



EXECUTIVE

YOU ARE REQUESTED TO ATTEND A MEETING OF THE EXECUTIVE TO BE HELD IN THE PRINCIPAL COMMITTEE ROOM, THE DEANE HOUSE, BELVEDERE ROAD, TAUNTON ON WEDNESDAY 21ST JULY 2004 AT 18:15.

AGENDA

1. Apologies
2. Minutes
3. Public Question Time
4. Replacement of the Council's Financial Management System
Report of the Group Accountant - Corporate Finance (enclosed)
5. Statement of Internal Control 2003/04
Report of the Head of Resources (enclosed)

G P DYKE
Member Services Manager

The Deane House
Belvedere Road
TAUNTON
Somerset

TA1 1HE

13 July 2004

Executive Members:-

Councillor Bishop (Planning and Transportation)
Councillor Mrs Bradley (Leisure, Arts and Culture)
Councillor Mrs Bryant (Communications)
Councillor Cavill (Economic Development, Property and Tourism)
Councillor Edwards (Environmental Services)
Councillor Garner (Housing Services)
Councillor Hall Corporate Resources)
Councillor Mrs Lewin-Harris - Deputy Leader - (Community Leadership)
Councillor Williams - Leader of the Council

Executive – 23 June 2004

Present: Councillor Williams (Chairman)
Councillors Bishop, Mrs Bradley, Mrs Bryant, Cavill, Hall and Mrs
Lewin-Harris

Officers: Mrs P James (Chief Executive), Ms S Adam (Head of Finance),
Mr C Brazier (Head of Housing), Mr P Carter (Financial Services Manager),
Mr A Gladstone-Smith (Corporate Performance Manager)
Ms L Wyatt (Employee Relations Manager) and Mr G P Dyke (Members
Services Manager).

Also Present: Councillors Lisgo, Paul, Phillips, Stuart-Thorn and Wedderkopp

(The meeting commenced at 6.15pm)

27. Apologies

Councillors Edwards and Garner.

28. Minutes

The minutes of the meeting of the Executive held on 12 May 2004 were taken as read and were signed.

29. Draft Performance Plan 2004/05

It was reported that Councils were required by legislation to produce an annual Performance Plan. Submitted details of this years draft Plan, which had previously been considered by the Review Board at it's meeting on 9th June 2004. Much of the information and data required to produce the Plan had not been available until after the year-end 31st March. It then had to be both analysed and summarised. Additionally the recent CPA inspection had had a considerable impact on the resources available to produce the Plan. As a consequence the Review Board had been unable to approve it, as the version that they had considered was not complete.

As in previous years, Council would be asked to give retrospective approval after the 30th June publication deadline.

It was intended that the Performance Plan would become the focus of the Council's improvement planning by articulating priorities for improvement including how weaknesses would be addressed, opportunities exploited and better outcomes delivered for local people. It would set targets for improved future performance.

RESOLVED that the draft Performance Plan 2004/05 be agreed and that Council be recommended to give it retrospective approval.

30. Outturn Report 2003/04

Submitted report previously circulated which set out and analysed the Council's General Fund and Housing Revenue Account outturn for 2003/04.

The General Fund Revenue outturn, showed an under spend of £240,000 (2.1%), when compared with the current budget. It was recommended that this amount be transferred to unallocated capital resources in 2004/05.

The General Fund Capital Programme expenditure for the year amounted to £2,378,314 the total budget for the year was £4,440,321. Therefore the majority of this under spend, would be slipped to the 2004/05 year. The revised budget for 2004/05 to 2006/07 would therefore be £3,669,077. The amount of unallocated capital resources was now £1,604,691.

The Housing Revenue Account draft outturn showed a working balance carried forward into 2004/05 of £1,752,479, which was £206,314 (13%) more than predicted in the Quarter 3 budget monitoring report. Housing Revenue Account Capital expenditure amounted to £5,519,306 against a current budget of £6,056,040. This under spend would be slipped to the 2004/05 financial year.

The report contained details of the major spending and income variations.

In April 2004 it was reported that £97,000 of monies set aside for the repayment of VAT would no longer be required. The Executive had previously agreed to transfer these monies to unallocated capital resources and a Revenue Contribution to Capital Outlay had been created in 2003/04 to reflect this. However this would require the approval of a virement by Council.

The current budget required a total of £1,031,806 from the General Fund Reserve to support expenditure, the under spend shown in the report would now reduce this to £791,671. In order to increase the level of capital resources available, it was proposed that this underspend of £240,135 be transferred via the Revenue Account in 2004/05 to unallocated capital resources. This would require approval by Council of a Supplementary Estimate.

During 2003/04 with the progression of the Leisure Trust it was estimated at Quarter 3 that the Leisure DSO would require additional deficit funding over that allowed in the original budget of £23,000. The actual level of deficit funding required was a further £90,847. The main reason for this was that the 2003/04 budgets did not accurately reflect the business plan of the Trust and the competitive market in which the DSO was currently operating. The DSO had no remaining reserves and this loss would therefore have to be funded from the General Fund.

RESOLVED that:

- (i) the draft out turn positions on revenue and capital for both the General Fund and Housing Revenue Account for 2003/04 be noted;
- (ii) an RCCO for internal recharges be created and £25,662 charged to capital projects;
- (iii) The funding of £90,847 of the Leisure DSO deficit from the general fund be agreed.
- (iv) Council be recommended that £97,000 of monies previously set aside for the repayment of VAT be vired to unallocated Capital Resources;
- (v) Council be recommended that a Supplementary Estimate be made in 2004/05 of an RCCO for the 2003/04 General Fund under spend of £240,135.

31. Treasury Management Update

Submitted report previously circulated on the outturn position for treasury management activities for 2003/04 and the current position to date for the financial year 2004/05 on treasury management issues.

It was noted that external debt had been reduced by over £3 million during 2003/04. Interest rates had followed an upward trend and investment income was up on the previous year.

Future interest rates were expected to rise peaking at around 4.75% during 2004, 2005 and 2006. New regulations and a requirement to adhere to the Prudential Code had given the Council greater flexibility in its borrowing strategy and investments. Cash flow surpluses had remained largely static, though interest rate trends suggested greater than budgeted investment income. Treasury Management Practices documentation had been altered to increase flexibility and effectiveness of day-to-day treasury operations.

RESOLVED that the Treasury Management outturn for 2003/04 and the position to date for 2004/05 be noted.

32. Exclusion of Press and Public

RESOLVED that the press and public be excluded from the meeting for the item numbered 7 on the agenda because of the likelihood that exempt information would otherwise be disclosed relating to clause 7 of schedule 12(a) of the Local Government Act 1972.

33. Establishment of a Leisure Trust – Tone Leisure (South West) Limited

Submitted report, previously circulated, which recommended the transfer of the Councils' leisure facilities and its health and sport development services to Tone Leisure (South West) Limited. It revisited the issues outlined in the report submitted to the Executive on 22nd December 2003, when the decision was made to defer transfer for a period of six months.

In October 2002 the Council had approved in principle the establishment of a Leisure Trust to operate its leisure centres, development services and Vivary Park Golf Course. However there were a number of outstanding issues at that time and it was subsequently agreed to defer the decision for six months. Details were submitted of the progress that had been made on the issues that had led to the decision to defer the Leisure Trust six months previously.

The formation of a Leisure Trust would allow the Council to generate tax based savings through reduced NNDR costs and through an improved VAT recovery regime, which the Trust was able to take advantage of. Further details of the financial issues surrounding this proposal were also submitted.

The Councils consultants, Strategic Leisure Limited, had been involved in this project since its inception and submitted their objective assessment on the proposed transfer. Strategic Leisure believed that sufficient progress had been made on the unresolved items to unequivocally recommend that the transfer should proceed.

Now that the majority of outstanding issues had either been resolved or were likely to be resolved in the near future, the point had been reached where a transfer could be recommended. It was recognised that the Council must continue to develop its leisure strategy and its ability to monitor the financial and operational efficacy of the Trust to ensure its corporate vision and desired outcomes for the service are delivered. Equally this would require that the Council allocated sufficient revenue and capital support to ensure the Trust remained viable subject to it meeting the agreed targets.

It was felt that the Leisure Trust remained the best value method of service delivery and the last six months of negotiation, especially around the leases, pensions and service review, had significantly reduced the risks to the authority.

RESOLVED that Council be recommended that:

- (i) its leisure facilities and its health and sport development services be transferred to Tone Leisure (South West) Limited on the terms described in the report and as set out in the associated documentation;
- (ii) the level of deficit funding required for Tone Leisure to operate the services (excluding Blackbrook) for the first 8 months at £452,000 be agreed;
- (iii) Standing Orders be suspended to enable it to enter into an 8 month management contract with Tone Leisure in relation to Blackbrook and that the management fee for the first 8 months be £535,000. The income from this arrangement to be returned to the Councils General Fund budget;
- (iv) Somerset County Council be provided with a Pensions Guarantee;
- (v) the residual savings, including reduced costs, NNDR and an improved VAT recovery regime, generated by the formation of the Trust be ring fenced for reinvestment in the facilities managed by the Trust;
- (vi) an interest free loan of £50,000 be made to Tone Leisure, subject to the loan being repaid over the following 6 years with the first payment taking place in August 2006.
- (vii) the appropriate officers be thanked for their hard work in reaching this position and the Health and Leisure Review Panel be thanked for its constructive contribution to the process.

(The meeting ended at 7.42pm)

TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 21st JULY 2004

REPORT OF THE GROUP ACCOUNTANT – CORPORATE FINANCE

This matter is the responsibility of Executive Councillor Hall

REPLACEMENT OF THE COUNCILS FINANCIAL MANAGEMENT SYSTEM

EXECUTIVE SUMMARY

- FMS is no longer capable of supporting a modern finance function
- A joint review was undertaken by members of the finance and IT sections, which recommends replacement of the current system
- The replacement of FMS will allow the finance section to work more efficiently than is currently possible
- The replacement of FMS will improve the quality of the financial information provided both internally and externally
- Capital funding of £165,000 is sought
- Savings identified within Financial Services will provide a payback period of 2.97 years

1. Purpose Of The Report

1.1 To summarise the contents of the Project Approval Report requesting approval from the Executive for the replacement of the Councils Financial Management System (FMS) with a packaged solution and to agree a contribution of £165,000 from capital resources to support this invest to save project. This would be repaid over the next three years.

2. Background

2.1 FMS has been in existence since 1996 and despite a number of minor changes it has received little in development since then.

2.2 A joint review has been undertaken by members of the finance and IT sections and it has been established that FMS is no longer capable of supporting a modern finance function who are being exposed to a number of internal and external pressures, namely,

- Pressures to reduce staff numbers
- Whole of Government Accounts
- The Councils Medium Term Financial Plan
- CPA and External Audit inspection

3 Process of the Review

3.1 As mentioned in 2.2 a joint review was undertaken by members of the finance and IT sections. The review focused on:

- The potential requirements of any new system were identified through the survey of members of the finance team

- An analysis of the major functions undertaken in the finance section was undertaken.
- As well as the finance related areas where savings could be realised investigations were made into the other areas that could benefit from the introduction of or development of an integrated finance system
- A full financial business case for the replacement of FMS was produced.
- It has been estimated that any investment in a new finance system will achieve payback by the end of the third year after implementation.
- IT carried out a review of the feeder systems and concluded that they were not closely integrated as they could be, leading to extra steps in data handling and authorisation
- A joint report was produced and taken to CMT on 29th June 2004 the recommendation being the recommendation being that approval is given to the replacement of FMS. A PAR summarising the main points from this report is attached at Appendix A.

3. Benefits of Replacing FMS

3.1 The replacement of FMS will allow the finance section to work more efficiently than is currently possible. A number of the key processes undertaken by the section, Budget Setting, Accounts Preparation, Budget Monitoring and Payments rely upon FMS.

3.2 The finance section provides a high level of support to all departments within the Council, Members and external bodies. The information provided internally is vital for the management of the Council to make decisions and so it is important that it is accurate, relevant and provided on a timely basis.

3.2 The replacement of FMS will improve the quality of the financial information provided both internally and externally .It will allow the Council to comply with WGA and will assist the Council in future CPA assessments.

3.3 The review undertaken has also highlighted other service areas that will benefit from the introduction of an integrated finance system including Payments and Procurement where substantial savings could be achieved

4. Resource Implications

4,1 Capital funding of £165,00 is sought. This will cover purchase of software, costs of consultancy, implementation and training. TDBC officer time will also be required, however his is already included in the annual revenue budgets.

4.2 As mentioned earlier the initial savings identified will provide a payback period of 2.97 years. Once the system has been fully implemented across the council further substantial savings will be realised.

Initial Investment	Year 1 Savings	Year 2 Savings	Year 3 Savings
£165,000	£55,520	£55,520	£55,520
BALANCE	£109,480	£53,960	(£1,560)

5. Effect on Corporate Priorities

5.1 The improvement of the Councils financial management will assist in the delivery of all of the Corporate Priorities.

6. Recommendation

6.1 It is recommended that the Executive approve this invest to save bid of £165,000 from unallocated capital resources based upon the information contained within report and the attached PAR.

Contact Officers

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APPENDIX A

Capital Project Approval Report – Replacement Financial Management System

Project Description

A joint review has been undertaken between the Finance and IT sections into the Councils Financial Management System (FMS) where the following failings of the current system were identified.

- FMS was conceived in 1996 and has only been developed internally as and when users have required.
- FMS runs in a “Green Screen” environment and much of its functionality has remained unchanged since its initial development
- It is a keyboard driven system requiring a large number of keystrokes to navigate around the system. It is not mouse driven and does not exist in a true Windows environment.
- It is possible to view historic transactions but this function only applies to the current and previous two financial years.
- While FMS is the core finance database, holding details of all financial transactions, it sits within the middle of a host of complex feeder systems.
- Each transaction that exists in FMS are created in separate systems and are fed into FMS via a number of different interfaces
- Each sub system has been separately developed as and when and is owned by departments outside of the finance section. For instance the Debtors Ledger is owned by the revenues department and the Purchase Ledger by the procurement team.

It has been acknowledged for some time by both finance and IT sections that the current version of FMS needs to be developed to bring it into line with the requirements of a modern finance section. In addition to the shortcomings of the system from an operational point of view there are a number of outside pressures on the finance section which are driving the need to change systems.

- Whole of Government Accounts (WGA). This will require the Council to close its accounts by the end of June in 2006, three months earlier than the traditional 30th September deadline.
- Medium term financial plan. The Council has budget problems and it is therefore vital that timely and accurate financial information can be provided to management and members to inform the decision making process. FMS in its current form is not able to facilitate this.
- CPA and External Audit. The financial management is assessed annually by our external auditors and formed part of our recent CPA assessment. Our Audit Manager has issued his support to the replacement of FMS and CPA inspectors questioned the number of in-house systems the Council maintains.

The joint review concluded in June 2004 with a report to Corporate Management Team on the 29th June requesting approval, in principal, for a capital bid to replace FMS with a packaged solution. This was supported by CMT.

The PAR therefore seeks approval for Capital Funding of £165,000 for the replacement of FMS with a packaged solution to include in the first instance the full replacement of

the general ledger and the payments and procurement systems. However during the project if at any time it is seen as the best use of Council resources other areas such as debtors, asset management and cash receipting may be added.

Category of scheme

Service necessity – The replacement of FMS will allow the finance section to work more efficiently than is currently possible. A number of the key processes undertaken by the section, Budget Setting, Accounts Preparation, Budget Monitoring and Payments rely upon FMS. The review has established that due to the number of processes that are required to be undertaken and the delays experienced in extracting data from the system and that the time taken to carry out these processes could be cut significantly with the implementation of a new system.

Maintenance of existing service – The finance section provides a high level of support to all departments within the Council, Members and external bodies. The information provided internally is vital for the management of the Council to make decisions and so it is important that it is accurate, relevant and provided on a timely basis. The deadlines for providing external information are becoming tighter with the advent of Whole of Government Accounts (WGA).

Improvements in the quality of existing service – The replacement of FMS will improve the quality of the financial information provided both internally and externally .It will allow the Council to comply with WGA and will assist the Council in future CPA assessments. The review undertaken has also highlighted other service areas that will benefit from the introduction of an integrated finance system including Payments and Procurement where substantial savings could be achieved.

Establishment of need

- The potential requirements of any new system have been identified through the survey of members of the finance team
- Contact was made with neighbouring local authorities and those in which members of the finance team had professional contacts to identify the different systems that were operated in other local authorities
- An analysis of the major functions undertaken in the finance section was undertaken to determine the current reliance on FMS and identify areas where savings could be achieved if processes were changed
- A full review of the amounts of IT costs recharged to Finance related systems were also undertaken. It was identified that savings could be achieved within the finance section as a result of the implementation of a new system
- As well as the finance related areas where savings could be realised investigations were made into the other areas that could benefit from the introduction of or development of an integrated finance system. The main area that would benefit would be the area of procurement and payments while it is acknowledged that the areas of debtors, asset management and cash would also benefit.
- A full financial business case for the replacement of FMS has been produced. It is estimated that any investment in a new finance system will achieve payback by the end of the third year after implementation.
- IT carried out a review of the feeder systems and the architecture where they concluded that the existing systems that make up our current FMS run on a

common hardware platform but are not as closely integrated as they could be, leading to extra steps in data handling and authorisation

- A joint report was produced and taken to CMT on 29th June 2004 the recommendation being the recommendation being that approval is given to the replacement of FMS

Corporate Priorities

The improvement of the Councils financial management will assist in the delivery of all of the Corporate Priorities.

Service Objectives

The Financial Services Unit provides financial operational support to the various Units of the Authority and to the services provided by the Council. We work in partnership with those front line services to provide a cohesive financial service for the public and elected Members.

In order to provide a more comprehensive service in the future and to react to the external pressures placed upon the unit and the Council as a whole we need to replace FMS.

The risks associated with not changing FMS have been highlighted in the Financial Services Unit Plan and includes;

- The need to meet internal and external deadlines
- Accurate Budget Monitoring
- Early closure of the Councils Accounts

Sustainability

Depending of the preferred method of procurement the annual revenue costs to the Council would be annual licence fees, in the region of £10,000 per annum. The joint review has highlighted areas where substantial efficiency savings would be realised through a fundamental review of the processes and procedures undertaken in areas currently supported by FMS, which would outweigh the cost of capital employed in the initial purchase of any new system and any annual revenue costs.

This project is being put forward on an invest to save basis; repayment will take place within three years.

Option Appraisal

Option 1 - Do nothing

This is not seen as being a feasible option by both Finance and IT. The current FMS system is inefficient and needs upgrading. This option has also been discounted by CMT through the findings of the joint review.

Option 2 – Enhance FMS

The following is an extract from the report submitted to CMT on 29th June 2004. The IT Manager thereby supporting the view that a packaged solution is the way forward prepared this part of the report.

“An in-house development of the existing systems would deliver the core requirements but would inevitably not have some of the “bells and whistles” that a package from a dedicated supplier would include as standard. It would also require more work from the accountancy unit in terms of specification and testing of software. Given existing resource commitments in the IS Unit it and then the preferred solution is to procure external software to provide the following: Core Ledger, Purchasing, Creditor, Budgeting, Reporting, Electronic invoice processing.

The effort required to implement either solution should not be underestimated - recent experience of implementing the new payroll system, a more simple system with far fewer users confirms this.”

The in-house development of FMS would be a large project that would require the purchase of additional IT support to continue to provide the core IT function, it is estimated that the cost of providing an in-house option would be similar to the purchase of a packaged solution. CMT did not support the in-house development of FMS.

Option 3 – Purchase a Packaged Solution

This is the preferred option. It would bring Taunton Deanes financial management system up to date and comparable with its near neighbours. It would also facilitate a fundamental review of the procedures and processes in place. This is the recommendation of the joint review, which was endorsed by CMT on 29th June 2004.

Outputs

- Annual Accounts prepared in accordance with WGA timetable
- Annual budget prepared within shorter timescales
- Achievement of the medium term financial plan
- Savings in both costs and effort within finance and other sections
- More accurate financial information available to officers and members

Benefits

Service Area	Functions	Actions
General Accountancy Functions	<ul style="list-style-type: none"> • Year end closedown • Budget Setting and Maintenance • Budget Monitoring • General Accountancy <p>These processes are very labour intensive taking a great deal of time, again a result of the inflexibility in the current FMS. With the imminent departure of the two Group Accountants savings could now be realised in this department, the introduction of an integrated finance package would ensure that the high standard of support given to the rest of the Council remains.</p>	<ul style="list-style-type: none"> • Implement new integrated FMS system • Comprehensive reporting and two way integration with Word / Excel • Comprehensive Budget setting tool • More flexible analysis and FMS coding structure • User friendly windows and browser based user interfaces • Move to electronic forms and authorisation process for internal transactions • Move away from weekly updates for all feeders
Procurement	<p>The procurement of goods and services is responsible for over £10,000,000 of the authority's expenditure, and therefore small percentage savings have potentially a huge impact of the finances. The issue of procurement has been part of the recent corporate restructure and it may be seen as a good opportunity to include the systems used to manage the process as part of this review.</p> <p>The main areas where savings could be made are:</p> <ul style="list-style-type: none"> • Reduction in staffing costs • Reduction in reduced phone, fax and postage costs. • Overall reduction the costs of the goods we purchase through better supplier management. • Elimination of "Maverick" spending Increase in the amount of discount taken from suppliers 	<ul style="list-style-type: none"> • Intranet based requisitions system based on shopping basket principle • Removal of manual ordering process. • Better enforcement of procurement policies • Purchasing linked to available budgets • Move to full e-procurement
Payments	<p>The current payments process involves a large number of steps requiring paper documents to be moved around the organisation before authorising payments. Whilst recognising the requirements of Audit and Control, there is nevertheless an opportunity to make significant direct and indirect savings by modernising this process.</p> <p>The main areas where savings could be made are:</p> <p>Potential reduction in staff time</p>	<ul style="list-style-type: none"> • Move to fully electronic invoice Encourage better take up of electronic payment (BACS) • Remove manual entry of payment batches

Costs

A number of suppliers have been approached for details and indicative costs of their solutions and we have enough information to establish that initial costs for a core FMS package could range from £100,000 - £170,000. These costs include software, their implementation costs, training and consultancy. They exclude TDBC staff time for project management, interfacing and implementation. This should be assumed to add another £75,000 to the full project cost (though this would be internal recharge rather than external spend and would therefore **not** require additional funding).

As part of the business case it has been calculated that savings of £55,520 per annum can be saved within financial services as a result of the implementation of a new system. This gives a pay back period of 2.97 years on the initial capital investment of £165,000.

Risk Identification

The following risks have been identified and will need to be managed as part of the implementation:

1. Key sponsors leave organisation during implementation of package
2. Key developers leave during development of in-house systems
3. Internal resources not sufficient
4. Estimated potential savings significantly overstated
5. Estimated costs of packages significantly understated

A full risk management exercise will be prepared if this scheme was approved, in line with the PRINCE 2 project management methodology adopted by the Council.

Monitoring

A corporate project team should be formed to progress the procurement and implementation of the new system. The team should be led by the Head of Resources and supported by;

- Financial Services Manager
- A key Service manager (user of the system)
- Revenues Manager
- Procurement Manager
- IT Manager
- Other officers as necessary

This team should manage the implementation of the new system and provide regular feedback to CMT and members both during and post implementation.

Project Evaluation and Preferred Course of Action

A fully costed business case has been prepared which identifies areas where substantial savings can be achieved through the implementation of an integrated finance package. The joint review undertaken by the Finance and IT sections clearly support the purchase and implementation of a new system and this view has been endorsed by CMT.

Resource Implications

Capital funding of £165,00 is sought. This will cover purchase of software, costs of consultancy, implementation and training. TDBC officer time will also be required, however this is already included in the annual revenue budgets.

As mentioned earlier the initial savings identified within financial services will provide a payback period of 2.97 years. Once the system has been fully implemented across the council further savings will be realised.

Initial Investment	Year 1 Savings	Year 2 Savings	Year 3 Savings
£165,000	£55,520	£55,520	£55,520
BALANCE	£109,480	£53,960	(£1,560)

Timescale

If approval is given to this project the initial procurement exercise will start as soon as possible through the development of a full list of system requirements. Potential suppliers would be asked to demonstrate their systems to the Council and to explain how they would meet the requirements.

Depending on the most suitable method of procurement (OJEC advert or invitation to selected suppliers) it is hoped that a partner would be selected before Xmas 2004.

Planning, implementation and training would then start early in 2005 with a "go live" date of 1st October 2005.

Recommendations

It is recommended that the Executive approve this Capital bid based upon the information contained within this PAR and approve funding of £165,000 from unallocated capital resources.

TAUNTON DEANE BOROUGH COUNCIL

EXECUTIVE 21st JULY 2004

REPORT OF THE HEAD OF RESOURCES

This matter is the responsibility of Councillor Williams (Leader of the Council)

STATEMENT ON INTERNAL CONTROL 2003/04

Executive Summary

This report invites the Executive to consider the attached Statement on Internal Control (SIC) which will form part of the 2003/04 Statement of Accounts, before it is signed by the Leader of the Council and the Chief Executive.

1. Background

- 1.1 From 1 April 2003, the Accounts and Audit Regulations (England) 2003 require Taunton Deane Borough Council to publish a Statement on Internal Control (SIC) with its statement of accounts each year. The purpose of this statement, to be signed by the Leader of the Council and the Chief Executive, is to provide assurance that the Council has a sound internal control framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.
- 1.2 To support the conclusions in the SIC, each year a review is to be carried out of the system of internal control to highlight any serious control issues and actions needed to deal with them. The process is shown on the attached chart produced by CIPFA (Appendix A).
- 1.3 CIPFA have recently published guidance on how to carry out this review. Because the guidance has only just been published, it is not expected that authorities will have had enough time to carry out a sufficiently full review to be able to give a full assurance for 2003/04 and may, for this year only, publish an interim statement highlighting where they fell short of full assurance.
- 1.4 A brief review has been carried out but there are some elements of the control framework that need to be put in place before a more thorough review can take place. The review did not, however, find any control weaknesses that had a significant effect on the achievement of the objectives of the Council.
- 1.5 The draft SIC is attached at Appendix B., together with an action plan to achieve full assurance next year at Appendix C. The SIC has been based on a pro forma suggested by CIPFA.

2. Recommendation

2.1 The Executive is requested to approve the Statement on Internal Control.

Contact Officer:-

Shirlene Adam

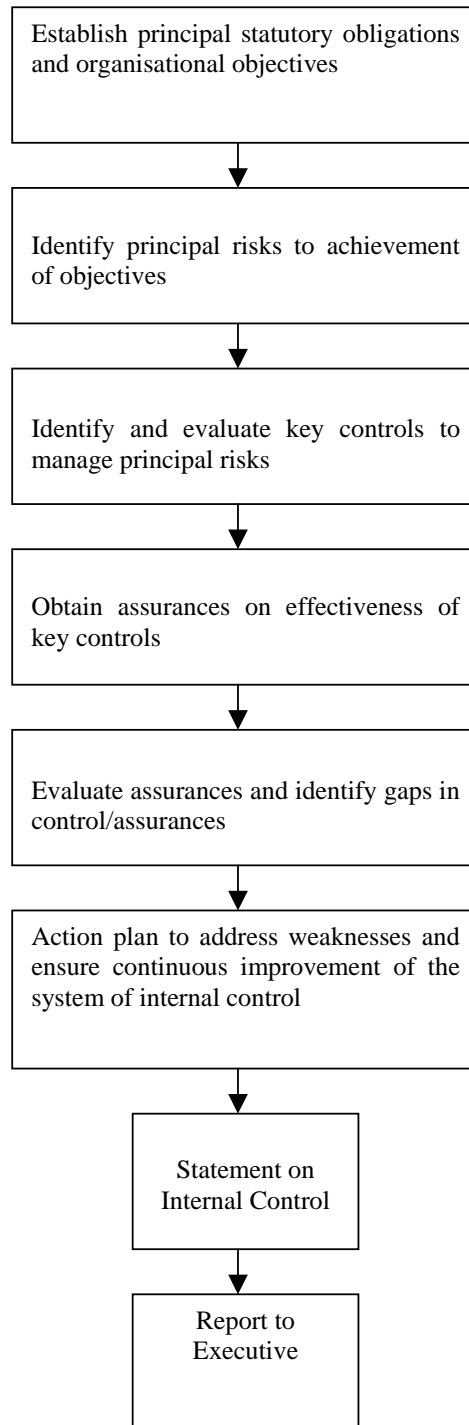
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APPENDIX A

Review of Internal Control and SIC Assurance Gathering Process



1. SCOPE OF RESPONSIBILITY

Taunton Deane Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Taunton Deane Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Taunton Deane Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Taunton Deane Borough Council's functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Taunton Deane Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place at Taunton Deane Borough Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The key elements of the Council's internal control environment are described below: -

Establishing and monitoring the achievement of the Authority's objectives

Taunton Deane Borough Council is one of a number of organisations represented on the Taunton Deane Local Strategic Partnership (LSP), formed to ensure that the joint efforts and resources of local agencies are combined as far as possible to identify and address the issues that really matter to residents. The LSP have recently published a Community Strategy for Taunton Deane that sets out a broad agenda of action to improve the quality of life in Taunton Deane. Work is underway on developing a series of mini-community strategies focussed on specific areas of the Deane – the Vision for Taunton being the first.

Following consultation with residents, Taunton Deane Borough Council have produced a rolling 3-year Corporate Strategy that builds on that broad agenda to clearly establish the Council's own set of ambitions and priorities. The Corporate Strategy sets out detailed objectives and supporting actions under each of the corporate priorities – specifying what Taunton Deane Borough Council will do to secure improvement in each area. In addition, the Corporate Strategy sets out a series of organisational objectives, embodying “how the Council will deliver services” and meet its statutory requirements.

The Corporate Strategy is the key planning document – from which the Council's medium term financial plan and annual budget, Asset Management Plan, Capital Strategy, Housing Strategy are formed. Individual Team Plans are produced from the Corporate Strategy to show how each service will contribute to the delivery of the objectives.

Progress against the agreed objectives and actions is reported to the Executive on a quarterly basis to ensure the Council remains focussed on delivering its ambitions and priorities.

The facilitation of policy and decision-making

Taunton Deane Borough Council has a published Constitution that sets out the decision-making arrangements and the responsibilities for different functions. There are clear rules of procedure for the running of business meetings and details of delegated authorities to individuals. There is also a robust budget and policy framework, and detailed financial regulations, which are monitored by the Chief Financial Officer and Monitoring Officer. The Constitution will be updated over the coming months to fully reflect the recent restructure of senior management.

All reports are reviewed for legal and financial considerations prior to being presented to Members of Taunton Deane Borough Council for formal decision-making.

The Executive has a published Forward Plan of Decisions to be taken and meets in public on a monthly basis. This, together with an appropriate level of delegation to senior managers enables speedy decision-making.

Scrutiny of Taunton Deane Borough Council decisions and performance is carried out through a number of Review Panels. The Panels also have the freedom to make recommendations on future policy options, and to review the general policy and service delivery of the Council. A full review of the operations of the scrutiny function at Taunton Deane Borough Council is underway, and will encourage different ways of working to ensure the “challenge” to decision and policy making continues and improves.

The Corporate Management Team of Taunton Deane Borough Council meet weekly and provide the strategic direction of the Council in delivering Members requirements.

Ensuring compliance with established policies, procedures, laws and regulations

Taunton Deane Borough Council has a Standards Committee that is designed to be chaired, and have a clear majority of independent members. It includes 7 independent members, two Parish Council members, and one member from each political group. The terms of reference for this Committee include promoting and maintaining high standards of conduct by Councillors, advising and training on the members Code of Conduct, dealing with referrals from the Standards Board for England, and dealing with any issues reported by the Monitoring officer.

Taunton Deane Borough Council launched a Whistle-blowing Policy in September 1999, details of which are published on the Councils staff handbook. The staff handbook is regularly updated and published on the intranet system – which is accessible by all staff. The handbook contains all key personnel policies, standards and procedures, and codes of conduct.

The Corporate Governance Committee has recently been formed to deal with the formal approval of the accounts and any external audit reports arising from that, to have an overview of the internal audit function, an overview of the strategic risk management process, and to deal with any changes to the authorities Constitution.

Internal and external audit work together to review and provide annual opinions on the control framework, governance and validity of the annual accounts. Various other inspection agencies such as the Audit Commission also look at specific areas of this Councils business.

The Chief Financial Officer and Monitoring Officer have specified roles within the Constitution to ensure reports prepared for member decision comply with the budget and policy framework.

The Council has adopted its own “Members Planning Code of Practice” which clearly sets out the standards expected from Members in relation to planning matters.

Members are encouraged to undertake training relevant to the area of decision making in which they are involved, for example, probity in planning, Human Rights Act requirements. New members joining the Council receive a detailed induction folder and receive induction training, including a separate session devoted to Ethical Standards with the Monitoring Officer.

The Strategic Director (Resources) and his Member Services Team provide advice to Members and Officers on the law, regulations and internal procedures.

The Council has a robust complaints policy and system in place. Corporate Management Team review the summary outcomes on a six-monthly basis to identify ongoing operational problems and “hot spots”.

The corporate risk management process

Taunton Deane Borough Council introduced the concept of strategic risk management in March 2003 by the adoption of a Risk Management Strategy, and Risk Management Implementation Plan. The process adopted is designed to identify, prioritise and manage the risks that exist in order to ensure the Council achieves its aims and objectives. There is a corporate Risk Management Team (RMT) charged with cascading and embedding the risk management process throughout the organisation.

Good progress has been made, with strategic risk registers now in place for each Head of Service grouping, and each corporate project. This process will be cascaded down to individual service levels during 2004/05. Corporate Management Team receive regular reports from the Risk Management Team – updating them on project risk assessments undertaken and progress against the strategic risk register action plans.

Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised

Taunton Deane Borough Council is awaiting the results of its first CPA assessment (expected September 2004). The Council will then produce a high level strategic improvement plan setting out the major areas for improvement for the Council as a whole, based around the corporate aims and ambitions. This Improvement Plan will be managed by Corporate Management Team and the Executive and will be monitored on a regular basis to ensure the effective implementation of the Improvement Plan to Best Value principles within agreed timescales and resources.

The use of resources is agreed on an annual basis through the budget setting regime. The predicted resources position is reported to Members via the medium term financial plan (mtfp) (a 3-year rolling financial forecast of the revenue and capital budget position). The mtfp process continues to be refined and strengthened by improving linkages between inputs and outcomes.

The financial management of the Authority

The Council's overall financial arrangements are governed by its Financial Strategy and mtfp which set out the financial framework for the delivery of the Council's established Corporate Strategy.

In determining the revenue and capital financial framework to deliver the Council's plans a number of factors are taken into account, including the national context, the distribution of local government funding by central government, together with local and external funding sources. The MTFP currently considers new legislation and legislative pressures, advances in technology, changing demand for services and the need for better access to services. It also takes account of council taxpayers concerns at the level of council tax, feedback from consultation and the needs and aspirations of local

people. The MTFP process will develop over the coming year to incorporate a risk analysis process.

The Council has well-developed robust budget monitoring arrangements. Monthly reports are presented to Corporate Management Team, with quarterly exception reports considered by members of the Executive and Scrutiny functions.

The robustness of the budget critically depends on the maintenance of a sound financial control environment including effective financial management in each of the Council's service areas. The Financial Regulations, embedded in the Council's Constitution set clear guidelines, procedures and limits in relation to financial activities.

Performance management

The performance management arrangements of the Council have recently been reviewed. Senior Officers and Members have been through intensive training to ensure the new process will deliver the information needed to manage the Council's performance.

Individual services are responsible for monitoring their progress towards achieving the objectives and actions outlined in their Team Plans. Members consider Corporate Performance Management summary reports on a quarterly basis. These reports provide Members with assurance that the Council is making progress on delivering its agreed strategic objectives and actions, and that performance is matching the PI targets agreed, and that the spending against budget is on-track.

4. REVIEW OF EFFECTIVENESS

Taunton Deane Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The review for the 2003/04 statement was carried out by the Chief Finance Officer and Monitoring Officer. The review took into account:

- comments of internal audit.;
- comments of external auditors ;
- comments of other review agencies and inspectorates.

In order to obtain assurances on the effectiveness of key controls, the following were also consulted:

- the Chief Executive;
- the Risk Management Team ;
- the Head of Service and Directors of the Council;

The results of the review were reported to the Corporate Management Team and the Executive in July 2004 for approval prior to the Corporate Governance Committee in late July 2004 (where the accounts are presented for approval).

5. SIGNIFICANT INTERNAL CONTROL ISSUES

Taunton Deane Borough Council has assessed its systems and procedures and has identified that in the vast majority of cases, robust arrangements are already in place. No significant control issues were found but a number of actions need to be carried out during the next financial year to strengthen the control framework and allow a full statement of assurance to be given for 2004/05.

- The Corporate Strategy process will be further strengthened during 2004/05 – with particular emphasis on clarifying non-priorities.
- Team Plans will be further developed to show clear linkages from the Corporate Strategy, and to show clear performance measures. A suite of Key Performance Indicators will be developed for the authority and monitored and reported to Members on a regular basis.
- The MTFP process needs to be strengthened to embrace the concepts of strategic risk management.
- Project Management skills will be cascaded through the organisation. In particular, robust project plans will be put in place for the delivery of the Vision Project.
- The procedures for updating the Registers of Interests will be reviewed and strengthened.
- A complete and robust Asset Register will be developed for all the authority's assets.
- The Equalities and Diversity training for all staff and Members will be completed. The appointment of an Equalities Officer during 2004/05 will give added focus and impetus to this important area of work.
- The risk management process needs to be cascaded to service level within the authority, and further embedded in the culture of the Council.
- The Constitution and Financial Regulations will be reviewed during 2004/05 to reflect the new senior management structure, and to reflect the results on the current review of the Scrutiny function.
- Work will be progressed on introducing a system of certification by managers to provide assurance to the authority that managers have established controls, and they are operating as intended.

We have been advised on the implications of the result of the review of the effectiveness of internal control by the Authority, and plan to address weaknesses and ensure continuous improvement of the system is in place.

Signature of the Chief Executive

Date

Signature of the Leader of the Council

Date

**TAUNTON DEANE BOROUGH COUNCIL
ANNUAL REVIEW OF INTERNAL CONTROL 2003/04 - ACTION PLAN**

APPENDIX C

Finding	Actions	Resp Officers	Completed By :-
The Corporate Strategy process will be further strengthened during 2004/05 – with particular emphasis on clarifying non-priorities.	Develop a clear and auditable process for developing the Corporate Strategy 2005 – 2008, in conjunction with that for the MTFP	BC / SA	July 04
	Develop and implement a robust Service Review Process to assist with the reallocation of resources to priority areas. Outcome will be an affordable and sustainable mtfp.	Heads	Feb 05
Team Plans will be further developed to show clear linkages from the Corporate Strategy, and to show clear performance measures. A suite of Key Performance Indicators will be developed for the authority and monitored and reported to Members on a regular basis.	Suite of Key Performance Indicators for the Council to be developed.	BC	Dec 04
	Heads of Service to produce “Heads Plans” covering strategic direction of their group of services, showing clear linkages to Corporate Strategy.	Heads	Sep–Feb 05
	Team Plans to be prepared for each service, showing clear linkages to Corporate Strategy, and robust measures of performance.	Managers	Feb 05
The MTFP process needs to be strengthened to embrace the concepts of strategic risk management.	Key budget risk areas to be assessed as part of the mtfp process. Sensitivity analysis to be developed for assessing the budget gap.	SA	Sept 04
Project Management skills will be cascaded through the organisation. In particular, robust project plans will be put in place for the delivery of the Vision Project.	Key corporate projects to be managed to Prince2 standard. Corporate working team to ensure standards are met and processes robust.	Project Mgt Team	Sept 04
The procedures for updating the Registers of Interests, will be reviewed and strengthened.	System to be updated.	JJT	March 05
A complete and robust Asset Register will be developed for all the authority’s assets.	To be considered as part of the FMS system replacement project.	SA	March 05

The Equalities and Diversity training for all staff and Members will be completed. The appointment of an Equalities Officer during 2004/05 will give added focus and impetus to this important area of work.	Training to be completed.	BC	Dec 04
	Progress to be made towards achieving the Equality Standard for Local Govt.	BC	Sept 04
The risk management process needs to be cascaded to service level within the authority, and further embedded in the culture of the Council.	All service Team Plans to include a risk register.	Risk Mgt Team	Feb 05
The Constitution and Financial Regulations will be reviewed during 2004/05 to reflect the new senior management structure, and to reflect the results on the current review of the Scrutiny function.	Existing Constitution and Financial Regulations to be reviewed to reflect senior management restructure.	SA	Sept 04
	Review of Scrutiny function to be completed.	JJT	Oct 04
	Results of review to be written in to updated Constitution.	JJT	Dec 04
Work will be progressed on introducing a system of certification by managers to provide assurance to the authority that managers have established controls, and they are operating as intended.	System developed.	SA / JJT	March 05