

Nico Heslop

Please ask for: Jason Vaughan

Director Local Government Finance

Email: Jason.vaughan@somerset.gov.uk

Department for Levelling Up, Housing
and Communities

Direct Dial:

Date: 26th September 2023

Dear Nico,

Somerset Council – Financial Challenges

I am aware of the recent articles regarding Somerset Council and its financial position and the headlines speculating about the authority issuing a section 114 notice within the next two years. I thought that it might be helpful if I set out some background and context to this.

New Council

Somerset Council is 6 months old and was created in April 2023 from combining Mendip, Sedgemoor, Somerset West & Taunton, South Somerset District Councils and Somerset County Council. The senior management staffing structure is in place and we are starting the process to make appointments below the service director level. As is common with newly created unitaries there is significant amalgamation of systems and processes from the 5 predecessor councils which mean staff resources and capacity is very stretched.

Finance System

With the licence agreement for the county council's SAP finance system ending and the need for a modern system to enable future transformation, a new Microsoft Dynamics finance system has been implemented from April 2023. As with any move to a new finance system it has a significant staffing and resource requirement, but this is even more complex in our situation with moving from the previous 5 finance systems from the predecessor organisations.

Audit of Statement of Accounts

We inherited several outstanding audits from prior years and have been working with Grant Thornton and EY to complete these. Without having audits completed it is hard to accurately understand the new Council's starting point.

The two outstanding audits from 2020/21, relating to Mendip and Sedgemoor, have now been completed and signed off by the external auditors. There were three outstanding audits from 2021/22 and two of these (Mendip & Sedgemoor) are now completed with the findings being reported to our Audit Committee on 28 September 2023. The one remaining statement of accounts audit for 2021/22 relates to South Somerset and we anticipate this being reported to the October Audit Committee.

All of the 2022/23 Statement of Accounts were published but missed the new end of May deadline which is not a surprise given the number of outstanding audits from prior years, the new Council being created in April and staffing capacity. The 2022/23 Somerset Pension Fund audit has been completed and will be reported to this week's Audit Committee. The audit of Somerset West & Taunton is nearly completed, and we expect this to be reported to the October Audit Committee

The 2022/23 audits for Somerset CC, Sedgemoor and Mendip have just started but the one for South Somerset is obviously delayed until the prior year audit is finalised.

External Audits	2020/21	2021/22	2022/23
Somerset County Council			Audit started
Somerset Pension Fund			Now signed off
Mendip District Council	Now signed off	Now signed off	Audit started
Sedgemoor District Council	Now signed off	Now signed off	Audit started
Somerset West & Taunton Council			Except to be reported to October Committee
South Somerset District Council		Except to be reported to October Committee	Audit to start once 2021/22 completed

2022/23 Outturn & Reserves Position

The overall outturn for the 5 councils in 2022/23 was a combined overspend of £18.7m made up as follows:

	2022/23 Budget £'m	Outturn £'m	Under/ (Overspend) £'m
Somerset County Council	383.7	407.1	(23.4)
Mendip District Council	19.1	18.3	0.8
Sedgemoor District Council	9.0	6.6	2.4
Somerset West & Taunton Council	17.0	16.2	0.8
South Somerset District Council	19.8	19.1	0.7
Somerset Outturn Position	448.6	467.3	(18.7)

The key factors in the position for Somerset CC is overspends in both Adults & Health and Childrens & Families of £15.4m and £21.2m respectively, this position is partly offset by £13.2m underspending across the rest of the council.

The total reserves at the start of 2023/24 for Somerset Council were £314.8m. However, £131.2m of this relates to reserves held on behalf of others such as Somerset Rivers Authority, Heart of the South West LEP, Health and Schools. The 2023/24 budget included £19.9m use of reserves being made up of £9.9m for once off funding to support projects and £10m to balance the budget. After taking account of these and other commitments the current position is General Reserves of £49.8m. this is at the high end of our risk-based assessment of General Reserves of between £30m and £50m but is reflective of the significant risks the council currently faces. Total Earmarked Reserves are £104.9m and we are currently undertaking a review of all of them to identify if any can be released and repurposed.

2023/24 Budget Monitoring

We formally report the budget monitoring position to both Scrutiny and the Executive on a monthly basis. Our latest revenue budget monitoring report (Month 5 – End of August) is forecasting an overspend of £30.3m for the year which is a deterioration of £4.2m on the previous month. There are significant forecast overspends in Adults & Health of £14.9m and Childrens & Families services of 11.8m. These overspends reflect the continuing spiralling costs in these sectors which show no sign of abating.

We have put in a range of measures across the council to try and address the potential overspends but given that Adults & Childrens make up nearly two-thirds of the total budget, I am not confident we will see a significant reduction.

Housing Revenue Account (HRA)

The new unitary has inherited two landlord operating models which now sit under one Housing Revenue Account. The two landlord operating models are an in-house service from Somerset West and Taunton (SWT), and an Arm's Length Management Organisation (ALMO) from Sedgemoor District Council (SDC). The combined total dwelling stock as at 1 April 2023 is 9,665 (5,653 from SWT and 4,012 from SDC). In addition to this we have 599 leasehold properties (489 from SWT and 110 from SDC).

The 2023/24 budget monitoring position for the HRA is currently on track with no major variances. However, the 30-year Business Plan currently projects a deficit by 2029/30.

Capital Programme

Somerset Council inherited a significant capital programme of over £330m plus carry forward of schemes from 2022/23 of £100m bringing the total programme to £430m. A review is underway to try and reduce down the borrowing costs to the council and identify which schemes could be stopped or de-scoped, including two Town Deals (Bridgwater & Glastonbury) and one Levelling Up project (Bridgwater).

Commercial Investments

The new Council inherited a significant commercial portfolio with an initial purchase price of £289m with 85% of this financed by short term borrowing. The valuation of the portfolio at the start of 2023/24 has dropped to just under £220m. A review of the portfolio has been undertaken and a rationalisation process to reduce down the Council's risks has started.

Financial Resilience & Sustainability

I have looked at the OfLOG Local Authority Data Explorer tool to assess the resilience and financial sustainability of the council. Unfortunately, it does not contain any data on Somerset Council, or its predecessors, and this is something that should be considered for newly formed councils. A separate piece of work is therefore being undertaken to help provide some comparative data on the financial resilience and sustainability of the council.

Transformation

With the significant cost pressures in Adult & Health Services a diagnostic review by Newton Europe has been undertaken and in June the Council approved a transformation programme "My Life My Future" to deliver £10m of on-going cost savings.

The focus has been on successfully delivering Local Government Reorganisation and as a result there currently is no council wide transformation programme. This is currently being addressed but does mean that there is not a pipeline of future savings that can be built into the Medium-Term Financial Plan (MTFP).

High Needs Block

At the start of the year the deficit on the High Needs Block was £29.8m and the work that has been undertaken as part of the Delivering Better Value in SEND programme forecast this to significantly increase to around £104.1m by the end of 2025/26. With our relatively low level of reserves this is a significant risk given that the statutory override is due to end at this time.

2024/25 Budget Gap & the MTFP

We have started to review and update our Medium-Term Financial Plan. Our initial forecast for 2024/25 is a budget gap of over £80m and a further £50m for the following year. These figures will be reviewed, challenged, and refined over the next two months but they indicate the significant financial pressures that the council is under.

To help co-ordinate the budget process an MTFP Board has been set up and comprises of all 10 members on the Executive and the officers that form the Executive Leadership Team. The MTFP Board has been meeting on a monthly basis since June.

Member Briefings

A key part of the approach to financial management within the council is to be open and transparent. To help fulfil this and ensure that all 110 Members are fully aware of the financial challenges facing us, a series of Member briefings have been put in place. The first of these was in August where Rob Whiteman from CIPFA kindly came and spoke to

the Members about s114, addressing financial failure and some of the key actions that councils need to consider. A series of Monthly Member Briefings on the Council's finances have been arranged from September through to February, with 2 options each month to allow for both in person and virtual attendance. The September ones took place last week and very clearly set out that without significant and decisive actions the council would be faced with issuing a section 114 notice within the next 18 months.

Summary

I am very keen to work with the Department and keep you informed of the financial difficulties that we are experiencing in Somerset, and I have also copied in Rob Whiteman so that CIPFA are also aware.

We are not in immediate danger of having to issue a section 114 notice but based upon our latest forecast of a significant overspend in the current year and a very sizeable budget gap for next year, I will we need to consider this as part of the 2024/25 budget setting process, unless significant progress is made.

I hope this is helpful in outlining some of the current issues we are dealing with and is the start of an active dialogue with the department about our financial challenges. I believe it would make sense to maintain a dialogue between the Authority and the Department on this issue over the coming months. We would also welcome any input and support the Department can provide. I would very much appreciate discussion about this in the near future if that is possible.

Yours sincerely



Jason Vaughan

Executive Director – Resources & Corporate Services (Section 151 Officer)
Somerset Council



A Fairer, Ambitious Somerset