

Agenda item 3

For decision - Finance report to Oversight Committee

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Governance

[The financial activities of the council are guided by its Constitution's Financial Regulations.](#) reviewed and approved by Council annually – along with the JPAG guidelines by the Joint Panel for Accountability and Governance (nalc.gov.uk/jpag). The Council also has its own Internal Controls system which staff use to record processes and systems.

Councillor responsibilities

There are several responsibilities and regulations that Councillors must abide by along with regulations and reports that must be approved at Council meetings.

Councillors approve all financial reports on a quarterly basis through Council and Oversight Committee meetings throughout the year, including any reports from other areas of FTC work that have a financial impact. Councillors must also sign off the annually prepared budget and work programme.

The Financial Regulations must be adhered to by both staff and councillors. Councillors have a duty to register Disclosable Pecuniary Interests and any other registerable interests which may be set out in their council's code of conduct, and, where applicable, declare them and other interests at meetings. Whilst interests can apply to many scenarios, parish councillors often have particular queries with regards to membership of lobby groups and being a dual-hatted member. This includes Sponsorship and also includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

All local authorities are required to conduct their business in an open and transparent way and must comply with statutory requirements in relation to decision making and activities undertaken.

Effective governance checks are in place to ensure that the decisions and actions of a local authority are lawful and transparent to the public at large and local council taxpayers who have a vested interest in the activities of their parish council.

Finance staff team

FTC's finance team consists of the Business Manager & Responsible Finance Officer (RFO) Sarah Williams, the Assistant Finance Officer Hannah Paniccia and Business Administrator Becca Evans. The Lead Cllr is Anne Hills who has experience in investment and is current Chair of the Somerset Council Pensions Board.

The RFO has both statutory and non-statutory responsibilities which are detailed in [FTC's Constitution Chapter 8 RFO Protocol](#). The RFO has overall responsibility for the management of FTC finances whilst the day-to-day bookkeeping & payroll is delegated to the Assistant

Finance Officer (AFO) Hannah Paniccia and some administrative tasks to Business Administrator Becca Evans.

Hannah processes the majority of accounting transactions through FTC's accounting software – RBS Rialtas/Omega – software designed by experienced council accounting staff specifically for smaller local authorities. In 2022-23 there were 5,800 transactions recorded. She also administers the payroll for the 40+ PAYE staff (this figure includes stewards who work on an event by event basis).

Both Hannah and Sarah have the Level 4 qualification through the Association of Accounting Technicians (AAT).

Becca Evans who has recently joined FTC assists with all finance and business systems across the organisation and Town Hall.

Budgeting

In Autumn each year, managers consider the council strategy to plan and cost projects and the work programme for the following financial year commencing March. Between the Finance Team and the managers, budgets for the next year are drafted and discussed with the Town Clerk. Two or three meetings are held during November and December with Cllrs in private session to review their initial views. Then in January each year the final formal budget is proposed to Council. Once approved, the Precept demand is submitted to the principal authority, Somerset Council.

Income

There are three sources of income; FTC business such as room hire at the Town Hall, grants received, and the Precept.

Room hire at the Town Hall is currently predominantly to charities and community organisations, so the rent is at more affordable rates. Grants have been in strong supply since Covid, with £295,746 received in grant income in 2022-23 compared to £237,738 in 2021-22.

The Precept demand to Somerset Council for the first time this year (2023-24) was £1,983,504. The calculation of the Precept is ...

- Budgeted expenses for all depts for the coming year
- LESS... budgeted income from FTC business activities and grant income
- EQUALS... the balancing figure needed to for remaining budgeted expenditure = PRECEPT

The precept is the amount we receive from Council Taxpayers in Frome. It is usually discussed in terms of the amount a 'Band D household' in Frome will pay for the Frome portion of their bill. Banding is based on the value of a property; the range goes from Band A (lowest) to Band H (highest).

In 2022/23 Frome Town Council's portion of the annual council tax bill in Band D was £208.78. To enable FTC to deliver the proposed work programme the 2023/24 precept of £1,983,504 increased the annual amount paid by a Band D household by £10.14 to £218.92 (4.9 per cent). This equated to a weekly increase of 19 pence. Roughly 76 per cent of Frome

households pay less than this as they are in Bands A to C. In addition, approximately 28 percent of the total approximately 13,000 households in Frome pay a reduced amount of Council Tax through single occupancy or student discounts and/or are receiving benefits.

How Frome households are divided amongst the bands:

Figs as at November 2020:			
Of 12,926 households in Frome 76% (77% in 2020/21) paid less than the Band D amount			
	2021/22 figs (22/23 figs not available at 6/1/22)		
Band A	2,388 households	19.00%	pay 6/9 of Band D
Band B	4,074 households	32.00%	pay 7/9 of Band D
Band C	3,391 households	26.00%	pay 8/9 of Band D
Band D	1,732 households	13.00%	pay 100% of Band D
Band E	1,004 households	8.00%	pay 11/9 of Band D
Band F	221 households	2.00%	pay 13/9 of Band D
Band G	75 households	1.00%	pay 15/9 of Band D
Band H	4 households	0.03%	pay 18/9 of Band D

Procurement

Purchase ledger - Our process for purchasing is as follows;

- Obtain three quotes for what is required – keeping FTC’s [Ethical Decision Matrix](#) principles in mind (document under review July 2023)
- Check that there are enough funds in the budget
- Place order by giving the chosen supplier a purchase order number
- Once the items have arrived or services been completed, the supplier will email an invoice which has the purchase order number on so we can match the invoice to the purchase order
- We then email the invoice over to the relevant staff member to authorise the invoice for payment
- Once authorised the invoice will be entered into our accounts system and paid in the weekly payment run
- Payment runs are set up by one staff member and authorised by another. Currently only the RFO, Town Clerk and Asst FO have cards for online banking, but we are in the process of setting the deputy Town Clerk up with online banking capabilities too.
- BACS Payments are checked by two FTC Councillors on a monthly basis
- Invoices are filed and assets are added to the asset register.

Purchase orders

This is an example of what our purchase order system looks like;

Supplier	Date	Authorisation	Purchase Order Number	Budget Nominal Code	Budget Cost centre	Product Description	Net Cost	Quote 1	Quote 2	Quote 3
IT Example	20/06/2023	Sarah Williams	100	7008	900	New Laptop for new staff member	£650	Laptop Company £700	IT Example £650	Computer ABC £850
Training ABC	20/06/2023	Hannah Paniccia	101	7003	900	Training for new staff member	£30	Training ABC £30	Training Centre £40	Training Example £30

Our internal purchase order system can be added to by all staff members. The purchase order number column is prepopulated.

Purpose of purchase orders:

- To double check to ensure a PO is referenced on the invoice so we know a staff member has placed the order
- When POs are entered into our accounts system the amounts are shown in the 'committed' column on the income and expenditure sheet. This helps to reduce the risk of going over budget e.g. Our Town Hall Stewards puts in annual POs for Town Hall waste, so he knows that the amount has been accounted for. He then knows that the remaining budget has not been committed for expenditure or orders that have been placed.

Accounting software

We use Rialtas by RBS software solutions for our accounts package. Rialtas was designed by experienced council finance staff and therefore there is a specific section in Rialtas which produces the AGAR at the press of a few buttons.

Every time we create a new nominal code (a budget code) we ensure that in the backend of Rialtas we match this to the correct section of the AGAR. At year end we are then able to produce the AGAR through the reporting, we can then get a detailed report to check that we are happy the coding has been completed correctly. There are various year end reports that we export at our External Auditors request so we can use this as a double check that everything has been entered into our accounts. We export reports that help us compare financial years to the previous which where a large difference is noted is something that we would need to provide additional detail on if it is over the threshold set by the External Auditor.

Rialtas creates our income and expenditure & balance sheets (reports to 30 June 2023 appended to this report) after we finish entering transactions for the period. It helpfully has a 'committed' column in the income and expenditure sheet which shows us the purchase orders that have been entered but for which invoices have not yet been received. This enables more accurate reporting.

Having researched the use of other software (Scribe, QuickBooks, Xero), it was recommended by our internal auditors last year to continue to use Rialtas as our accounts package due to the benefits it has for councils with the AGAR reporting requirement and audit detail.

We also use the Rialtas software for our Town Hall bookings, which helps ensure that all bookings are invoiced as it links to our sales ledger. We are able to produce reports of bookings that haven't been invoiced. As the bookings and the accounts are linked there is a clear audit trail of our income.

Auditors

Internal Auditors

The role of the Internal Auditors are to check our systems and operating procedures including test checks on the following;

- Appropriate accounting records are being properly kept throughout the year.
- Periodic bank account reconciliations
- We follow our financial regulations, payments are supported by invoices, all expenditure will be approved, and VAT appropriately accounted for.
- We assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these. Review the Risk register and ensure we have adequate insurance cover in place.
- The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
- Expected income will be fully received based on correct prices, properly recorded, and promptly banked; and VAT appropriately accounted for.
- Petty Cash payments will be properly supported by receipts, all petty cash expenditure will be approved, and VAT appropriately accounted for
- Salaries to employees and allowances to members were paid in accordance with the authority's approvals, and PAYE and NI requirements will be properly applied.
- Asset register is complete and accurate and properly maintained.
- Accounting statements prepared during the year will be prepared on the correct accounting basis, agree to the cashbook, supported by an adequate audit trail from underlying records and, where appropriate, debtors and creditors will be properly recorded.
- The authority publishes information on a free to access website, up to date at the time of the internal audit in accordance with any relevant transparency code requirements
- The authority, during the previous year, correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations.
- The authority complied with the publication requirements for the prior year AGAR.
- Trust funds (including charitable) - the Council met its responsibilities as a trustee

We have interim internal audits (previously having had three audits in a 12 month period) the internal audit reports are presented to Council for approval and we address any recommendations that are made by the Internal Auditors.

It is good practice to change internal auditors occasionally to ensure we avoid over familiarity and bring in a fresh pair of eyes to view our systems. We recently obtained three quotes from different internal auditors. *The recommendation is to change our internal auditor to 'Do The*

Numbers’.

Supplier	Annual fee	Comments
Fair Account	£1450	Has been our internal auditor for at least 8 years.
Lightatouch	£2600	Has been our internal auditor previously – is this too familiar?
Do The Numbers	£1850	New auditor – may notice things that have been missed before. Doesn’t know the organisation so may take a while to familiarise. Has ten years as Company Secretary of Hampshire ALC, Eleanor was for three years Secretary of the Hampshire SLCC as an Associate member and is a founder member of the Internal Audit Forum, so is very up to date with sector developments.

External Auditors

Our External Audit takes place annually. The External Auditors are appointed by government, and they are currently PKF Littlejohn. The size of the Council dictates what review is required. As we are a large Town Council we are subject to the Intermediate Level Review, which is the most in depth review, and requires us to submit additional documentation including; Internal Auditor reports, how we appointed our Internal Auditor, ensuring they are independent. We also have to send in copies of our bank statements. All these along with our AGAR – Annual Governance & Accountability Report.

Annual Governance & Accountability Return (AGAR)

The Annual Governance & Accountability Return (AGAR) is the document we complete at each financial year end. There are two sections, the first section is the Annual Governance Statement which ensures that we have internal controls and procedures in place. The second section is the Accounting Statements which compare the financial year to the previous year. The AGAR is signed by the Chair, Town Clerk and Responsible Finance Officer at the Annual Council Meeting each year. There is a specific order that it needs to be signed and each section requires a unique minute reference number.

As part of the AGAR process we are required to provide the opportunity for residents to inspect the accounts if they wish. We add the Notice of Public Rights and Publication of Unaudited Annual Governance & Accountability Return to our website and to the noticeboard outside the Town Hall. We have to ensure we place the notice at least one day before the inspection period starts, the inspection period must be 30 working days and include the first 10 working days of July. This year we posted the announcement on 31 May 2023 and chose the period Monday 5 June 2023 to Friday 14 July 2023. We didn’t have any requests for residents to view the unaudited accounts this year but in the past we have.

There will be a second notice in due course to allow residents to inspect the accounts, this time it will be for the audited accounts so this will be once we receive the report and certificate from the External Auditors PKF Littlejohn LLP.

We are transparent about the accounts and even though we have to have the two periods as mentioned above as part of the audit procedures, if questions are asked at Council meetings

we do our best to answer them or can investigate and come back. We report on payments over £500 as part of our finance report and publish these on our website.

Bank Signatories

We have various signatories across our five bank accounts from a mix of staff and Cllrs. When we ask for signatories authorisation of bank payments and forms they can view and approve what they are signing for.

VAT (Value Added Tax)

We are VAT registered this means that when suppliers charge us VAT we are able to reclaim this, therefore the cost to FTC is the net amount. VAT is charged at 20% e.g. if a product cost £120 including vat (gross cost) the cost excluding VAT (net cost) would be £100 and the VAT would be £20. Our budgets are based on the net figures and our reports also show the net figures.

As a requirement of being VAT registered we need to charge VAT on our sales. Some items are vatable, so we need to add VAT, and some are not so we don't need to add VAT to these. Some examples are below;

Charge VAT	No VAT
Room hire	Grant funding
Printing	Maps
Frome water bottles	Books
Tea towels	National Express tickets

We submit our VAT returns to HMRC after each quarter. This tells HMRC how much VAT we have paid in total to our suppliers and how much VAT we have received from our customers. We usually then receive a payment from HMRC of the net VAT amount (the amount of VAT we have paid to suppliers minus the VAT we have received from customers). If our VAT sales were higher than the VAT purchases then we would have to pay the difference to HMRC, rather than reclaiming it. VAT is recorded as either input or output tax in our accounts. Input tax is for purchases and output tax is for sales.

Deminimus calcs for VAT

Being VAT registered means we can claim back VAT on purchases where sales VAT is also charged. However, we chose to opt *not* to tax the Elliott Building which is let to Fair Frome so that Fair Frome would not be subject to VAT on their rent and which they wouldn't have been able to reclaim.

HMRC's deminimus calculations set thresholds enabling us to claim VAT back on Elliot Building expenses even though the rent is not vatable but only up to a certain threshold. Each year we carry out the deminimus calcs to check we have not claimed more than £7,500 Vat on purchases for the Elliot Building.

We opted to tax the main Town Hall, so we charge VAT where applicable (e.g. on room hire/rent) and claim the VAT back on all purchase invoices received for services at the Town Hall.

Cash reserves – [Appendix 3.1 Balance Sheet at 30 June 2023](#)

General Reserves – £1,958,139 – the balance of our cash reserves after EMRs. This revenue will fund budgeted expenditure in the 2023-24 financial year leaving approximately £280k as our baseline General Reserves which includes £180k recommended prudent reserve. The general reserve exists in case we face emergencies or in order to take unexpected opportunities that may arise.

[Appendix 3.2 Earmarked Reserves](#) – £882,884 - these are savings set aside for specific projects. The current list is enclosed with narrative. Some of these EMRs (such as the Discover Frome and CRM database ones) are currently under review by a separate committee or working group. The remaining EMRs are to be reviewed over the next two months and a report will come to the October Oversight Committee.

[Appendix 3.3 Investing our reserves](#)

Cllr Hills has provided a detailed report on how we invest our savings. Until the full year Precept came in from Somerset Council in April, we used to keep our reserve funds in six different banks to spread the risk. FTC as a local council is not covered by the Financial Services consumer protection scheme so therefore needs to spread its reserves across a reasonable number of different banks whilst retaining an ethical stance where possible.

The recommendation is to transfer the majority of our cash reserves to the CCLA PDSF which currently returns 4.79% (Jul23). This will increase the annual interest received by approximately £16,000.

Quarter ending June 2023 – finance reports for Frome Town Council

[The Income & Expense report is at Appendix 3.4](#), along with the [Balance sheet for the period April to June 2023 at Appendix 3.1](#). The year is progressing well with most budget codes close to their 25% spend target (see column 6 as described below in the Income & Expenditure report). Where a code is over 25%, it is often because the full year's purchase orders have been entered and calculated in column 4), otherwise we seek further information on the nominal code detail to understand where over and under spends are being incurred.

Areas already identified for potential overspend in the year are open spaces (700-7938) where it was decided to develop the community woodland at Spring Gardens and IT hardware for staff with a number of new laptops needed for both new staff and older laptops requiring replacement. There may be underspends in open spaces to compensate but if not we will return to Council to seek approval for subsidy from General Reserves. The last two years have had underspends in IT hardware budgets, but we will be budgeting in future for a 3 year renewal period commencing this year's replacements.

Understanding the reports

The income and expense report has seven columns:

Column 1 – Actual Year To Date

Shows what has been spent in the year to date

Column 2 – Current Annual Budget

Shows what the full budget for entire year is

Column 3 – Variance Annual Total

Gives the difference between 1 & 2, actual v budget

Column 4 – Committed Expenditure

Shows the value of purchase orders committed for expenditure in that code on top of Column 1 already spent

Column 5 – Funds Available

Gives the amount left available to spend - it is a calculation of Col 2 less Col 1 and Col 4 = funds left

Column 6 - % Spent

Quick answer column! – if say we are 25% of the way through the financial year (e.g. end June) and the % shown in this column differs from 25% then this is a line to seek further information on.

The Balance Sheet shows the total sum of our reserves and where they are kept, in which bank and how much in each account. The Balance Sheet also shows in the 2nd half of the report how much of the reserves are allocated to General Reserves and to specific projects in Earmarked Reserves EMRs.

Conclusion

FTC remains financially sound with adequate funds and assets.

Recommendations

1. Delegate to the RFO in consultation with the Town Clerk, the review and appointment of Internal Auditors
2. Approve the transfer of the majority of our cash reserves to the CCLA PDSF
3. [Approve Appendix 3.4 Income and expenditure report to 30 June 2023](#)
4. [Approve Appendix 3.5 Payments made over £500 for February to June 2023](#)
5. [Approve Appendix 3.1 Balance sheet report including the breakdown of reserves at 30 June 2023](#)