

## Committee Report

Committee: Audit Committee

Meeting or Proposed Decision Date – 30 January 2025

Key Decision – No



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### Interim External Auditor's Annual Report for 2023/24

Chair of Committee: Cllr Mike Hewitson

Executive Member(s): Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member for Resources, Procurement and Performance.

Local Member(s) and Division(s) affected: ALL.

Executive Director: Maria G. Christofi, Interim Chief Finance Officer (Section 151 Officer)

#### Executive Summary

The Auditor's Annual Report (see Appendix A) details the Auditors' findings on arrangements in place at the Council to secure economy, efficiency, and effectiveness in its use of resources during 2023/24.

The Auditor's Annual Report includes a summary of findings and recommendations to Somerset Council, which are accompanied by the Council's proposed management response and planned actions. This report includes 2 Statutory Recommendations in relation to serious concerns over the Council's financial sustainability that have been issued to the Council, by its External Auditors Grant Thornton, exercising their powers under Schedule 7 of the Local Audit and Accountability Act 2014.

In accordance with the Act, a meeting of the Full Council is required within one month to consider the statutory recommendations, to decide:

- (a) whether the report requires the authority to take any action or whether the recommendation is to be accepted and
- (b) what, if any, action to take in response to the report or recommendation.

The Auditor in addition to the 2 Statutory Recommendations has also raised 9 Key Recommendations and 8 Improvement Recommendations addressing perceived weaknesses in the Council's arrangements for financial sustainability, governance and securing economy, efficiency, and effectiveness.

This report is also to inform members of the background framework and next steps to ensure that the external auditor's recommendations are addressed promptly and satisfactorily.

## **Recommendations**

The Audit Committee is asked to note the Auditor's Annual Report and the 2 Statutory Recommendations together with the proposed management response that will be considered by Council on 12 February 2025.

The Audit Committee is asked to note the 9 Key Recommendations and 8 Improvement Recommendations and endorse the proposed management response and actions.

## **Reasons for Proposals**

As a key component of the Council's governance framework, the Audit Committee has a role in ensuring that there is sufficient assurance over governance risk and control to give greater confidence to all those charged with governance that those arrangements are effective.

The Audit Committee has oversight of both internal and external audit, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

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Report Lead: Nicola Hix, Service Director Finance and Procurement (Deputy Section 151 Officer)

## Main report and supporting information.

### Background and purpose of report

1. The Code of Audit Practice, which was revised in 2020, updated the way external auditors report on arrangements to secure value for money. This has resulted in a more comprehensive report and is the outcome of the substantial work undertaken by the External Auditors (Grant Thornton) which involved research and evidence gathering to consider the Council's position in respect of:
  - Ensuring financial sustainability
  - Managing governance arrangements
  - Securing economy, efficiency, and effectiveness in its use of resources
2. Recommendations made in the report are classified into a hierarchy of levels:
  - Statutory Recommendations – actions which should be taken where significant weaknesses are identified with arrangements. These are made under Schedule 7 of the Local Audit and Accountability Act 2014 and require discussion at Full Council and a public response.
  - Key Recommendations – actions which should be taken by the Council where significant weaknesses are identified within arrangements.
  - Improvement Recommendations – actions which should improve arrangements in place but are not a result of identifying significant weaknesses in the Council's arrangements.
3. The table below shows an increase in the overall number of recommendations, categorised by the value for money criteria, between the 2022/23 and 2023/24 Auditor's Annual Reports.

Recommendations	2022/23				2023/24			
	FS	GV	3E	Total	FS	GV	3E	Total
Value for Money Criteria								
Statutory	-	-	-	-	2	-	-	2
Key	5	1	1	7	4	4	1	9
Improvement	2	3	1	6	5	2	1	8
<b>Total</b>	<b>7</b>	<b>4</b>	<b>2</b>	<b>13</b>	<b>11</b>	<b>6</b>	<b>2</b>	<b>19</b>

Key to Value for Money Criteria headings:

- FS – Financial Sustainability
- GV – Governance
- 3E – Improving Economy, Efficiency and Effectiveness

4. If the auditor makes either a public interest report or a recommendation Schedule 7 of the 2014 Act, it requires the local authority to consider it within a month of receipt and decide (i) whether the report requires the authority to take any action or (ii) whether the recommendation is to be accepted and (iii) what, if any, action to take in response to the report or recommendation
5. As the external auditors have made 2 Statutory Recommendations, this report will need to be considered by Full Council on 12 February 2025 for a decision on whether to accept the Statutory Recommendations and what action to take in response to it.
6. The proposed management responses seek to ensure that all the Auditors Recommendations particularly the Statutory Recommendations are being taken seriously and have identified appropriate action by the Council.
7. The 2 Statutory Recommendations and the Council's proposed response and action plan are set out in the table below.

#### **Statutory Recommendation 1 (SR1)**

The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFs in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level. To support the development of a sustainable budget the Council should also:

- identify additional savings to minimise the use of reserves, ensuring that sufficient levels of reserves are maintained to mitigate the significant levels of financial risk the Council is facing.
- ensure all planned savings are delivered, and where they are not that mitigating savings plans put in place.
- establish an appropriate culture of financial accountability and ensure managers have sufficient skills to manage the financial resources for which they are responsible.

#### **Proposed Management Response**

The Council agrees the recommendation to continue to work to set a sustainable budget. Actions to find sustainable ongoing savings are in place and this will need to continue beyond 2025/26 into 2026/27 and 2027/28 in order for the Council to set a budget in a sustainable way.

The Council has worked hard during 2024/25 to deliver savings approved in the 2024/25 MTFP. At Month 7, the percentage of savings delivered or on track is 85%, with 15% being rated as amber or red, with the Executive Leadership Team being focused upon securing delivery. At Month 7, the forecast outturn is a reduced drawdown on ear marked reserves of £30.7m against the approved budget, with all

directorates being tasked with reducing and controlling expenditure to offset unavoidable pressures in other service areas.

The Section 151 Officer chairs a Children's Service Financial Recovery Board in order to focus upon all possible measures to mitigate against the largely unforeseen financial pressures arising primarily from increased demand and complexity of need in children's social care in the post pandemic period. This is a key driver of the service overspend and reflects a wider national trend across many local authorities.

The Council is near the end of its budget setting cycle for 2025/26 and its MTFP for the 5-year period to 2029/30 which is due to be considered and approved by Council before 11 March 2025. There is currently a budget gap for 2025/26 of £65.5m rising to £205.2m by 2029/30 after the consideration of all pressures and robustness assessment of all proposed savings to be included in the budget. The Council is therefore at risk of the Section 151 Officer being required to issue a S114 notice and is in active discussion with MHCLG in relation to an application for Exceptional Financial Support to close this gap in order to avoid this situation occurring.

The Council is developing a new Transformation and Savings programme that will be assured for inclusion into the MTFS in order to meet the forecast budget gap over the period of the MTFS to 2029/30. This is in addition to ensuring the deliverability of all approved savings already in the 2024/25 approved MTFS and those new proposals for the 2025/26 Budget.

The Council will provide a programme of appropriate training in financial governance (including financial and contract procedure rules) and budget management responsibilities including provision of self-service tools to all budget holders.

<b>Planned Action</b>	<b>Target Date</b>	<b>Responsible Officer(s)</b>
<p>Executive Leadership Team to formulate a transformation and savings programme that is aligned to meet the budget gap forecast over the period of the MTFS 2026/27 to 2029/30.</p> <p>Subject to the outcome of the EFS application and achieving a balanced budget for 2025/26 a S114 notice will be avoided.</p> <p>Robust budgetary control, forecasting and reporting measures will continue to be exercised, including as a minimum, monthly member led budget challenge meetings to ensure proactive management of overall expenditure within the Council's approved budget.</p>	<p>28 February 2025</p>	<p>Executive Leadership Team - Maria G Christofi, Chief Finance Officer (Section 151 Officer)</p>

## **Statutory Recommendation 2 (SR2)**

The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget.

## **Proposed Management Response**

The Council agrees the recommendation to develop an overarching business case and detailed business cases in relation to savings targets required to balance the 2025/26 budget and over the MTFS period. Where business cases have already been assured for inclusion of a saving in the proposed budget for 2025/26, that have been produced by services then reviewed and challenged by the Finance team and the Section 151 Officer and their deputy Section 151 Officer for approval and inclusion in the proposed budget. Where further work is required in order to assure the robustness of transformation and savings projects, a timetable will be produced for the production of business cases to be assured and progressed during the 2025/26 financial year for inclusion in the MTFS and implementation at the earliest opportunity subject to appropriate governance including consultation.

The Council has reviewed its Flexible Use of Capital Receipts (FUOCR) Policy which will be approved at budget setting for 2025/26 in terms of the quantified use of FUOCR during 2025/26 and indicative sums for 2026/27 to 2029/30. FUOCR will be the primary source of funding for transformation purposes.

Grant Thornton (GT) comment that during 2023/24 the Council did not have a Council-wide transformation programme in place or a pipeline of savings to address future year budget gaps. Prior to vesting day, the Council had identified a series of savings including £18.5m associated with the LGR Business Case delivered through the transition and restructuring of a number of services. This has previously been reported on by GT. In December 2023, in light of the changed financial circumstances, the Council recognised that the approach to transition and transformation was not sufficient to address the financial emergency, the longer-term budget deficit and the need for an overall approach to transformation for the years 25/26 and beyond. The Council has been clear that its initial focus will be to deliver the workforce element of the programme in 25/26. We do not believe that the context has been fully considered in this report.

Planned Action	Target Date	Responsible Officer(s)
<p>The Council is committed to developing a clear and robust transformation plan that delivers savings beyond 2025/26 but also identifies the activities, actions, and initiatives necessary to achieve savings in future years. To achieve this, the Council will create an overarching transformation business case, along with detailed business cases for individual workstreams. These will drive service transformation and contribute to meeting the Council's ambitious savings targets.</p> <p>The Council is to deliver the Workforce transformation for 31 March 2025.</p> <p>Additionally, the Council has identified the funding required to support the transformation and the new target operating model as part of the Flexible Use of Capital Receipts Strategy. A comprehensive funding plan will be developed to ensure these needs are met. This entire process will be undertaken with urgency to ensure the necessary savings are realised to balance the budget in the medium term.</p>	30 June 2025	Alyn Jones, Executive Director for Resources, Strategy & Transformation

### Links to Council Plan and Medium-Term Financial Plan

8. The recommendations in this report link to the Council's priority for a flourishing and resilient Somerset and to the Medium-Term Financial Strategy.
9. The report supports transparent accountability for the Council's financial sustainability, good governance, and delivery of value for money with public funds.

### Other options considered.

10. Not applicable.

## Key considerations for the Council

### Scrutiny comments / recommendations:

11. Not applicable.

### Consultation and feedback

12. Not applicable.

### Financial and Risk Implications

13. There are no direct financial implications associated with the recommendation.

14. Recommendations and proposed actions identified in the Auditor's Annual Report are key mitigations for the following Strategic Risk:

- a. **ORG0057 Sustainable MTFP**. This risk is owned by the Section 151 Officer along with the current actions that are being monitored to mitigate the risk.

Current Risk Score:

<b>Likelihood</b>	<b>5</b>	<b>Impact</b>	<b>5</b>	<b>Risk Score</b>	<b>25</b>
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Projected risk score if recommended actions are agreed and delivered:

<b>Likelihood</b>	<b>2</b>	<b>Impact</b>	<b>2</b>	<b>Risk Score</b>	<b>4</b>
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### Legal Implications

15. Paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014 gives a local auditor power to make a written recommendation, which must then be considered under the provisions of the Schedule. Copies of all written recommendations are sent to the Secretary of State at the time they are made.

16. Where an auditor has made a written recommendation, paragraph 5 of Schedule 7 requires it to be considered by a meeting of the authority within one month of the day on which it was sent to the authority. When considering the recommendation, the authority must decide (a) whether or not the recommendation is to be accepted and (b) what, if any, action to take in response to the recommendation. The authority must notify the auditor of those decisions as soon as is practicable and publish a notice that summarises those decisions and has been approved by the auditor on its website.

17. As the external auditors have made two statutory recommendations, this report will need to be considered by Full Council on 12 February 2025 for a decision on whether to accept the statutory recommendations and what action to take in response to them.



## Background Papers

- Grant Thornton, Somerset Council Interim Auditor's Annual Report for the year ended 31 March 2024.

## Appendices

- None

## Report assurance checklist ahead of report publication. (for Audit, Executive, Full Council and Scrutiny Committees)

	Officer Name	Date Completed
Legal & Governance Implications	Jill Byron	20 January 2025
	Scott Wooldridge	22 January 2025
Finance & Procurement	Nicola Hix	22 January 2025
Workforce (*)	Dawn Bettridge	Not applicable
Asset Management (*)	Simon Lewis	Not applicable
Executive Director	Maria G Christofi	22 January 2025
Executive Lead Member	Cllr Liz Leyshon	22 January 2025
<b>Consulted:</b>	Councillor Name	
Local Division Members	List local members	Not applicable
Opposition Spokesperson(s)	Cllr Diogo Rodrigues	23 January 2025
Relevant Scrutiny Chair(s)	Relevant Chair	Not applicable