to the Management Board (monthly) and to the District Executive (quarterly). Reports show the original budget, revised budget and year end forecast for each service with an explanation of any variance. There are regular updates on budget virements and progress on major savings (with a report at the end of the year detailing the savings that have been achieved).</p> <p>The quarterly budget updates to District Executive set out movements in reserves and the estimated general fund balance and there are updates against the risks identified in the budget setting report.</p> <p>There are quarterly reports to the District Executive on capital budgets with explanations of slippage or overspends. Expenditure is re-profiled into future years (up to five years in advance). There is also reporting of additional income through successful bids.</p>	 <b>Green</b>
<b>Adequacy of other Committee/Cabinet Reporting</b>	<p>The Council has significant investments ranging between £40m and £50m over the year and there is regular reporting of treasury management activity and returns on investments to the Audit Committee, which actively engages in the consideration of risks and rewards. There are quarterly performance reports to District Executive, covering collection rates for council tax and non domestic rates.</p> <p>There is reporting of the risk register and risk management arrangements to the Audit Committee, which can view the mitigating actions taken by the Council. The current risk register considers treasury management and potential risks to counterparties and to interest rates and the impact on the revenue income.</p>	 <b>Green</b>

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# Financial Control

## **Key characteristics of effective financial control**

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

### **Budget setting and budget monitoring**

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

### **Savings Plans**

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

### **Financial Systems**

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

### **Finance Department**




- The capacity and capability of the Finance Department is fit for purpose.

### **Internal Control**

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.




# Financial Control

## Internal arrangements

Area of focus	Summary observations	Assessment
<b>Budget setting and monitoring - revenue and capital</b>	<p>The 2012-13 revenue and capital budgets were approved in February 2012 at a meeting of the full Council. This followed a detailed process of challenge and review using the medium term financial plan (MTFP) as a foundation document for the budget setting process through District Executive and Scrutiny.</p> <p>There are quarterly monitoring reports to the District Executive including a summary for each service (with more detail as an appendix).</p> <p>A revised budget is prepared to inform the budget setting of the following year. The revised budget for 2012/13 was reported to the District Executive in February 2013 and showed a potential overspend of £166,000 which was turned around to give an underspend of £822,000 by the end of the year.</p> <p>Treasury Management reports are taken to the Audit Committee and the mid-year performance is reported to full council when it is considering the approval of the Treasury Management Strategy for the forthcoming year.</p>	 Green
<b>Performance against Savings Plans</b>	<p>In setting its budget for 2012/13 the Council identified a total of £1.5 million of savings – analysed into £0.96m of efficiency savings, £0.47m of increased income and £0.083 million of other savings.</p> <p>In February 2013 the report to the District Executive showed progress against major savings of £0.85m, all savings were on target to be achieved except for £180,000 of car park income.</p> <p>In June 2013 the Council reported final outturns and that of the original £1.5 million planned savings, £1.3million had been delivered. The shortfall of £0.2million related to less than anticipated car park income of £193,000 and a shortfall of £28,000 on the Streetscene post.</p> <p>The Council's savings targets are challenging but achievable. The underspend on budgets showed that the Council was able to have sufficient savings to offset any slippage.</p> <p>The 2012/13 budget did not include a contingency budget but a carry forward of £45,000 was available for the District Executive to meet unplanned expenditure.</p> <p>The Council's arrangements to monitor delivery of savings is robust and there are sufficient reserves to cover any slippage in savings programmes.</p>	 Green
<b>Key Financial Accounting Systems</b>	<p>Internal audit have reviewed the critical financial systems during the year, all these reviews have received reasonable or substantial assurance.</p>	 Green

# Financial Control


## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Finance Department Resourcing</b>	<p>The Council has a reasonably sized finance department commensurate with its size as a large district council and the finance department will be subject to a LEAN review in the next twelve months. This will assess the efficiency of the processes and the resources required to undertake the work. The department has recently taken over more responsibility for debt recovery, following issues with devolved function. The Finance staff are well experienced, with a number of qualified accountants in post.</p>	 Green
<b>Internal audit arrangements</b>	<p>The Council has an effective internal audit function. The internal audit function was an an internal audit consortium, South West Audit Partnership (SWAP) which is now a company limited by guarantee. SWAP provides internal audit services to other Somerset Councils as well as coverage in Wiltshire, Dorset, East Devon and Forest of Dean.</p> <p>The Audit Committee approves the internal audit plan on an annual basis and receives quarterly updates on key findings and progress with the planned reviews.</p> <p>The Assistant Director (Finance and Corporate Services) reports her annual review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2012-13. Recommendations are made and followed up and progress reported to the Audit Committee.</p> <p>In May 2013 the Group Internal Auditor concluded that he was "...able to offer reasonable assurance in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed...."</p>	 Green
<b>External audit arrangements</b>	<p>The 2011/12 Annual Audit letter and Annual Governance Report summarised the work performed by the Council's previous auditors, the Audit Commission. An unqualified audit opinion and value for money (vfm) conclusion were issued. The reports did not highlight any significant concerns for the Council to address.</p>	 Green

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# Financial Control

## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Assurance framework/risk management</b>	<p>In its review dated July 2013 internal audit was only able to offer partial assurance on the Council's risk management system, TEN. It reported that "Although a structure of risk management was in place at the Council, which set out the processes that should be in place, it was noted that these processes were not always functioning effectively in practice, and had in some cases become out of date.</p> <p>Risk Management has not received sufficient corporate visibility to become implanted in services from the top of the management structure, to the officers carrying out day-to-day operations.</p> <ul style="list-style-type: none"><li>• Some system users have forgotten earlier training on where to look for guidance and how to navigate the system;</li><li>• The Risk Management Policy and Guidance is out of date (refers to Magique system) and has not been reviewed since 2007; and</li><li>• there is insufficient review of the corporate risk register at senior management and Member level..."</li></ul> <p>Although Internal Audit identified the weaknesses in the risk management system, there is monitoring of corporate risks – the most recent review being to the Audit Committee in August 2013 showing key risks, mitigating actions and residual risks with nominated officers to take responsibility.</p>	 <p>Amber</p>

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