Grant Thornton

Interim Auditor's Annual Report on South Somerset District Council

2021/22

March 2023

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 fluctuations in income, increasing demand for services, and on the delivery of the capital programme. Despite financial and operational challenges, the Council delivered a £0.9m 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
Governance	Risk identified with regard to arrangements for transition to the new unitary council.	Red	One statutory recommendation made, two further key recommendations identified, and four improvement recommendations made.	Amber	No significant weaknesses in arrangements identified, but three improvement recommendations made.	↑
Financial sustainability	Risk identified with regard to arrangements for transition to the new unitary council.	Amber	No significant weaknesses in arrangements identified, but four improvement recommendations made.	Amber	No significant weaknesses in arrangements identified, but four improvement recommendations made.	↔
Improving economy, efficiency and effectiveness	No risk identified.	Amber	No significant weaknesses in arrangements identified, but four improvement recommendations made.	Amber	No significant weaknesses in arrangements identified, but one improvement recommendation made.	↑

- Green: No significant weaknesses in arrangements identified or improvement recommendation made.
- Amber: No significant weaknesses in arrangements identified, but improvement recommendations made.
- Red: Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

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:

- mapping risks within the risk register to corporate objectives;
- ensuring compliance with the requirements of the Local Audit and Accountability Act; and
- ensuring adequate resources are allocated to the planning and delivery of service transformation for Somerset Council.

Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. We have 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 the following improvement recommendations:

- continue to identify mitigating actions to manage the forecast overspend for 2022/23 and deliver a balanced budget;
- disclose in public budget monitoring reports the net contribution that commercial property makes to the General Fund;
- seek to further strengthen governance arrangements for SSDC Opium Power Ltd; and
- as part of the budget process for 2023/24 and through LGR workstreams, the Council should continue to support Somerset County Council in working to address key budget risks.

Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. The Council has adequate arrangements in place with regard to performance management, procurement and working with partners. We have made an improvement recommendation that the Council should:

- ensure that recharges from support services to front line services are made using an appropriate basis for apportionment when compiling statistical returns.

We have yet to complete the audit of your financial statements for 2021/22. We will provide a further update on our progress to the Audit Committee.

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 for 2021/22. We will provide an updated Auditors Annual Report once our financial statements audit has been concluded.
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We have not issued a statutory recommendation to date and, based on the audit work completed so far, do not anticipate doing so.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We have not issued a public interest report to date and, based on the audit work completed so far, do not anticipate doing so.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We have not applied for an application to the court to date and, based on the audit work completed so far, do not anticipate doing so.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We have not issued an advisory notice to date and, based on the audit work completed so far, do not anticipate doing so.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We have not applied for judicial review to date and, based on the audit work completed so far, do not anticipate doing so.

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).

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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 7 to 33. Further detail on how we approached our work is included in Appendix B.

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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.

Statutory recommendation update – settlement agreements with senior officers

As part of our value for money work for 2020/21 we reviewed the basis on which a settlement agreement was reached with a senior officer. We identified significant governance weaknesses with regard to the process to authorise the settlement agreement. Weaknesses included a lack of consultation with the Leader or other elected Members, the Financial Regulations and Constitution were not followed, legal advice was not obtained, and the Monitoring Officer and S151 Officer were not made aware of the matter. No evidence could be provided that value for money was considered in making this substantial settlement payment.

We raised a statutory recommendation within the Auditor's Annual Report 2020/21 that in future, when considering making agreements with, or payments to employees, that the Council complies with Financial Regulations and the Constitution, ensures appropriate consultation takes place with Members and Statutory Officers, and maintains appropriate evidence for the decision making process.

Statutory recommendations, under Section 24 of the Local Audit and Accountability Act 2014, require that the Council discusses the recommendation and responds publicly to the report. Full Council considered the statutory recommendation at their meeting of 22 September 2022, which was accepted. The supporting report from the Chief Executive, Monitoring Officer and S151 Officer sets out a revised procedure note to be followed when considering settlement agreements, for adoption with immediate effect.

The procedure note confirms that, when considering settlement agreements, a report must be made that covers the economic rationale of the decision and its impact on efficiency and effectiveness. If a payment is justified by the evidence, the report must be authorised by the Senior Leadership Team lead, human resources, the Monitoring Officer and the S151 Officer. Payments between £20k and £100k must also be authorised by the Chief Executive and Leader, with payments in excess of £100k requiring Full Council approval.

We consider that the Council has adequately responded to the statutory recommendation and that the approval of the revised Procedure Note gives assurance to Members and the public that a more robust process will be followed in the future. The Procedure Note confirms that special severance payments will only be made where there is evidenced justification, policies have been followed, alternative actions explored, and arrangements provide value for money.

Preparation of the financial statements

Significant weaknesses were identified in the final accounts process and capacity to produce the financial statements for 2020/21. The Auditor's Annual Report 2020/21 made a key recommendation that the Council should ensure that there is sufficient capacity within the finance team and other Council staff to enable a complete and accurate version of the financial statements, supported by appropriate evidence, to be produced by the statutory deadline.

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We have yet to complete the audit of the Council's financial statements for 2021/22. We will consider fully the Council's response to the key recommendation we made in last year's Auditor's Annual Report as part of the financial statements audit.

Commercial strategy – commercial property

The scale of commercial property investment potentially exposes the Council to significant financial risk and is a departure from the principles of prudent activity reinforced in the revised CIPFA Prudential Code. We made a key recommendation in the Auditor's Annual Report 2020/21 that the Council should develop a clear plan to address the risks that it is exposed to as a result of investing in commercial property and its funding of these investments through short-term borrowing, which could lead to significant fluctuations in financing costs due to market uncertainty and the current environment on increasing interest rates.

We have considered how the Council is managing the risks associated with commercial property in more detail within the Financial Sustainability section of this report. 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. We have made an improvement recommendation that the Council should continue to support Somerset County Council in working to address key budget risks for the new unitary authority, which includes determining the approach for holding, financing and mitigating the risk relating to commercial property investments.

Risk management

The Council's Risk Management Policy sets out the risk management process, roles and responsibilities, and how risks should be recorded and reported. Reporting requirements include quarterly reviews of the strategic risk register by the Senior Leadership Team and an annual report to the Audit Committee on the Council's risk management arrangements and strategic risk register.

The Audit Committee received a summary risk register in May 2021, with the full risk register next provided to the Committee in May 2022 as part of the update on risk management arrangements. These risk registers were provided as public agenda items in contrast to the October 2020 risk register which was exempt to the public.

The Senior Leadership Team held a risk management workshop with Zurich Risk Management in December 2021, which informed the risk management reporting to the Audit Committee in May 2022. The workshop included a fundamental review of operational and strategic risk and resulted in the consolidation of some risks and revised risk scores for other risks. The Senior Leadership Team further reviewed the strategic and corporate risk registers in February 2022.

Therefore the Council can evidence that risks were reviewed during 2021/22 by both Members and the Senior Leadership Team.

The May 2022 risk management update recognised there had been some disruption to risk management arrangements due to changes in officer responsibilities. A refined approach to risk management was identified that includes the development of a SharePoint risk register to record and manage risks and the use of Power BI to provide improved reporting.

An improvement recommendation was identified in the Auditor's Annual Report 2020/21 that arrangements for reporting the risk register to the Audit Committee should be strengthened by reporting quarterly to the Audit Committee as a public agenda item, mapping risks to corporate priorities, including mitigating actions, and ensuring that reported risks focus on the most significant risks that the Council faces.

We note that the risk register has been reported as a public agenda item on a quarterly basis to the Audit Committee for 2022/23. From Quarter Two 2022/23, total Red, Amber, Green (RAG) rated risks are reported as a risk summary, but only red RAG rated risks are reported in detail to ensure that the focus is on the key risks facing the Council. While additional detail is provided on controls and mitigating actions, we note that risks are not mapped to corporate priorities in the risk register. We have raised a further improvement recommendation that this should be done to ensure only strategic risks are reported to Members.

Internal Audit reviewed the Council's arrangements for managing risk during the year, reporting a reasonable assurance opinion to the Audit Committee in July 2021.

We have found no risk of significant weakness with regard to the Council's arrangements for risk management and recognise that the Council has made progress in implementing the improvement recommendation made in 2020/21. We have identified a further improvement recommendation that risks within the risk register should be mapped to corporate priorities.

Internal control

The Council's internal audit function is undertaken by the South West Audit Partnership (SWAP). The Audit Committee approves an annual internal audit plan and receive regular

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progress reports detailing any changes to the plan, audits completed, and details of audit reviews where limited or no assurance is provided. Progress made in implementing high priority recommendations is reviewed and reported during follow up audits for limited assurance audits.

We made an improvement recommendation in 2020/21 that the progress made in implementing previous internal audit recommendations should be routinely reported for all high priority recommendations as part of the regular SWAP progress reports.

From our discussions with SWAP we understand that a new recommendation tracking tool has been developed that uses SharePoint and Power BI to summarise the position on all internal audit recommendations. Automatic reminders are sent out on key dates for officers to update recommendations and a position statement on outstanding recommendations is taken quarterly to the Senior Leadership Team.

The intention is that the recommendation position produced through Power BI will be presented to the Audit Committee twice a year, with the first report due in early 2023. Therefore the Council plans to implement the improvement recommendation.

SWAP provided a reasonable assurance internal audit annual opinion for 2021/22, indicating that there is generally a sound system of governance, risk management and control in place.

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 Committee.

Arrangements to prevent and detect fraud and corruption

As part of our review of governance arrangements in 2020/21 we noted that SWAP had conducted a baseline assessment of the maturity of fraud in March 2021. The review provided an amber assessment across the key theme areas and an action plan was developed to secure improvements relating to updating anti-fraud policies, providing training, and reporting anti-fraud activity to Members.

In April 2021, the Council received a whistleblowing allegation regarding the conduct of a number of Council officers. We noted in the Auditor's Annual Report 2020/21 that the Council took prompt and robust action to investigate the allegation, commissioning an internal audit review and an independent external investigation. Investigations identified weaknesses in controls and evidence of inappropriate cultural practices within Environmental Services.

Recognising the public interest in the matter, a detailed public report was considered by the Audit Committee in May 2022, which includes the progress made implementing the recommendations made as a result of the investigations.

We made an improvement recommendation in the Auditor's Annual Report 2020/21 that the Council should ensure it implements the action plans relating to the baseline maturity of fraud and whistleblowing investigation.

The Council can demonstrate that progress has been made in improving the arrangements to prevent and detect fraud and corruption, for example:

- progress implementing the recommendations resulting from the whistleblowing investigation was reported to the Audit Committee in May 2022, with a further update planned for early 2023;
- a new management team is in place at the Lufton Depot and new policies have been approved relating to the use of vehicles and fleet;
- Audit Committee received an annual whistleblowing update for 2021/22 in June 2022, confirming disclosures received and action taken;
- compulsory counter-fraud training was rolled out to officers during 2021/22;
- a new officer Code of Conduct has been produced and we note that mandatory training was rolled out to officers during December 2022; and
- all five Somerset councils received a similar baseline assessment for the maturity of fraud, and actions are now being considered through a local government reorganisation workstream to ensure adequate arrangements are in place for the new council.

Therefore the Council has addressed the 2020/21 improvement recommendation and can evidence that it is taking action to strengthen arrangements for preventing and detecting fraud. The Council can demonstrate that whistleblowing procedures work and that action is taken to address weaknesses in control where they are identified.

Budgetary control

The Council's budget monitoring arrangements are robust, with monitoring and outturn reports containing a detailed narrative explaining the reasons for budget variations, and providing evidence that variances are identified, trends monitored, and forecasts are made to the year end.

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As the financial year progressed, and more financial information became available, the forecast revenue outturn position was adjusted accordingly. The financial position improved during the financial year, from the £0.1m projected service overspend forecast at quarter one, to the eventual net underspend of £0.9m at year end.

Resources were also realigned during the year following an in depth review of the 2021/22 budget to ensure that historic budgets reflected actual activity. This resulted in the net budget being revised from £16.7m to £17.3m as at Quarter Two.

During our 2020/21 value for money we work, we identified that the outturn report incorrectly disclosed the General Fund balance as at 31 March 2021 as £3.1m, with the correct figure of £4.3m being reported in the statement of accounts. We made an improvement recommendation that the outturn report should accurately reflect key financial information.

The outturn report for 2021/22 discloses a General Fund balance of £5.6m as at 31 March 2022, with the statement of accounts reporting a balance of £6.6m. The revenue budget monitoring report for Quarter One 2022/23 correctly reports the opening General Fund balance as £6.6m. Therefore the error noted in the outturn report in 2020/21 has been repeated in the outturn report for 2021/22.

We have not identified a significant weakness in arrangements or made any further recommendations on this matter, as the position was correctly reported in the accounts and subsequent budget monitoring. However, budget outturn reports should be checked to ensure that key financial information, such as the level of unearmarked General Fund reserves, is correctly reported to Members.

Judicial review

Following claims that a planning decision made by the Council in January 2022 was unlawful as it was biased and predetermined, a Judicial Review subsequently quashed the decision in October 2022. The Council is required to redetermine the application.

The Chair and Vice-Chair of the Planning Committee had both declared personal interests under the Member Code of Conduct, with the Judicial Review finding that Members took the view that the interest was not prejudicial on the advice on the Monitoring Officer. The Judicial Review found that this advice was not correct, but that this outcome does not adversely reflect on the integrity or professionalism of the Members, and that the advice provided by the Monitoring Officer resulted from an open and honest application of the Code of Conduct.

Although the Judicial Review overturned the planning decision, from our review of the circumstances of the planning decision and from discussions with officers, we have not found that this represents a significant weakness in arrangements. This view is in accordance with the comments made in the Judgement.

Section 26 Local Audit and Accountability Act 2014

The Local audit and Accountability Act provides electors with the rights to inspect the Council's accounts and underlying accounting records, books, deeds, vouchers and receipts. We are aware of two instances relating to the 2020/21 and 2021/22 financial statements, where electors have expressed difficulty in receiving timely responses from the Council when information has been requested under the Act. Assessing whether information requested is commercially sensitive has contributed to delays in providing responses.

We understand that the Monitoring Officer has drafted a procedure note that, subject to agreement, will provide for a consistent and considered response to electors in accordance with the requirements of the 2014 Act.

We have made an improvement recommendation that the Council should ensure that it complies with the requirements of the Local Audit and Accountability Act. Relevant officers should receive training to ensure:

- they are aware of the rights of electors and other interested parties under the Act;
- they are aware of what constitutes commercially confidential information;
- they understand in which circumstances public interest in disclosure may override commercial confidentiality;
- consideration is given whether it is possible to redact commercially sensitive elements of underlying records;
- the reasons for decisions on what information can be disclosed to electors and other interested parties is documented and provided to electors, including a right to have the decision reviewed; and
- that information requests are responded to in a timely way so that electors are not disenfranchised from their other statutory rights contained within the Act.

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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 Somerset County Council (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.

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

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- 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 2022 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.

It is incumbent on all LGR partner authorities in Somerset to ensure that adequate resources and information are shared so that the new council can make informed decisions on the services and activities that will transfer on vesting day, and how they will impact on the new target operating model.

We have made an improvement recommendation that in order to achieve successful transformation, the Council should work with its LGR partners to 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 the run up to vesting day and beyond.

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

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Recommendation 1	Risks within the risk register reported to the Audit Committee should be mapped to corporate objectives.
Why/impact	Mapping risks to corporate objectives ensures that only strategic risks are reported to Members, and provides for a better understanding of how the risk may impact strategic priorities.
Summary findings	An improvement recommendation was identified in the Auditor's Annual Report 2020/21 that arrangements for reporting the risk register to the Audit Committee should be strengthened by reporting quarterly to the Audit Committee as a public agenda item, mapping risks to corporate priorities, including mitigating actions, and ensuring that reported risks focus on the most significant risks that the Council faces. The Council has made progress in implementing the improvement recommendation, with the Audit Committee receiving quarterly risk registers as a public agenda item. Only red RAG rated risks are reported in detail and additional information is provided on mitigating actions. However, risks are not mapped to corporate priorities.
Management Comments	SSDC accepts the recommendation, and this will be fed through for consideration of implementation within the new Somerset Council. SLT Lead: Nicola Hix

The range of recommendations that external auditors can make is explained on Page 41.

Improvement recommendations

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Recommendation 2	The Council should ensure that it complies with the requirements of the Local Audit and Accountability Act. Relevant officers should receive training to ensure: • they are aware of the rights of electors and other interested parties under the Act; • they are aware of what constitutes commercially confidential information; • they understand in which circumstances public interest in disclosure may override commercial confidentiality; • consideration is given whether it is possible to redact commercially sensitive elements of underlying records; • the reasons for decisions on what information can be disclosed to electors and other interested parties is documented and provided to electors, including a right to have the decision reviewed; and • that information requests are responded to in a timely way so that electors are not disenfranchised from their other statutory rights contained within the Act.
Why/impact	The Council should seek to provide information in a timely and transparent manner when electors seek to exercise their rights under the Local Audit and Accountability Act.
Summary findings	The Local audit and Accountability Act provides electors with the rights to inspect the Council's accounts and underlying accounting records, books, deeds, vouchers and receipts. We are aware of two instances relating to the 2020/21 and 2021/22 financial statements, where electors have expressed difficulty in receiving timely responses from the Council when information has been requested under the 2014 Act. Assessing whether information requested is commercially sensitive has contributed to delays in providing responses. We understand that the Monitoring Officer has drafted a procedure note that, subject to agreement, will provide for a consistent and considered response to electors in accordance with the requirements of the Act.
Management Comments	SSDC accepts the recommendation, and this will be shared with the new Somerset Council for their consideration of implementation. SLT Lead: Jill Byron / Nicola Hix

The range of recommendations that external auditors can make is explained on Page 41.

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Governance

Recommendation 3	The Council should work with its LGR partners to 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 the run up to vesting day and beyond.
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. It is incumbent on all LGR partner authorities in Somerset to ensure that adequate resources and information are shared so that the new council can make informed decisions on the services and activities that will transfer on vesting day and how they will impact on the new target operating model.
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	SSDC accepts the recommendation, and this will be fed through for consideration in resource planning within the new Somerset Council. SLT Lead: Jane Portman

The range of recommendations that external auditors can make is explained on Page 41.

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 outturn position was a £0.9m surplus against the £17.3m net budget. Within this net position, the Council achieved savings across service areas due to staff vacancies (£0.2m), increases in fees and charges income for arts, entertainment and carparking (0.5m), increased service grants and contributions (£0.6m), and Covid-19 support grant (£0.9m). Savings and additional income were partially offset by increases in capital financing costs, partly reflecting additional resources set aside as minimum revenue provision (£1.3m), and premises cost overspends (£0.8m).

The surplus was allocated to unearmarked General Fund reserves in order to increase the Council's financial resilience which is a prudent approach as the Council faces cost pressures relating to the pay award, inflation and increased borrowing costs.

The Council incurred capital expenditure of £35.5m against a revised budget of £40.5m. Capital spend supported corporate priorities, including commercial loans to Opium Power Ltd (£10.3m), commercial property investments (£9.6m) and town centre regeneration in Chard and Yeovil (£9.7m). Underspent capital budgets were carried forward to 2022/23, including £1.8m relating to the Yeovil Refresh where delays were caused by the pandemic and a requirement to retender elements of the scheme after the contractor went into liquidation.

The outturn position for 2021/22 does not identify any risk of significant weakness in the Council's financial management arrangements. Arrangements for budgetary control are considered in more detail in the Governance section of this Auditor's Annual Report.

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. The delay in local government funding reforms and roll forward of grant support from 2021/22 benefited the Council's financial position by £4.4m for 2022/23. The budget report sets out the income the Council will receive for specific grants such as rural services and lower tier services grants, and new homes bonus funding.

Funding within the budget also includes a 2.82%, or £5, increase in council tax which is in accordance with referendum principles.

The Council set a net budget of £19.7m for 2022/23, with expenditure balanced from government grant, retained business rates and council tax income. A small surplus of £0.1m was forecast for the year, to be transferred to reserves to support financial planning.

The budget 2022/23 incudes £1.4m of savings that have been identified through a zero based budgeting approach and in depth reviews to amend historical budgets where they no longer reflect activity. Due to the favourable finance settlement position and the identification of savings from zero based budgeting, the budget 2022/23 did not require reductions in services to balance the position.

Financial sustainability

The 2022/23 budget includes £2.5m to support the local government reorganisation process and ensure that there is sufficient capacity to implement and transition to the new council, while maintaining business as usual and achieving corporate priorities in the last year of South Somerset District Council.

Revenue monitoring at Quarter Two 2022/23 identifies budget pressures of £3.2m, which is a significant increase in the £1.6m pressure identified at Quarter One due to the impact of inflation, the pay award and rising interest rates. These pressures reflect changing economic conditions that were not evident when the budget was set in February 2022. In response, Full Council approved revised estimates in order to balance the budget which include savings in other areas such as staff turnover and the Somerset Waste Partnership. Increases in income are being achieved in other areas, for example with pooled fund treasury investments which are achieving higher interest rates.

We have made an improvement recommendation that the Council should continue to identify mitigating actions to manage the forecast overspend for 2022/23 and deliver a balanced budget. 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.

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 we consider that arrangements are robust. Financial planning assumptions are updated as the financial year progresses and more information becomes available.

The District Executive received a Medium Term Financial Plan Refresh 2021/22 – 2023/24 in October 2021, which included updated information relating to the 2020/21 outturn position and budget monitoring as at Quarter One 2021/22. A further one year finance settlement and delay to local government financing reforms for 2022/23 were predicted, resulting in a £0.8m budget gap identified for 2022/23 and £2.9m for 2023/24.

The MTFP forecast was further updated when the 2022/23 budget was set in February 2022. A full MTFP was not produced as this is the last year that South Somerset District Council will exist as a sovereign council. A preliminary estimate of the budget position for 2023/24 was provided in order to inform the budget setting process for the first year that Somerset Council will deliver services. An indicative budget gap of £4.5m was identified for 2023/24, largely due to the anticipated introduction of local government finance reforms, cessation of new homes bonus and business rate baseline reset.

Were South Somerset to continue as a sovereign council then the estimated budget gap of £4.5m in 2023/24 would be significant and would need to be addressed through the rapid development of service savings and transformation.

Due to local government reorganisation financial planning seeks to protect funding for services in order to maintain service delivery and capacity to support the transition to the new council. 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.

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 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

Financial sustainability

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 strategy

The Council's Commercial Strategy is a key component to medium term financial planning and seeks to generate commercial income to offset reductions in government funding and so protect services. The Council's commercial investments include the purchase of commercial property and granting commercial loans to the Council's subsidiary SSDC Opium Power Ltd.

As at 31 March 2022 the Council had invested £97m in commercial property and £42.2m in commercial loans to SSDC Opium Power Limited. During 2021/22 the Council purchased an additional three commercial investment properties for £9.6m. The gross budgeted income for commercial property in 2022/23 is significant at £6.7m, with a net contribution forecast at £3.0m after associated revenue and borrowing costs.

The budget report clearly sets out the gross commercial property income and commercial team costs, but does not set out the net contribution that commercial property makes to the General Fund after associated borrowing costs relating to minimum revenue provision and interest payable. This information is provided in the Investment Asset Update Reports to District Executive as exempt information.

We have made an improvement recommendation that the Council's budget setting and outturn reports should provide public information on the gross and net contribution that commercial property makes to the General Fund, clearly identifying associated borrowing costs. This would ensure that stakeholders have a clear understanding of the net returns that are being achieved and the extent that the revenue budget is reliant on commercial property income.

Investments made under the Commercial Strategy are funded from short term debt. The Council has £128.5m of short term borrowing as at 31 March 2022 and this creates a refinancing risk for the Council when interest rates are rising.

The Treasury Management Strategy 2022/23 confirms that South Somerset District Council will not undertake longer term loan agreements, unless required, in order to give maximum flexibility to the new Somerset Council from 1 April 2023 in managing the overall debt position inherited from the five legacy councils.

The Council mitigates the financial risk associated with commercial property by maintaining a Commercial Investment Risk Reserve. This reserve had a balance of £6.7m as at 31 March 2022, with the 2022/23 budget including a £2m transfer from this reserve to the General Fund Balance. This would still leave a Commercial Investment Risk Reserve balance of £4.7m as at 31 March 2023, which would equate to 70% of the gross income for commercial property.

Full Council resolved that there would be no further commercial investments purely for yield at their meeting in December 2021. This is confirmed in the Council's Budget Report and Treasury Management Strategy for 2022/23, in order to comply with the revised CIPFA Prudential Code that states it is not prudent for authorities to borrow to invest primarily for financial return.

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 investing in commercial property. 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 through the following responses:

- Full Council have determined no further investments purely for yield will be made from December 2021;
- a Commercial Investment Risk Reserve has been maintained, with a forecast balance of £4.7m at 31 March 2023, equivalent to 70% of gross income;
- the Budget Report and Treasury Management Strategy 2022/23 confirm the changes that have been made to the CIPFA Prudential Code and state that the Council has ceased investing in commercial property purely for yield;

Financial sustainability

- the Commercial Strategy has been updated to reflect the completion of the commercial property portfolio and focus on ongoing management rather than further property acquisition;
- a local government workstream is considering the new unitary council's approach to commercial property, including risk appetite, financing, and which investments to retain; and
- the Member Budget Working Party has been briefed on all district council commercial investment portfolios.

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 good governance arrangements we identified in 2020/21 with regard to the appraisal of investments and regular reporting to the District Executive through the Investment Asset Update Reports has continued during 2021/22.

However, the borrowing requirement for commercial property is 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 the Budget Setting Arrangements 2023/24 section of the Auditor's Annual Report.

SSDC Opium Power Ltd

SSDC Opium Power delivers and manages battery storage schemes, with one site at Taunton and two at Fareham, funded through commercial loans made by the Council to the company. South Somerset District Council retains 50% ownership in SSDC Opium Power Ltd, with the company's green energy schemes contributing to corporate priorities for net zero carbon.

The 2022/23 revenue budget includes loan interest income of £1.3m, with dividends from the company not due until it becomes profitable. To date the Council has made £42.2m of commercial loans to the Company.

Commercial loans are made to the company through the Commercial Strategy, with the Asset Investment Group using delegated authority to approve loans following the required due diligence on investment proposals. Due to the specialised nature of battery storage investments, we identified an improvement recommendation in the Auditor's Annual Report 2020/21 that the Council should approve a separate business plan future investments through SSDC Opium Power. We understand from discussions with Company Directors that as the original business case has not changed there have not been further business cases submitted to Council for approval.

We consider that the Council should approve business plans relating to SSDC Opium Power on an annual basis. This will ensure that the financial impact of the company's operations on the Council is understood along with associated financial and delivery risk. Without up to date business plans the financial and delivery performance of the company cannot be properly measured and Directors held to account. We note that the Investment Asset Update Reports to District Executive do include updates on the development of the battery storage sites and income generated.

Approval of annual business plans would also provide an opportunity to provide assurance that future investments, potentially outside of the Council area, continue to comply with the Prudential Code and do not represent investments purely for yield.

Internal Audit carried out a review of SSDC Opium Power Ltd to determine whether it is achieving the objectives set out in the original business case and is adequately monitored. The review, issued in December 2022, provided reasonable assurance and concluded that on face value the Company was delivering on the business case. Some areas were identified where monitoring and oversight could be strengthened, for example providing analysis of income and loan repayments against expected payments, providing reports for Council oversight in accordance with the shareholder agreement, and ensuring the loan agreement is updated to reflect actual loans drawn down.

Internal Audit did identify some limitations with the scope of their review due to difficulties in obtaining all the documents requested and a lack of engagement from officers.

We have therefore raised an improvement recommendation, that the Council should seek to further strengthen governance arrangements for SSDC Opium Power Ltd by:

- approval of an annual business plan by Full Council;

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- implementing the recommendations made by Internal Audit regarding assurance reports from the Board, implementing a risk register, providing analysis of actual loan repayments against the plan, and ensuring loan repayment schedules are up to date; and
- providing Internal Audit with all the information they require in order to provide assurance opinions in a timely manner, in accordance with the Accounts and Audit Regulations 2015.

Capital strategy and treasury management

The Council's capital programme supports corporate priorities, including commercial investment, decarbonisation, town centre regeneration in Yeovil, Chard and Wincanton, and redevelopment of the Octagon Theatre.

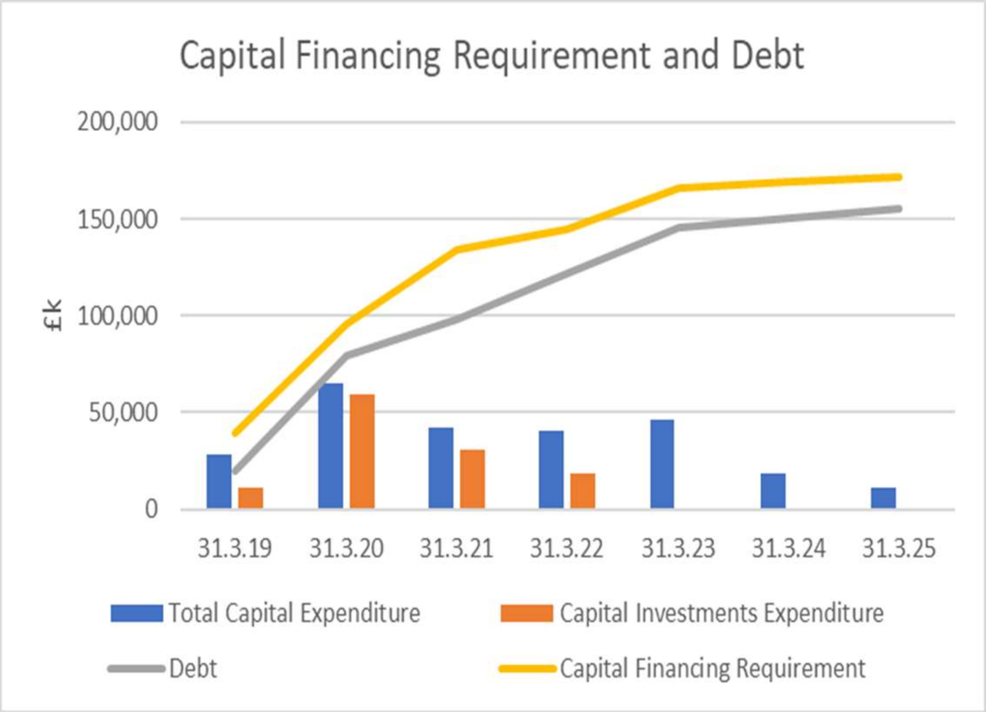
In February 2022, Full Council approved a total capital programme of £117.9m, funded from £51.7m in specific grants or developer contributions, £18.9m useable capital receipts and £2.9m capital reserves. The remaining funding of £44.4m comes from additional borrowing.

The costs of borrowing, in the form of minimum revenue payments (MRP) and interest payable, are included within the revenue budget and are forecast to increase as additional borrowing is undertaken to fund the programme and as interest rates rise. MRP costs are forecast to rise from £1.2m in 2021/22 to £1.7m in 2023/24, with interest payable increasing from £0.2m to £1.6m over the same period.

As the capital programme requires borrowing to fund schemes, particularly in relation to regeneration projects and commercial investments, the Council's capital financing requirement (CFR) is forecast to increase. The Treasury Management Strategy 2022/23 forecasts increases in the CFR from £133.9m in 2020/21 to £171.5m by 2024/25.

The graph opposite demonstrates the forecast increases in the Council's CFR and associated debt, as the capital programme is delivered, using data from the Council's Prudential Indicators published in February 2022.

The Council's borrowing strategy is to borrow internally or short term to fund the capital programme, as short term debt is historically more cost effective than long term debt. The Council also wants to ensure that the new Somerset Council has maximum flexibility in managing its CFR and so is not committing to new long term loans at this point. As at 31 March 2022 the Council has £128.5m of short term borrowing on the balance sheet.



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.

Financial sustainability

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 statement 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.

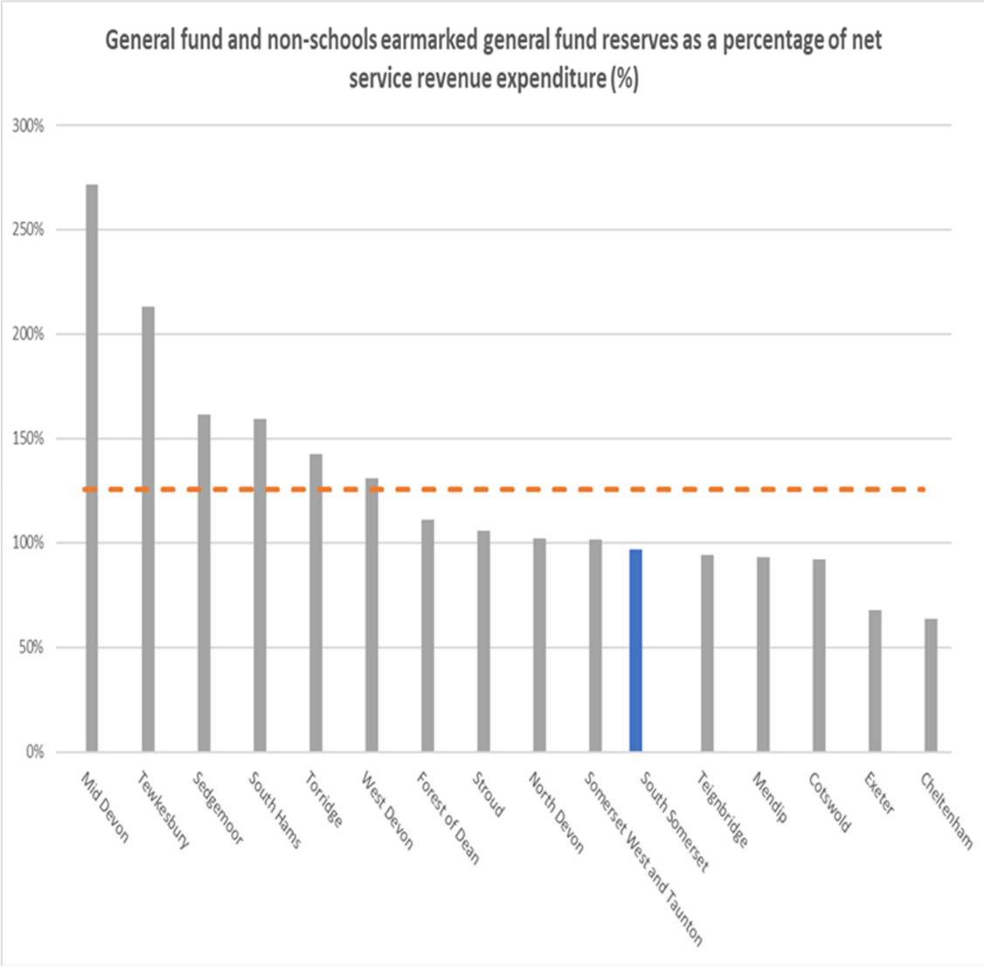
The 2022/23 budget makes additional provision for emerging risks. This includes increasing the Treasury Management Reserve by £0.4m to mitigate further potential increases to interest rates, and the inclusion of a £4m corporate contingency within the capital programme to mitigate the risk of high rates of inflation on budgets. The revenue budget also provides for a £1m increase in the LGR reserve to fund any capacity issues arising during the year to ensure service delivery and the transition to the new authority are adequately resourced.

As part of the budget process 2022/23 the minimum prudent level of General Fund reserves was confirmed at £2.8m, with an actual balance as at 31 March 2022 of £6.6m. As part of the budget 2022/23 a further £2m will be transferred to the General Fund balance from the Commercial Investment Risk Reserve.

The Council also has earmarked reserves which can be used to mitigate financial risk. As at 31 March 2022 earmarked reserves included the following balances for risk mitigation:

- Commercial Investment Risk Reserve, £6.7m (with £2m to be transferred to the General Fund balance in 2022/23);
- Treasury Management Reserve £0.8m;
- Medium Term Financial Plan Support Reserve £8.9m.

We have benchmarked the Council's General Fund 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. South Somerset District Council's reserves represent 97% of net service expenditure compared to an average of 125%. The graph opposite demonstrates 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. If these two councils were removed from the analysis, the average would fall to 109%.



Financial sustainability

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.

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 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

Financial sustainability

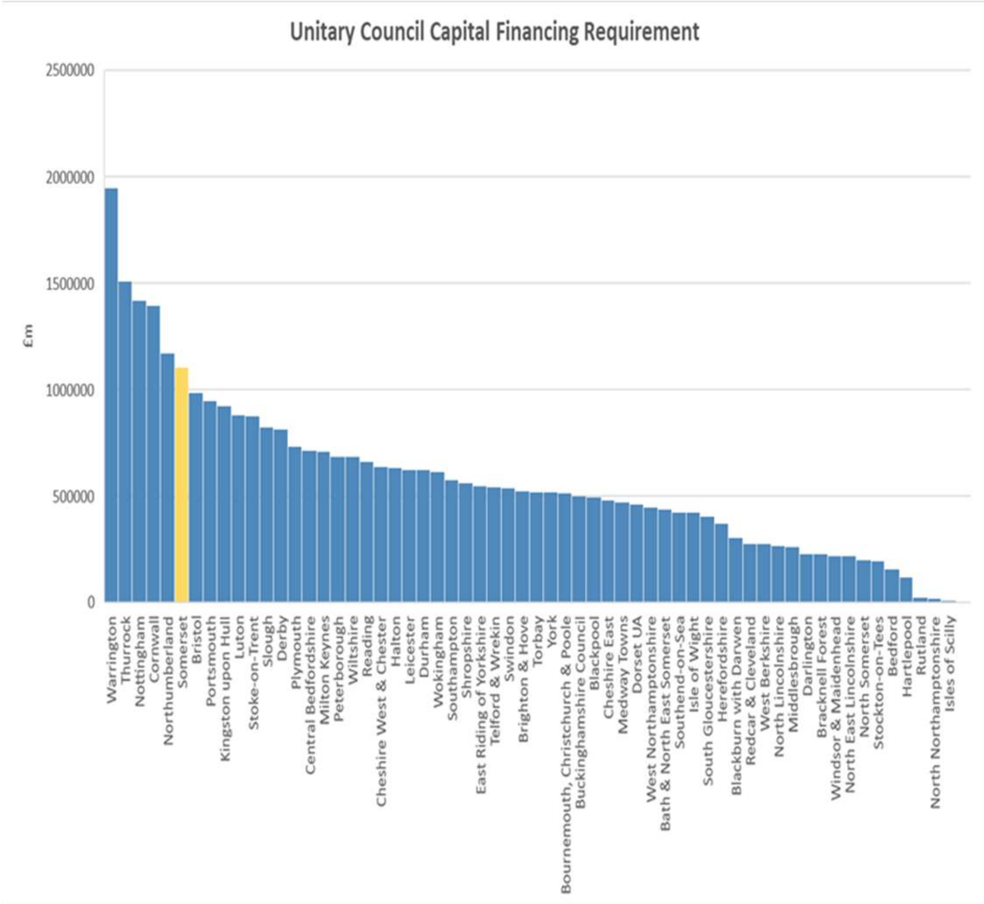
Investment Strategies, Somerset Council's appetite for risk should be determined, including which commercial assets the Council wishes to retain. The approach to financing commercial assets and mechanisms for mitigating risk if commercial returns are less than planned should also be determined. The new 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 opposite. 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.

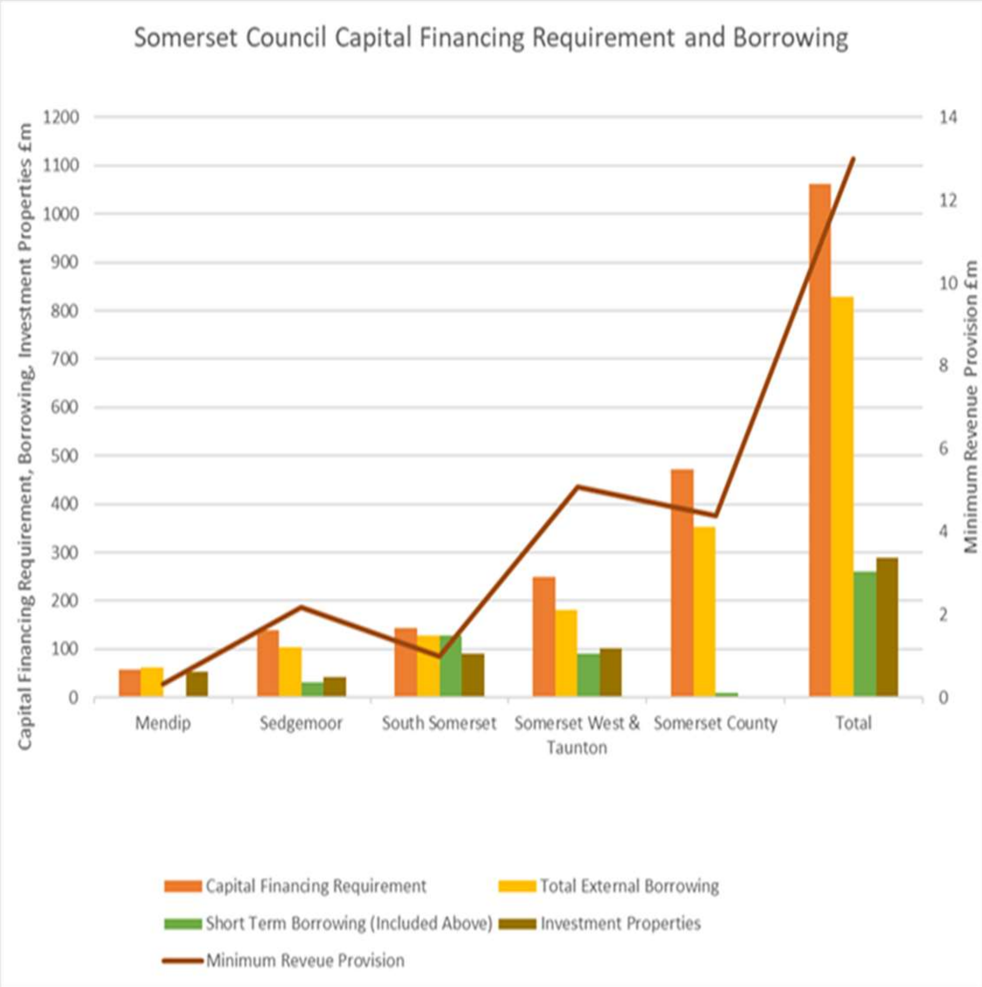
It should be noted that Somerset West and Taunton Council and Sedgemoor District Council are both housing authorities with a Housing Revenue Account. An element of their CFR therefore results from investment in housing stock which is not subject to the same requirement to charge the General Fund with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



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 4	The Council should continue to identify mitigating actions to manage the forecast overspend for 2022/23 and deliver a balanced budget.
Why/impact	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.
Summary findings	Revenue monitoring at Quarter Two 2022/23 identifies budget pressures of £3.2m, which is a significant increase in the £1.6m pressure identified at Quarter One due to the impact of inflation, the pay award and rising interest rates. In response, Full Council approved revised estimates in order to seek to balance the budget which include savings in other areas such as staff turnover and waste, and increased income in areas such as investment income and commercial property.
Management Comments	SSDC will continue to monitor its budget closely. A revised budget was presented as part of the quarter 2 monitoring report. This was reflected in the quarter 3 monitoring report which showed to be on target for a balanced budget at year end. The budgets will continue to be closely monitored to ensure we deliver a balanced budget for year end. SLT Lead: Nicola Hix

The range of recommendations that external auditors can make is explained on Page 41.

Improvement recommendations

Financial sustainability

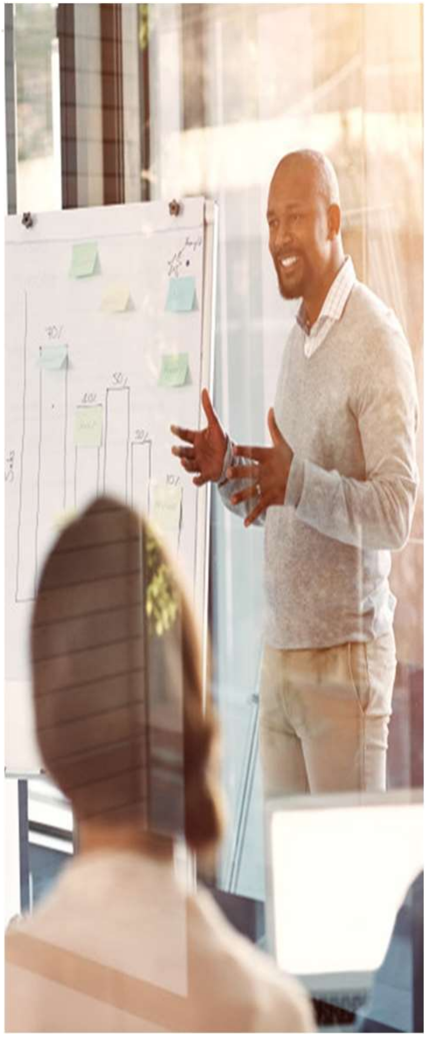
Recommendation 5	The Council's budget setting and outturn reports should provide public information on the gross and net contribution that commercial property makes to the General Fund, clearly identifying associated borrowing costs relating to minimum revenue provision and interest payable.
Why/impact	Providing this information in public reports would ensure that stakeholders have a clear understanding of the net returns that are being achieved for commercial property investments, and the extent that the revenue budget is reliant on commercial property income.
Summary findings	As at 31 March 2022 the Council had invested £97m in commercial property. The gross budgeted income for commercial property in 2022/23 is significant at £6.7m, with a net contribution forecast at £3.0m after associated revenue and borrowing costs. The budget report clearly sets out the gross commercial property income and commercial team costs, but does not set out the net contribution that commercial property makes to the General Fund after associated borrowing costs relating to minimum revenue provision and interest payable. This information is provided in the Investment Asset Update Reports to District Executive as exempt information.
Management Comments	SSDC includes this information as part of its quarterly Commercial Investment Asset Update report to Executive. Including the gross and net budget for commercial property in budget setting and outturn reports will be fed through for consideration by the new Somerset Council. SLT Lead: Nicola Hix

The range of recommendations that external auditors can make is explained on Page 41.

Improvement recommendations

Financial sustainability

Recommendation 6	The Council should seek to further strengthen governance arrangements for SSDC Opium Power Ltd by: • approval of an annual business plan by Full Council; • implementing the recommendations made by Internal Audit regarding assurance reports from the Board, implementing a risk register, providing analysis of actual loan repayments against the plan, and ensuring loan repayment schedules are up to date; and • providing Internal Audit with all the information they require in order to provide assurance opinions in a timely manner, in accordance with the Accounts and Audit Regulations 2015.
Why/impact	Approving annual business cases will ensure that the financial impact of the company's operations on the Council is understood along with associated financial and delivery risk. Without up to date business plans the financial and delivery performance of the company cannot be properly measured and Directors held to account. Approval of annual business plans would also provide an opportunity to provide assurance that future investments continue to comply with the Prudential Code. Internal Audit have also identified recommendations that seek to strengthen the oversight that the Council has over SSDC Opium Power.
Summary findings	Commercial loans are made to the company through the Commercial Strategy, with the Asset Investment Group using delegated authority to approve loans. Due to the specialised nature of battery storage investments, we identified an improvement recommendation in the Auditor's Annual Report 2020/21 that the Council should approve a separate business plan for future investments through SSDC Opium Power. We understand from discussions with Company Directors that as the original business case has not changed there have not been further business cases submitted to Council for approval. Internal Audit carried out a review of Opium Power to determine whether it is achieving the objectives set out in the original business case. Reasonable assurance was provided, with areas identified where monitoring and oversight could be strengthened. Internal Audit did identify some limitations with the scope of their review due to difficulties in obtaining all the documents requested and a lack of engagement from officers.
Management Comments	Recommendation accepted. SSDC will endeavor to complete this work before it ceases, and will ensure any outstanding action is reported to the new Somerset Council for consideration of completing the work. SLT Lead: Nicola Hix / Jill Byron



The range of recommendations that external auditors can make is explained on Page 41.

Improvement recommendations

Financial sustainability

Recommendation 7	As part of the budget process for 2023/24 and through LGR workstreams, South Somerset District Council should continue to 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; and • 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. South Somerset District 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	SSDC accepts the recommendation to support Somerset County Council. The budget for the new Somerset Council for 2023/24 has now been agreed. SLT Lead: Nicola Hix

The range of recommendations that external auditors can make is explained on Page 41.

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 District Executive receives quarterly performance reports which include a detailed appendix containing key performance indicators (KPIs) across the five themes of the Council Plan. The themes within the Council Plan relate to: protecting core services; economy; environment; places where we live (housing); and healthy, self reliant communities.

The KPIs are ordered according to the Council Plan theme they contribute to and include the elements of best practice that we would expect to see. The information provided includes a RAG rated KPI summary, with individual KPI performance measured against the annual target and the previous period in order to identify a direction of travel. Supporting information is provided for each KPI to give context or explain variations to performance.

The Quarter Four Performance Report also includes a high level summary of achievements within the five focus areas of the Council Plan and updates for priority projects.

Review of the KPIs reported at Quarter Four 2021/22 does not indicate any risk of significant weakness with regard to the performance of services. At the year-end 26 KPIS were RAG rated green, 5 amber, and 13 red. Where performance is reported as below target and red RAG rated, the supporting narrative provides explanations and actions taken to improve performance.

One example of where the Council has been working to improve performance is in relation to processing new housing benefit claims. The Council has been working with the Department for Work and Pensions to identify actions to improve processing times. Performance reported at Quarter Three 2021/22 was 75 days against the 21 day target, with performance in Quarter Four reported as 60 days. The speed of processing continues to improve, although there have been some monthly fluctuations in performance, with the Quarter Three 2022/23 position reported as 35 days.

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.

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.

We noted in the Auditor's Annual Report 2020/21 that the Council does not have a corporate-wide benchmarking approach to routinely undertake financial or performance benchmarking with other local authorities. We 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 recommendation would not be implemented.

Improving economy, efficiency and effectiveness

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 the comparison and benchmarking of services.

We have undertaken benchmarking using the CFO Insights tool to identify services which have 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.

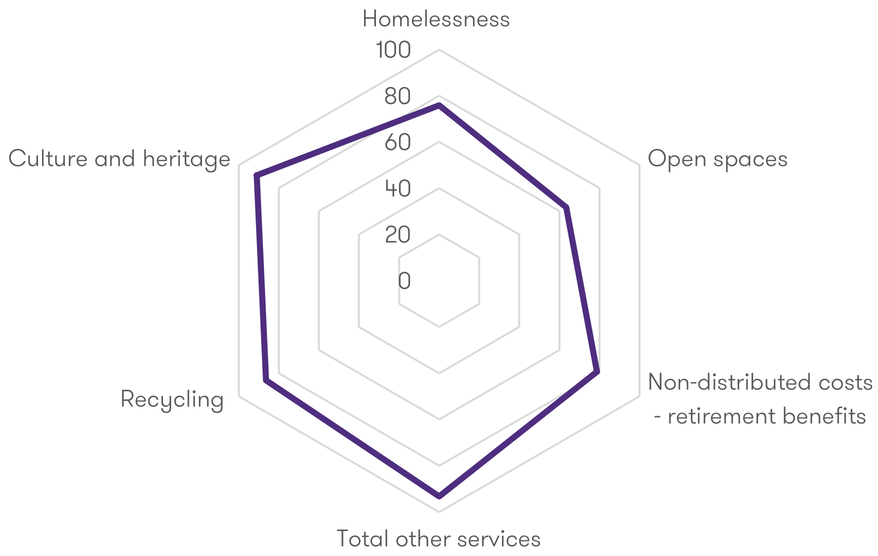
We have discussed these service unit costs with the finance team in order to assess whether the very high unit costs are indicators of weaknesses in arrangements to achieve value for money.

Through the review of benchmarked service cost, it has been identified that apportionments of overheads for support services have not been adjusted to reflect changes in demand or activity for several years. This is particularly noted for open spaces, culture and heritage, and homelessness, and has resulted in significant overheads being charged to these services, thus increasing their unit cost.

While support services can be accounted for differently by councils when completing the statistical returns on which the data is based, we have made an improvement recommendation that the Council should ensure that recharges are made using an appropriate basis for apportionment. This will allow for an accurate assessment of the true cost of services to be made in order to inform decision making and facilitate meaningful benchmarking with peers.

No significant weaknesses with regard to value for money arrangements were noted in the service areas highlighted as high unit cost. We note that efficiencies are being realised within recycling through the roll out of Recycle More across Somerset. Retirement benefit costs include deficit recovery payments which are set by the Actuary to balance the pension deficit over a prudent period.

Services identified as high and very high unit cost



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:

- South Somerset Families Project – a partnership including schools, health visitors, primary health care and community organisations. The partnership provides tailored support to families to promote a stable environment, improved physical and mental health, and increased educational attainment. This partnership contributes to corporate priorities relating to healthy and self reliant communities;
- Heart of the South West Local Enterprise Partnership – a strategic partnership including local authorities, education and the private sector with the objectives of improving the economy and maximising economic opportunities within the area;
- Somerset Safer Somerset Partnership– a statutory partnership that includes the police, local authorities, the NHS, education and the probation service. The partnership's objective is to reduce crime and increase community safety, linking to Council priorities for healthy, self reliant communities ; and
- Somerset Waste Partnership – a partnership of local authorities in Somerset to collect and recycle waste, contributing to corporate priorities relating to the environment and mitigating the effects of climate change.

The Council has updated its partnership register in preparation for LGR in order to produce a county-wide register of significant partnerships. The county register includes 355 partnerships, providing information on their purpose, funding, lead Council and supporting commentary.

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.

Procurement and regeneration

The Council's Procurement Strategic Framework was approved in October 2021, and includes Contract Standing Orders, the Procurement Strategy, Social Value Policy, and the Contract Management Framework. The associated procurement action plan 2021-2023 seeks to refresh and embed effective procurement and contract management processes throughout the Council.

We made an improvement recommendation in the Auditor's Annual Report 2020/21 that the Council should continue to further strengthen procurement arrangements by ensuring that the actions within the procurement action plan are progressed as planned and through reporting procurement waivers quarterly to the Audit Committee.

Progress against the procurement action plan is monitored by the Procurement, Performance and Change Lead and the Procurement Specialist. Their monitoring demonstrates that many actions are now complete, including the publication of contract opportunities and transparency data, increased use of ProContract, and using data to understand the procurement pipeline. A pragmatic view has been taken as to what can be achieved before LGR and the creation of the new council on 1 April 2023, and what will be progressed by LGR workstreams.

Training on the requirements of the Contract Management Framework has been rolled out during 2021/22 to managers of significant contracts. The new leisure contract with Wealden Leisure from April 2021 is evidence of improved contract management arrangements in operation, through formal contract management meetings, contract KPIs, and an annual performance report produced by the contractor for consideration by the District Executive.

The Council maintains a register of procurement waivers, which provides information on the reason and contract value of waivers. There were 29 waivers granted in 2021/22, totalling £3.3m. The largest waivers relate to a direct award for crematorium equipment that was subject to a voluntary transparency notice, and for a 12 month contract extension for printing services. From discussion with officers we understand that consideration is being given as to how best report waivers to the Audit Committee, with the intention to report in early 2023.

Improving economy, efficiency and effectiveness

The delivery of the Council's regeneration programmes is a focus area within the Council's Annual Action Pan 2021/22. The Council incurred capital expenditure of £9.7m in 2021/22 on town centre regeneration schemes in Chard and Yeovil. The Chard regeneration project delivered a new leisure centre in November 2021, and the capital programme includes further investment for Yeovil, Wincanton and the redevelopment of the Octagon Theatre.

We noted in the Auditor's Annual Report 2020/21 that the anticipated programme funding in the business case for the Chard regeneration project was not realised, resulting in phase two of the project being put on hold. Internal audit reported on lessons learned from the project in February 2022 and identified weaknesses with regard to budget setting and project transparency.

Improvements have been made to regeneration programme governance arrangements, and these were reported to the Audit Committee in May 2022. Improvements include a rigorous gateway decision making process, the use of standard documentation to support the stage review process, and ensuring that the project plan is updated to evidence that the business case objectives are still being met. The Terms of Reference for the Strategic Development Board and Project Boards for regeneration programmes were redrafted in September 2021. Governance arrangements have been strengthened to ensure that decisions involving a change to project scope, quality, timing or budget are approved at District Executive and Full Council.

Therefore the Council can demonstrate that it has implemented the lessons learned resulting from the review of regeneration governance arrangements, in accordance with the improvement recommendation we made in 2020/21.

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.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 8	The Council should ensure that recharges from support services to front line services are made using an appropriate basis for apportionment when compiling statistical returns.
Why/impact	Using an appropriate basis to apportion support service costs to front line services will allow for an accurate assessment of the true cost of services to be made. Knowing the true cost of service delivery will better inform decision making and facilitate meaningful benchmarking with peers.
Summary findings	Through the review of benchmarked service cost using data from CFO Insights, it has been identified that apportionments of overheads for support services have not been adjusted to reflect changes in demand or activity for several years. This is particularly noted for open spaces, culture and heritage, and homelessness, and has resulted in significant overheads being charged to these services, thus increasing their unit cost.
Management Comments	SSDC accepts the recommendation, but this would need to be considered if applicable in the new Somerset Council. SLT Lead: Nicola Hix

The range of recommendations that external auditors can make is explained on Page 41.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	When considering making settlement arrangements or payments to employees, the Council should comply with Financial Regulations and the Constitution, and ensure appropriate consultation and approval takes place with statutory officers and Members.	Statutory	August 2022	Full Council considered the statutory recommendation at their meeting of 22 September 2022, which was accepted. The supporting report from the Chief Executive, Monitoring Officer and S151 Officer sets out a revised procedure note to be followed when considering settlement agreements, for adoption with immediate effect.	Yes	The Council has adequately responded to the statutory recommendation and the approval of the revised procedure note gives assurance to Members and the public that the correct process will be followed in the future.
2	Ensure there is sufficient capacity within the finance team and other Council staff that support the production of the financial statements and their external audit.	Key	August 2022	We have yet to complete the audit of the Council's financial statements for 2021/22. We will consider fully the Council's response to the key recommendation we made last year as part of the financial statements audit 2021/22.	To be confirmed.	We will report on the robustness of arrangements the Council has put in place to support the production and external audit of the financial statements once the audit is complete.
3	The Council should develop a clear plan to address and mitigate the risks that it is exposed to as a result of investing in commercial property.	Key	August 2022	The Council can demonstrate that it has made progress in implementing this key recommendation. For example, Full Council has resolved that no further commercial investments will be undertaken and the Commercial Strategy updated to focus on management of the existing portfolio. The Commercial Investment Risk reserve has been maintained and an LGR workstream is reviewing the strategy for the new council.	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.
4	Arrangements for reporting the risk register to the Audit Committee should be strengthened, including increasing the frequency of reporting and including mitigating actions.	Improvement	August 2022	The Council has made progress in implementing the improvement recommendation, with the Audit Committee receiving quarterly risk registers as a public agenda item. Only red RAG rated risks are reported in detail and additional information is provided on mitigating actions. However, risks are not mapped to corporate priorities.	Partly	We have made a further improvement recommendation that risks within the risk register reported to the Audit Committee should be mapped to corporate objectives.
5	The progress made in implementing previous internal audit recommendations should be routinely reported for all high priority recommendations.	Improvement	August 2022	A new recommendation tracking tool has been developed that uses SharePoint and Power BI. The intention is that the recommendation position will be presented to the Audit Committee twice a year, with the first report due in early 2023.	Yes	None.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
6	The Council should ensure that it implements the actions plans relating to the baseline maturity of fraud and whistleblowing investigation, including formal adoption of the new Employee Code of Conduct.	Improvement	August 2022	The Council can demonstrate that progress has been made in improving the arrangements to prevent and detect fraud and corruption, for example through reporting on fraud activity to the Audit Committee, the adoption of a new officer Code of Conduct and by undertaking fraud awareness training.	Yes	None.
7	The outturn report should accurately reflect key financial information, such as the General Fund balance.	Improvement	August 2022	The outturn report for 2021/22 discloses a General Fund balance of £5.6m as at 31 March 2022, with the statement of accounts reporting a balance of £6.6m. The revenue budget monitoring report for Quarter One 2022/23 correctly reports the opening General Fund balance as £6.6m. Therefore the error noted in the outturn report in 2020/21 has been repeated in the outturn report for 2021/22.	No	We have not made any further recommendations on this matter, as the position was correctly reported in the accounts and subsequent budget monitoring. However, budget outturn reports should be checked to ensure that key financial information is correctly reported to Members.
8	The Council should ensure that it consults with residents and businesses as part of the budget process.	Improvement	August 2022	The 2022/23 budget was balanced through the favourable financial settlement and through realignment of budgets through a zero based budget approach. The budget did not include savings from reductions in services. In this context there was no external budget consultation.	No	No further action. Not undertaking a budget consultation is considered reasonable in the context of 2022/23 being the last year that the Council will exist, and where there were no savings from service reductions included within the budget.
9	The Council should consider the requirement for a separate business plan to be approved for future investments through SSDC Opium Power.	Improvement	August 2022	We understand from discussions with Company Directors that as the original business case has not changed there have not been further business cases submitted to Council for approval. Internal Audit have identified some areas where monitoring and oversight could be strengthened.	No	We have made an improvement recommendation that the Council should seek to further strengthen governance arrangements for SSDC Opium Power Ltd by approving an annual business plan and by implementing the recommendations made by Internal Audit.
10	The Council should ensure that it complies with the revised 2003 Regulations when they are published by providing MRP provision on capital loans to third parties.	Improvement	August 2022	We will review the Council's MRP charge, its prudence, and compliance with regulations, as part of the audit of the 2021/22 financial statements. This work is not yet complete.	No	The Council should ensure that it provides a prudent MRP charge to the General Fund, and complies with the revised 2003 Regulations when they are published, by providing MRP provision on capital loans to third parties.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11	The Council should consider a risk based calculation for the minimum prudent General Fund balance and include this within the annual budget report.	Improvement	August 2022	In view of local government restructuring and the reality that South Somerset will not undertake another independent budget setting process, this recommendation was noted and highlighted for consideration by the successor unitary council.	This should now be considered by Somerset Council.	We will assess the arrangements for calculating the minimum prudent GF balance for Somerset Council as part of our 2022/23 value for money work.
12	The Council should introduce a corporate benchmarking approach to compare performance and cost with peer organisations.	Improvement	August 2022	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 recommendation would not be implemented.	N/A	None.
13	The Council should ensure that it applies the learning identified from the transformation programme to future strategic change programmes.	Improvement	August 2022	Discussions with officers confirm that the lessons learned report from the transformation programme was not formally shared with the LGR programme. However, SWAP did produce a lessons learned report from discussions with Dorset Council in August 2022, as Dorset Council had undertaken similar LGR work. Key findings and feedback were identified relating to governance, resourcing, people and communications.	Yes	None.
14	The Council should continue to further strengthen procurement arrangements, specifically ensuring actions within the procurement action plan are progressed and reporting waivers to the Audit Committee.	Improvement	August 2022	Many actions from the procurement action plan are now complete. A pragmatic view has been taken as to what can be achieved before LGR, and what will be progressed by LGR workstreams. Consideration is being given as to how best report waivers to the Audit Committee, with the intention to report in early 2023.	In progress.	We will review the process for reporting waivers to the Audit Committee as part of our 2022/23 value for money work.
15	The Council should ensure that it implements the lessons learned from the review of regeneration governance arrangements.	Improvement	August 2022	Improvements have been made to regeneration programme governance arrangements. These include a rigorous gateway decision making process, the use of standard documentation to support the stage review process, and ensuring that the project plan is updated to evidence that the business case objectives are still being met.	Yes	None.

Opinion on the financial statements

Audit opinion on the financial statements

We have yet to complete the audit of your financial statements for 2021/22. We will provide a further update on our progress to the Audit Committee.

Audit Findings Report

We will issue our Interim Audit Findings Report to the Council's Audit Committee in March 2023. We will provide a further and final iteration of the report once the audit of the financial statements is complete.

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. Instructions for 2021/22 component auditors have now been issued and on the completion of our audit work we intend to certification of the closure of the 2021/22 audit of South Somerset District Council in the audit report.

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

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

Appendices

Appendix A – Responsibilities of the Council

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.

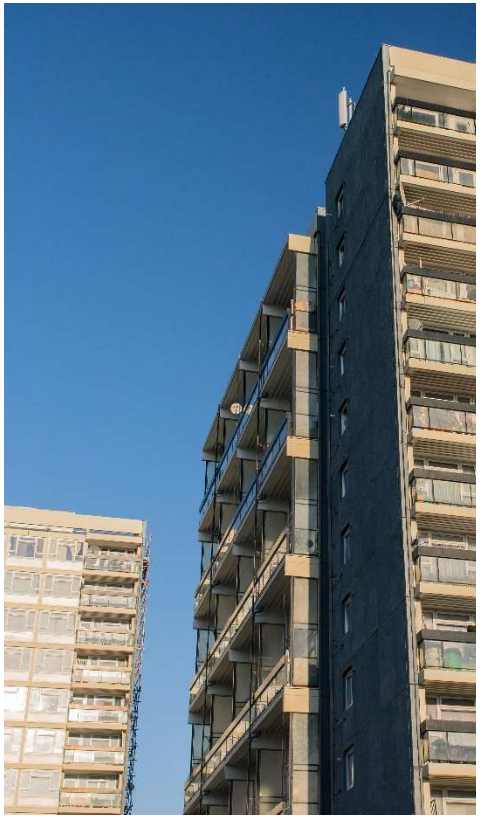
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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
Governance was identified as a potential significant weakness with regard to the arrangements to transition to the new authority, see page 11 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 three improvement recommendations raised.
Financial sustainability was identified as a potential significant weakness with regard to the arrangements to transition to the new authority, see page 22 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 four 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 one improvement recommendation raised.

Appendix C - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	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.	Pages 13-15 Pages 25-28 Page 33