

## **SCC Management Response To External Audit VFM Report**

### **Introduction**

Somerset County Council acknowledges the receipt of our external auditor's VFM report, and thanks him for his work in this matter. There is significant financial information in this report that we recognise and accept as correct. We recognise the duty of the external auditor to bring these matters to the attention of the Council and its public, although of course the Council has already been open in highlighting its financial challenges. We accept the recommendations made by the auditor in this VFM report.

The Value For Money (VFM) criteria set are limited in nature, and the auditor is required to consider only three criteria in coming to his conclusion:-

- Informed decision making
- Sustainable resource deployment
- Working with partners

On 2 of these criteria, informed decision making and working with partners SCC has demonstrated a high degree of positive compliance and success (we cite the 2018 Local Government Association Corporate Peer Challenge as clear evidence). However, this does not deflect from the fact that we acknowledge the contents of the audit report, recognise and accept many of its findings and will continue our programme of financial turnaround to bring Somerset County Council to a point of financial sustainability.

### **Financial Context**

There is now a national recognition of the impact of austerity on local authorities, with county councils sustaining the greatest impact. The recent National Audit Office report confirmed that central government funding for local authorities has fallen by an estimated 49.1 per cent in real terms from 2010/11-2017/18.

Two thirds of Somerset County Council's budget is spent on demand-led people services such as adult social care and child protection services. We are heavily reliant upon council tax income and our planning horizon based upon predicted income levels does not stretch beyond 2019/20, that being the last year of our current 4-year funding period.

The continued reduction of central government grant, coupled with increased demand for our services from vulnerable users has already required the Council to make savings or absorb cost growth worth over £120mil over the previous 7 years (more if a longer view is taken). We have achieved over 90% of targeted savings during this period.

Somerset County Council remains the lowest council tax precepting county council in the country, with a total council tax 'take' £19.5mil pa less than the county council

average and £43.7mil pa less than the highest (adjusted for Council Tax Base). Our total expenditure per head of population is similarly low, being within the lowest five county authorities nationally.

### **Performance Context**

Remarkably, during this period of austerity it could be contended that 2017/2018 was a very positive one for the County Council. Performance in many key areas improved whilst budgets reduced, this being a clear improvement in terms of what might be deemed “value for money” in the wider sense.

Improved or sustained improvement in performance in our larger budget expenditure areas include;

- Adults Services – new methods of working introduced, improved safeguarding performance, reducing waiting times for assessment, one of the biggest improvements in DToC performance nationally, underspending
- Childrens Services – child protection services improved OFSTED judgement to ‘Requires improvement to be good’ whilst our fostering and adoption services were judged as being good, positive progress in our Children and Young People’s Plan; initiation of an improvement plan for our SEND services
- Highways - continuation of our highways management as the highest possible Band 3 authority, increasing the amount of grant awarded,
- Waste services – waste recycling levels remain high compared to national benchmarks
- Public Health – positive progression in almost all of our mandated, targeted services such as smoking cessation in pregnancy across the county.

Committee will recall that the VFM Audit Report for 2016/17 included an “except for” opinion given by the external auditor for the previous 3 years because of our Inadequate OFSTED. Given our improvement in this area we are pleased that this finding is absent from the most recent audit opinion. Similarly, last years report noted the particular financial pressures being faced in Adult Services. The recent underspend, much against the national position demonstrates that we do act upon the findings of external audit reports and successfully intervene.

In accepting our acute financial position, it is still useful to reflect on the wider findings of the 2018 Corporate Peer Challenge. In all of the other areas of assessment (noted below) the review found our performance to be good. Audit Committee should take comfort from this wider position and it should help focus future audit scrutiny over this coming, critical period. Other assessment areas were;

- Understanding of the local place and priority setting: Does the council understand its local context and place and use that to inform a clear vision and set of priorities?
- Leadership of Place: Does the council provide effective leadership of place through its elected members, officers and constructive relationships and partnerships with external stakeholders?

- Organisational leadership and governance: Is there effective political and managerial leadership supported by good governance and decision-making arrangements that respond to key challenges and enable change and transformation to be implemented?
- Capacity to deliver: Is organisational capacity aligned with priorities and does the council influence, enable and leverage external capacity to focus on agreed outcomes?
- Whether priorities identified and draft plans to deliver them help achieve improved outcomes for the residents of Somerset and has SCC the capacity and resilience to deliver them
- Whether work with partners is as effective as it could be.

## **Response**

Somerset County Council is a fully self-aware and learning organisation. We are therefore fully aware of the financial challenges that we face now and in the future. Indeed, the LGA were invited to undertake a Corporate Peer Challenge to help us to shape our future and in the full knowledge that finance would be the key area of challenge. Therefore, the findings of the VFM report are sobering but not a surprise. This is evidenced by the Chief Executive's report to Full Council in May 2018, in which he stated that:-

“The Council's key focus this year must be to secure our financial sustainability. We must and we will reduce spending wherever we can to ensure our budget can support the vital work we do”.

“Achieving financial sustainability is now the number one operational priority of the County Council and the Chief Executive is leading the Senior Leadership Team in a comprehensive review of all council budgets to see where further, sustainable savings and efficiencies can be achieved. The aim is to achieve financial sustainability within the current year”.

However, where we do recognise weakness we are now moving to address such matters. We have already established a “Financial Imperative” programme of budgetary transformation that will address both the in-year overspend position and the delivery of a robust and affordable budget for 2019/2020 and beyond.

The Financial Imperative programme is led by the Chief Executive and the Senior Leadership Team, now meeting weekly to concentrate wholly on addressing the financial position. A programme team has been established under the direct management of the Chief Executive to oversee this programme and to ensure, due process, pace and to facilitate the delivery of a sustainable financial future, whatever that may look like. The Programme enjoys full Cabinet involvement throughout, and over the coming months will be subject to regular review. We anticipate that the Audit Committee will be a vital part of that overview and scrutiny process.

The Programme has been developed to follow Key Lines Of Enquiry (KLOEs). These are;

- To examine options around tactical financial activities;
- Reviewing existing savings and new opportunities;
- A workforce review,
- Better data and insight to inform future commissioning decisions,
- Communications to Council members, staff and stakeholders.

Initial analysis (still being verified in some cases) shows that progress in delivering MTFP savings set for 2018/2019 is already much improved on 2017/2018's performance noted by the external auditor.

A revised "10 point plan" on controlling expenditure has been issued, and a new recruitment protocol for managers to follow for vacancy management. There is an opportunity for staff and members to make suggestions into the Financial Imperative programme, and over 190 have already been made and are being reviewed by the Team.

#### **Initial Actions – subject to further review and action planning**

There are a number of other specific actions that Somerset County Council will undertake (or continue) in response to the external auditor's report:

- **September 2018** – develop and implement an action plan to review and implement the recommendations of the 2017/18 external audit report. We will update progress against them as part of our Budget Monitoring and Risk Management reporting.
- **Immediate and ongoing** - With immediate effect the Financial Imperative Programme will turn around the current in-year projected overspend with ongoing budget reductions (current control total stands at £11.5mil overspend). (Grant Thornton Recommendation 2).
- **October 2018** - Establish this Autumn a revised Financial Strategy that is based upon a clear and better understanding of
  - Our future cost drivers (demographic growth, national cost benchmarking, output of the Peopletoo work to establish a meaningful base budget for Childrens Services)
  - Our future income opportunities (council tax and business rates, national initiatives such as business rate retention pilots, local opportunities through planning gain, other options including commercial and investment opportunities)
  - Rightsizing the Council's budget and further adjusting our service delivery accordingly, potentially cutting non-essential and critical services – informed by the Financial Imperative Programme. (Grant Thornton Recommendation 2).
- **September 2018 / February 2019** - Based upon the action above refreshing our 2019/20 Medium Term Financial Plan - Development and Approach, and report back at the Cabinet on 19<sup>th</sup> September with budget setting taking place

in February 2019. This will include a very clear statement on investment areas, efficiencies and budget reductions over the coming periods to ensure transparency and facilitate effective overview and scrutiny. Future year target savings are currently modelled at £8.6mil (2019/20), £5.8mil (2020/21), £1.1mil (2021/22). These figures already include £10mil of additional budget for Children's services to be added over this period. (Grant Thornton Recommendations 2 and 7).

- **By Quarter 2 budget reporting** - We will review and improve further our Budget Monitoring reports and how they link back to our budget setting documentation. It is noted that our current format has previously served us well but given our current financial context we will seek to make them more transparent for all members to see our progress and recommendations. This will include a statement on the use of the Capital Receipts Flexibilities directive and a fuller disclosure of the transformation projects that are being considered for funding through this mechanism. (Grant Thornton Recommendations 1,3,4,5 and 6).
- **Quarter 3 onwards** – implement a mandatory training programme for all budget holding manager and officers accountable for expenditure on budget management and accountability
- **Ongoing** - We will continue to offer all-member training events on general and specific financial matters.
- **Supporting action** - We will continue to seek financial solutions that are transformational in nature as opposed to simple service reductions, following on a number of previous success such as such as new service models / outsourcing (e.g. Support Services for Education, Heritage, Adult Education, Learning Disabilities Provider Services through a Social Enterprise), insourcing (South West One), service improvement and financial efficiency (Adults), service improvement (Childrens social care).
- **Supporting action** - We will continue to lobby central government for a fairer financial deal for Somerset, both immediately and for the Fairer Funding Review. There are a number of inequalities that we believe need to be corrected around funding assumptions, not least the additional costs of a rural authority. We will press for greater certainty over funding after 2019/2020, without which longer term planning is rendered very difficult.
- **Supporting action** – we have requested Grant Thornton support to highlight examples of best practice elsewhere in their experience that would support us in improving our audit outcome next year.