Auditor's Annual Report on Somerset County Council and Somerset Pension Fund

2021/22

November 2022

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

During 2021/22 the Council has continued to feel the impact of the pandemic with regards to reductions in income, increasing demand for services, and on the delivery of the capital programme. Despite financial and operational challenges, the Council delivered a £4.1m surplus for the year. The Secretary of State issued his decision to implement the "One Somerset" proposal for local government reorganisation on 21 July 2021. From 1 April 2023 there will be a single tier of local government in Somerset, with the existing four district councils and Somerset County Council merging to form Somerset Council. Increasingly the Council's financial and service planning is now focused on a successful transition to the new authority.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk identified with regard to delivery of the financial plan.	No significant weaknesses in arrangements identified, but two improvement recommendations made.	No significant weaknesses in arrangements identified, but four improvement recommendations made.	↓
Governance	Risk identified with regard to arrangements for transition to the new unitary council.	No significant weaknesses in arrangements identified, but one improvement recommendation made.	No significant weaknesses in arrangements identified, but two improvement recommendations made.	↓
Improving economy, efficiency and effectiveness	No risk identified.	No significant weaknesses in arrangements identified, but three improvement recommendations made.	No significant weaknesses in arrangements identified, but three improvement recommendations made.	↔

- (Green) No significant weaknesses in arrangements identified or improvement recommendation made.
- (Amber) No significant weaknesses in arrangements identified, but improvement recommendations made.
- (Red) Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

Overall we are satisfied that the Council had appropriate arrangements in place to manage the financial resilience risks it faced with regard to budget setting and the medium term financial plan. The Council has a good track record for robust financial management, and delivered a £4.1m surplus for 2021/22. We have carried out additional work to review the arrangements in place to support a successful transition to the new unitary council and to deliver the medium term financial plan. We have not identified any significant weaknesses in arrangements, but have identified opportunities for improvement. Specifically:

- continuing to develop mitigating actions to address the significant budget deficit forecast for 2022/23;
- review the minimum revenue provision charge for 2022/23 in order to ensure that it reflects current guidance and provides a prudent provision on an annual basis;
- working with the four district councils to develop a cash flow model for Somerset Council;
- addressing key 2023/24 budget risks relating to commercial property, capital financing, reserves, and savings.

Governance

We have not identified any areas of significant weakness in the Council's governance arrangements with regard to managing risk, setting ethical standards, internal control and decision making. We have carried out additional work to review the arrangements in place to support a successful transition to the new unitary council. We have made improvement recommendations with regard to:

- developing a risk management process for Somerset Council;
- ensuring adequate resources are allocated to the planning and delivery of service transformation,

Improving economy, efficiency and effectiveness

We have not identified any areas of significant weakness in arrangements with regard to improving economy, efficiency and effectiveness. We have made improvement recommendations that the Council should:

- consider previous external and internal audit recommendations when developing the Procurement Strategy and commissioning arrangements for the new unitary council;
- publish the decision to extend contracts in a timely manner through the contracts register;
- continue to focus on reducing the number and value of procurement breaches and waivers.

Our work is substantially complete and we anticipate to issue an unqualified audit opinion. Our Audit Findings Report summarising our findings will be presented to the Audit Committee on 24 November 2022.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22	Our work is substantially complete and we anticipate to issue an unqualified audit opinion. Our Audit Findings Report summarising our findings will be presented to the Audit Committee on 24 November 2022. Our findings are set out in further detail on page 36.
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not issue a statutory recommendation.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not apply for an application to the court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue an advisory notice.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not apply for judicial review.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 33. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Outturn 2021/22

The 2021/22 General Fund (GF) outturn position was a £4.1m surplus against the £359.6m net budget. Cost pressures within Children's Services relating to external placements and transport for children with special educational needs and disabilities (SEND) were offset by underspends within Economic and Community Infrastructure, reduced corporate financing costs, and the corporate contingency fund.

The surplus was allocated to the General Fund Reserve in order to increase the Council's financial resilience.

The Council incurred capital expenditure of £79.5m against an annual budget of £130.6m, with most of the slippage reprofiled into future years. A number of factors contributed to the capital underspend, including the impact of Covid-19, the complexity of large infrastructure projects, and cost reprofiling as detailed delivery plans were developed. Capital expenditure supported corporate priorities and asset maintenance, with the main areas of spend relating to schools, major highways projects, and the Taunton Digital Innovation Centre.

The outturn position for 2021/22 does not identify any risk of significant weakness in the Council's financial management arrangements, although we have made an improvement recommendation in the Capital Strategy section of this report in relation to minimum revenue provision. The Council's budget monitoring arrangements are robust, and the format of budget monitoring reports was updated during the year to reflect best practice and the requirements of the CIPFA Financial Management Code. Monthly revenue budget monitoring reports were provided to Cabinet, with more detailed quarterly reporting providing a comprehensive overview of the financial position including capital, savings, reserves and treasury management.

Budget 2022/23

The 2022/23 budget reflects the implications of the annual local government funding settlement, incorporating funding from grants such as Revenue Support Grant, Rural Services Delivery Grant, New Homes Bonus and the Social Care Grant. The impact of the funding settlement for 2022/23 is clearly set out within the budget report, along with indicative amounts for future years.

Funding within the budget also includes a 2.99% increase in council tax in accordance with referendum principles, reflecting a 1.99% core increase with a further 1% relating to the adult social care precept.

The Council has a robust organisational approach to setting the annual budget, which is based on corporate priorities. Budgets are built up based on best estimates and forecasts using a zero based approach. A budget template is used to identify additional funding requirements, savings, and additional income, and this ensures consistency in approach across the organisation.

There is good Member engagement during the budget setting process, through Portfolio Holder challenge sessions, Member budget briefings, and review of budget proposals by the Scrutiny Committee.

Financial sustainability

Revenue monitoring identifies significant pressures for the 2022/23 budget, particularly within Adult's Services due to increased demand for residential and nursing placements, and within Children's Services due to external placements. Rapidly increasing inflation is also having a significant impact upon the Council's budget, a theme common across all public sector organisations.

An action plan to address the potential overspend was set out in the Month 3 Budget Monitoring Report, including Director challenge sessions, vacancy control, reduction of discretionary spend, and a focus on the variances in Adults and Children's Services. The forecast overspend reported at Month 4 was £23.9m, with the Month 5 position showing a slightly improved position of £22m following implementation of the action plan.

We have made an improvement recommendation that the Council should continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23. This is particularly important to ensure that the new Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023.

Medium term financial plan (MTFP)

Financial planning across local government is made more difficult due to the uncertainty created from annual finance settlements and the delay to funding reforms such as the fair funding review, social care reform and the business rate reset. Despite this uncertainty, our review of the Council's financial planning process indicates that it is based on realistic assumptions and arrangements are robust.

Financial planning assumptions are set out and updated through the Medium Term Financial Strategy and Plan Reports considered by Members in October 2021, January 2022 and February 2022 as part of the budget setting process. Assumptions include treatment of key expenditure drivers such as the pay award, inflation, and demographic and demand changes which are particularly acute in Adult's and Children's Services. The level of inflation currently experienced within the 2022/23 budget would have been difficult to predict, but demonstrates the value of sensitivity analysis for key budget assumptions.

Medium term financial planning includes assumptions for key funding streams, such as the cessation of New Homes Bonus, and freezes to other grants such as the Social Care Grant, Service Grant and Rural Service Delivery Grant from 2023/24. Forecasts assume no increase to the Better Care Fund or Public Health Grant.

Financial planning recognises the uncertainty and risk associated with government funding, with the fair funding review and business rate reset now expected to be delayed beyond 2023/24.

The Council has a good track record of delivering planned savings, with £5.6m of savings delivered in 2021/22 against a target of £7m, and £7.5m of savings delivered in 2020/21 compared to the £8.9m target. Achievement of planned savings is monitored and reported through the detailed quarterly budget reports. The 2022/23 budget includes £5m of savings, with £0.8m achieved and £3m on track as at the end of Month 3 (June 2022). Directors are expected to ensure that services deliver on the savings put forward in the MTFP, or find alternative savings proposals to offset them.

Local government reorganisation (LGR) in Somerset, with the creation of Somerset Council on 1 April 2023, is the strategic response to protecting services and providing financial sustainability over the medium term. The business case for the One Somerset proposal was approved by the Secretary of State and identified that recurring annual savings of £18.5m could be delivered, based on one-off implementation costs of £16.5m. Financial planning has now switched focus from balancing the budget gaps of individual sovereign councils, to identifying the budget gap for the new unitary council and addressing this through LGR and transformation savings.

The Medium Term Financial Plan and Budget 2022/23 Report, approved by Council in February 2022, provided the first estimate of the budget gap facing Somerset Council by amalgamating the position for the five existing Councils. This identified a budget gap of £28.5m for 2023/24. This position was updated though the Medium Term Financial Strategy and Plan 2023/24 – 2027/28 considered by Executive in July 2022. This update identified a £44.5m gap due to the impact of inflation on budgets during 2022/23.

A further MTFP update was provided to Executive in November 2022, following detailed work on the budget being carried out. The revised budget gap for 2023/24 was forecast at £74.2m. This reduces to a net gap of £38.2m after taking into account £27.8m of identified savings and an assumption that the cost of social care reform will be fully funded (£8.2m).

The July Medium Term Financial Plan set out the approach to developing a balanced budget for 2023/24, which includes the potential use of reserves to smooth budgets while LGR savings are delivered, and a review of all existing council's 2021/22 outturn positions to

Financial sustainability

build in any permanent underspends. The report sets out a framework for developing options to balance the budget, including efficiency savings, service level reviews, alternative service delivery, and income generation.

Somerset Council: Medium Term Financial Plan Position 2023/24	
	Budget Gap £m
Position as at February 2022: Mendip DC Sedgemoor DC South Somerset DC Somerset West and Taunton Council Somerset County Council	 1.9 2.8 4.5 5.2 14.2
Total Budget Gap February 2022:	**28.6**
July MTFP Updates: Somerset County Council Month 2 Assumed inflation for Districts	 14.4 1.5
Total Budget Gap July MTFP:	**44.5**
November MTFP Updates: Increase in budge gap following detailed work	 29.7
Total Budget Gap November MTFP:	**74.2**
November MTFP Updates: Savings and income generation proposals Fair cost of care fully funded	 (27.8) (8.2)
Net Budget Gap November MTFP:	**38.2**

The November 2022 MTFP update recognises that the strategy of using reserves in the short term and the delivery of savings relating to LGR are not going to be sufficient to balance the 2023/24 budget. Members were asked to endorse further action, including discussions with the Government regarding a potential capitalisation directive to fund revenue costs, identifying service cuts, and reviewing the capital programme, in order to close the budget gap.

We identified financial sustainability and delivery of the financial plan as a risk of significant weakness in the External Audit Plan 2021/22. From our review of the assumptions within the 2022/23 budget and medium term financial planning to November 2022, we are satisfied that the Council has robust financial planning processes in place and that planning is based on reasonable assumptions.

As LGR is the primary mechanism for delivering financial sustainability in the medium term, we have carried out further detailed work on the arrangements and progress for setting the 2023/24 budget for Somerset Council. This is reported separately in the Budget Setting Arrangements 2023/24 section of this Auditor's Annual Report.

Dedicated schools grant

Somerset County Council had a cumulative deficit on the dedicated schools grant of £20.1m as at 31 March 2022, which is projected to increase by a further £5.9m during 2022/23.

The Council has a deficit management plan which has been approved by the Schools Forum and submitted to the Education and Skills Funding Agency. Priorities for addressing the deficit include reducing the subsidy for schools commissioning non-statutory SEND support, and early intervention to ensure the sufficiency of special educational provision. A key element to reduce the deficit is the provision of 436 additional special school places delivered through the capital programme.

Key performance indicators, goals and milestones are identified to measure the impact of the plan, which aims to have reduced the in-year deficit by 2023/24. Progress has however been slowed by delays in the building of a free school by the Department for Education due to the impact of the pandemic, and through an inadequate Ofsted rating for a school that was part of the expansion programme.

Financial sustainability

The Council is working with the Department for Education through the Delivering Better Value in SEND Programme that provides dedicated support and funding to authorities with substantial deficit issues. Work is also underway with an external consultant to strengthen early intervention and improve information on key demand, cost and performance metrics.

Therefore the Council can demonstrate that it has adequate arrangements in place to address the annual deficit on the dedicated schools grant.

Capital strategy and treasury management

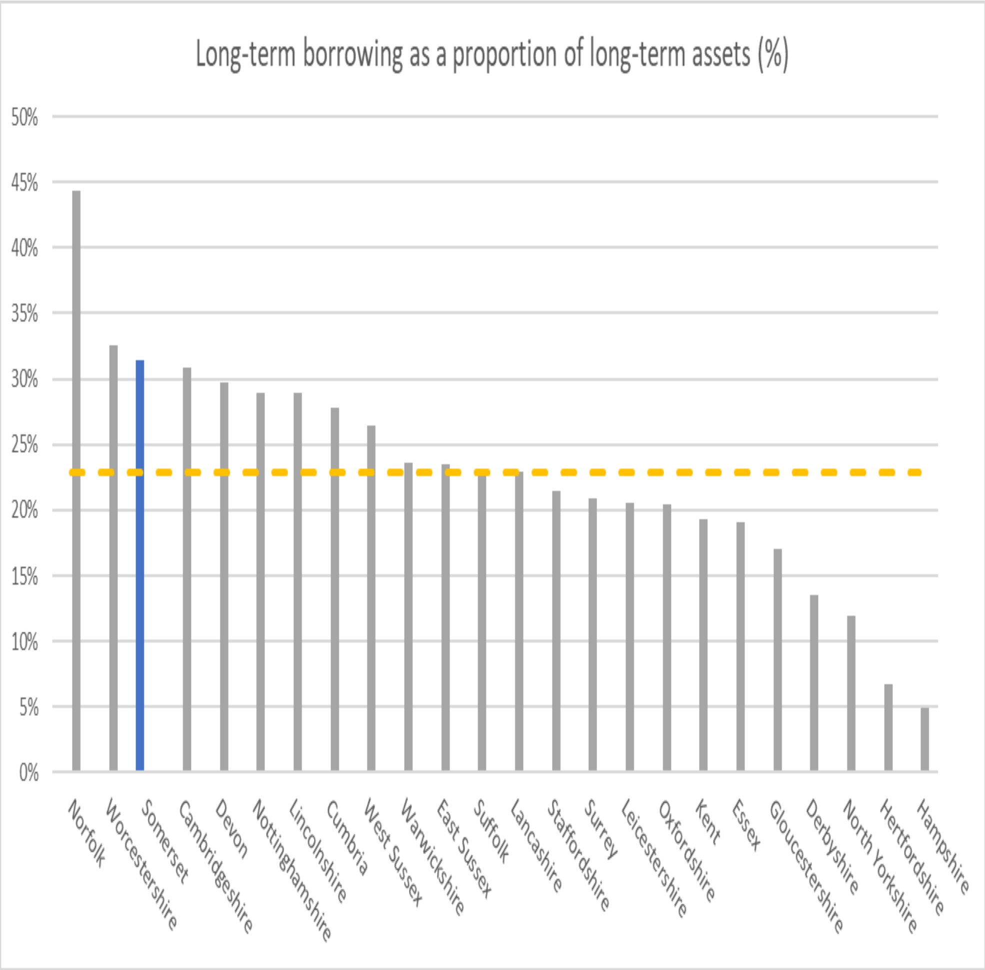
In February 2022 the Council approved a total capital programme of £180.3m for the period to 2025/26, of which 44% (£79m) is funded from borrowing. The Council's capital financing requirement has increased significantly in recent years, from £366.1m as at 31 March 2018 to £471.8m by 31 March 2022, reflecting the amount of historic capital expenditure that has been funded through borrowing.

Somerset County Council has high levels of debt in comparison to other county council peers, ranking 3rd for borrowing as a proportion of long term assets as demonstrated by the graph opposite. It is important that the capital financing requirement and corresponding debt levels are managed to ensure they remain affordable, particularly as interest rates are rising.

The Council recognises that the affordability of the capital programme is a risk to financial performance and keeps the programme and funding position under review. Monthly revenue monitoring reports include a commentary on the impact of the capital programme on borrowing costs. The capital programme is currently being examined to identify schemes that can be paused or reprofiled in response to the adverse revenue forecast for 2022/23 and in preparation for local government reorganisation.

The capital programme, financing and costs is recognised as a key area in the construction of the budget for the new unitary council, and is further considered in the Budget Setting Arrangements 2023/24 section of this Auditor's Annual Report.

The annual budget and medium term financial planning reflect the Council's current assumptions for financing costs associated with borrowing. Interest costs are forecast to be £16.1m, and principal repayments £6.8m by 2024/25.



Financial sustainability

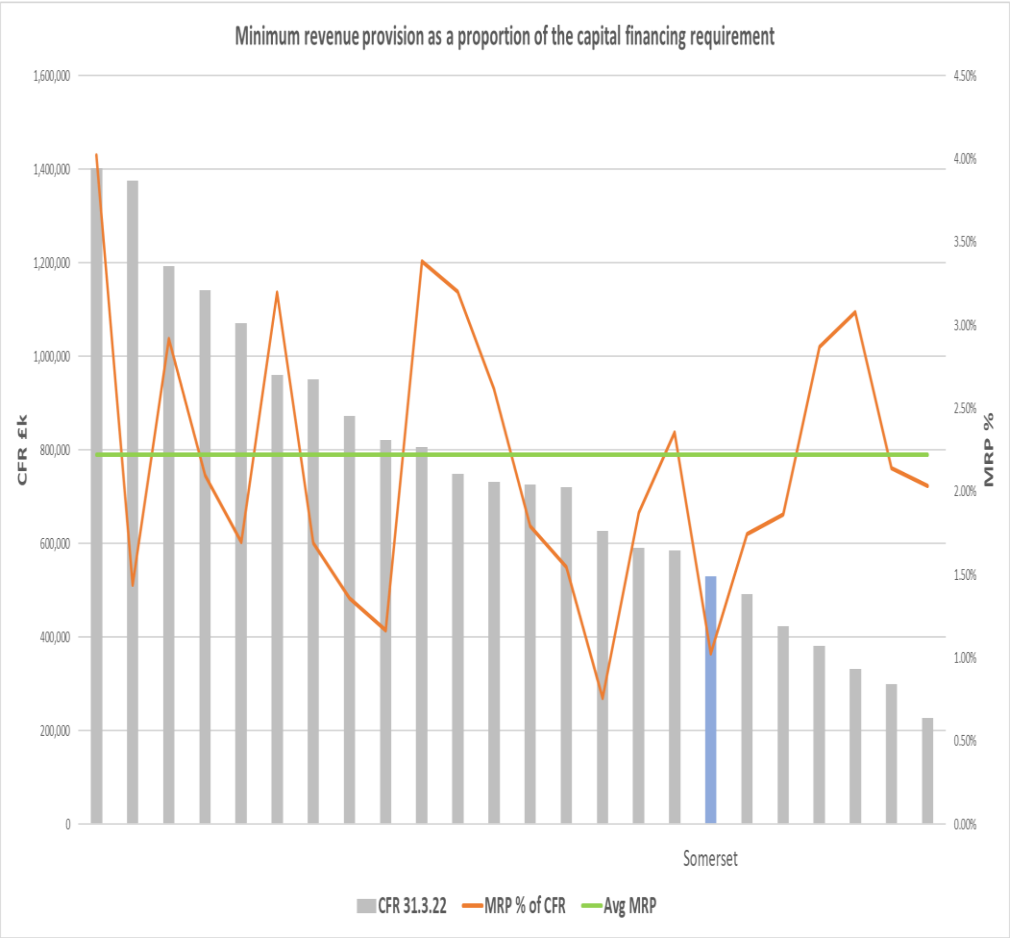
The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils. This is demonstrated in the graph opposite, which shows that Somerset County Council has the second lowest MRP charge as a proportion of its CFR in comparison to other county councils.

The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR and is in line with the average charge for all county councils shown in the graph. Somerset County Council's MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.

Based on a 2% MRP charge on the Council's CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22. We understand that the Council is reviewing the MRP Policy for 2023/24 as part of the transition to the new unitary authority. We have made an improvement recommendation that the Council should also review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period.

Somerset County Council utilises its treasury management software to manage cash flow, and we are not aware that any liquidity issues were experienced for 2021/22. We have made an improvement recommendation that in preparation for vesting day for the new unitary council, and once the development of the 2023/24 budgets is sufficiently progressed, Somerset County Council should work with the four district councils to develop a cash flow model for Somerset Council. This will ensure that sufficient liquidity is available from vesting day to provide services and make revenue and capital payments.

We have not found any significant weaknesses in the Council's arrangements for managing the capital strategy and treasury management, but have identified an improvement recommendation to ensure that the MRP charge is calculated on a prudent basis.



Financial sustainability

Reserves and risk mitigation

Risks are clearly set out within financial reports. The Medium Term Financial Plan and Budget 2022/23 Report contains the Chief Finance Officer's (CFO) report on the robustness of the budget and the adequacy of reserves. The narrative is comprehensive and confirms the budget process, sources of assurance and the main financial risks within the budget, including Covid-19, inflation, and government policy changes. The high levels of inflation currently experienced by all public services demonstrates the need to identify such risks within the budget and ensure mitigation measures are identified.

As part of the budget process each Director completes a statement which outlines their confidence levels in the budget and in the delivery of transformation, savings and income generation proposals. These form a corporate wide assessment of financial risk within the budget which informs the calculation for the minimum prudent level of GF balances.

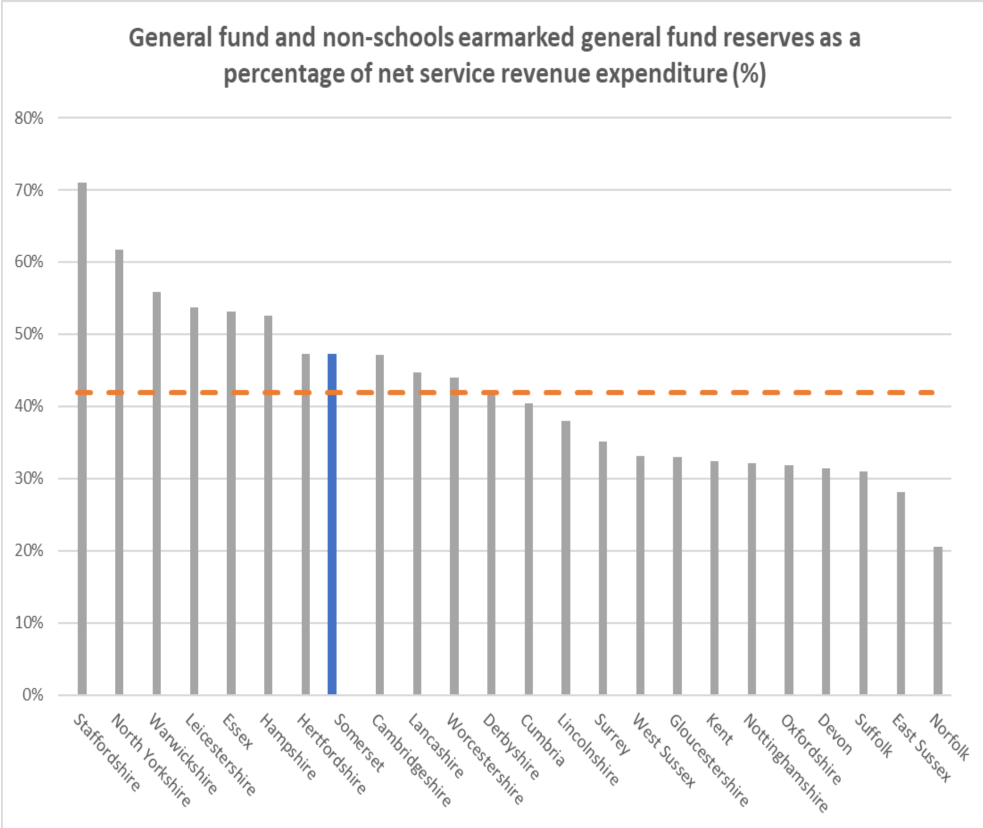
The prudent range of GF balances calculated as part of the 2022/23 budget process is between £20m - £30m. The actual level of GF reserves as at 31 March 2022 was £27.1m, an increase of £4.1m during the year. This represents 7% of the net budget for 2022/23 and so is within the CIPFA benchmark of 5%-10%.

The Council also has other earmarked reserves that increase financial resilience. Earmarked resilience reserves increased by £12.2m during 2021/22, totalling £44.9m at 31 March 2022. Resilience reserves include the Funding Volatility Reserve and Budget Equalisation Reserve.

The Council has improved its reserve position over recent years as underspends against the annual budget have been delivered, and this reflects stronger financial management resulting in improved financial resilience. SCC held earmarked reserves of £97.1m at 1 April 2021, increasing to £159.1m as at 31 March 2022. Using data from the 2021/22 statement of accounts, the total level of GF and earmarked reserves that SCC holds as a proportion of the net cost of services in comparison to other county councils demonstrates that the Council is not an outlier, and at 47% is above the average of 42%.

The revenue budget for 2022/23 also includes a £6m contingency which reflects the level of risk associated with the budget, some of which is likely to be utilised for the higher pay award offer than was forecast in the budget.

From our work we have found that the Council has adequate arrangements in place to mitigate risk, and reserve balances are increasing. As previously noted, we have made an improvement recommendation that the Council should continue to manage the significant budget deficit forecast for 2022/23 in order to ensure that the new Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023.



Financial sustainability

Local government reorganisation – budget setting arrangements 2023/24

We identified in the External Audit Plan 2021/22 that there is a risk of significant weakness with regards to the arrangements in place to support a successful transition to the new unitary council and also in relation to the delivery of the financial plan. In response to these risks we have undertaken additional work to assess the progress made across key financial LGR workstreams.

The LGR risk register recognises the budget gap for Somerset Council in 2023/24 as one of the highest risks to the LGR programme. The budget gap for the first year of the new Council's existence is forecast at £74.2m in the November 2022 MTFP update. This reduces to a net gap of £38.2m after taking into account £27.8m of identified savings and an assumption that the cost of social care reform will be fully funded (£8.2m).

There is a robust process in place for delivering a balanced budget for 2023/24. The financial standing of the new council has been a key focus since the decision from the Secretary of State to implement LGR in July 2021. As part of the 2022/23 budget process, existing councils in Somerset agreed a voluntary Finance and Assets Protocol to ensure that legacy council decisions did not have an adverse impact on Somerset Council and that new financial commitments over agreed thresholds would not be entered into.

In February 2022 the LGR Joint Committee considered the impact of key elements of the existing councils' 2022/23 budget proposals on Somerset Council. Key areas include revenue and capital budgets, reserves, commercial investments and treasury management.

Executive approved the Somerset Council MTFP in July 2022. This set out the high level strategy for delivering a balanced budget, including efficiency savings, reviewing service levels, alternative service delivery, asset management and income generation.

Work is well underway to refine the budget for 2023/24 through reviewing the staffing establishment, developing savings proposals, reviewing borrowing costs, and deep dives into services with significant cost pressures such as Children's and Adult's Services. Executive away days are programmed into the budget process to review budget issues and gain consensus on potential areas to achieve savings. These ensure that Members of the continuing authority have a good understanding of the financial challenge. A Member Budget Working Group has been created to consider specific areas of the budget, including service budgets, the capital programme and office rationalisation.

We have identified the following elements of good practice that support the 2023/24 budget setting process:

- Member engagement through Executive away days and the Budget Working Group;
- weekly budget briefings for the Executive and Senior Leadership Team;
- three full Member briefings planned for key stages during the 2023/24 budget process;
- monitoring and reporting of implementation costs against the business case;
- template developed to map 2022/23 service budgets from the existing five councils into a 2023/24 base budget for Somerset Council;
- services have been asked to develop savings plans to achieve 5%, 10% and 20% efficiency targets.

The Council will be required to approve a balanced 2023/24 budget for the new Somerset Council in February 2023. Although robust budget setting arrangements are in place, the challenge to set a balanced budget for the first year of Somerset Council is significant. From our work and discussion with key officers, we have identified several key budget risks that relate to the scale of the commercial property portfolio, the size of the capital programme, the capital financing requirement, reserves, and the level of savings required.

Somerset Council will inherit a £280m commercial property portfolio that generates gross income of £20m from the four district councils. Much of the portfolio is funded from short term debt which creates a financing risk in the current environment where interest rates are rising. In developing the 2023/24 budget and associated Treasury Management and Investment Strategies, Somerset Council's appetite for risk should be determined, including which commercial assets the Council wishes to retain. The approach to financing commercial assets and mechanisms for mitigating risk if commercial returns are less than planned should also be determined. The new authority should ensure it complies with the CIPFA Prudential Code, which confirms that capital investment purely for yield is not prudent activity, and requires councils with a capital financing requirement to review options for exiting commercial investments.

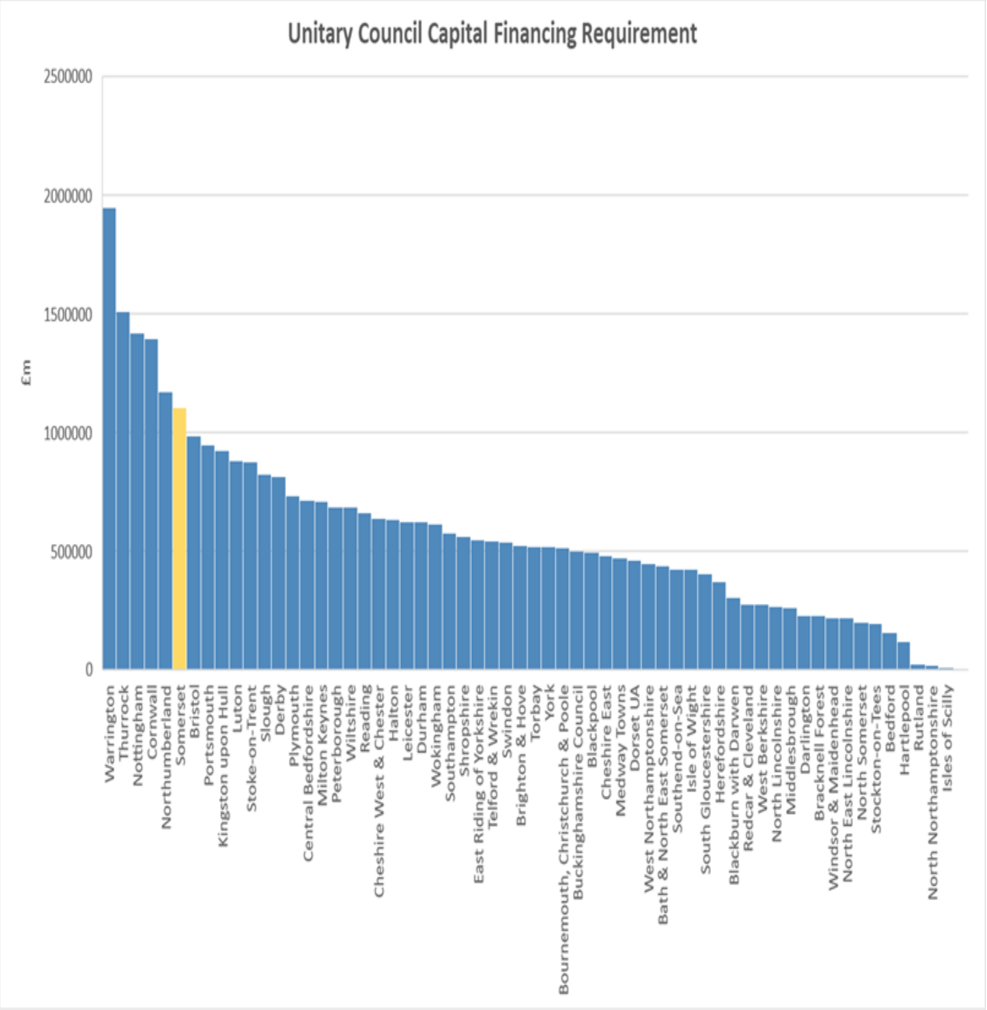
Financial sustainability

Somerset Council will also inherit a significant capital financing requirement (CFR) from the five predecessor authorities. Analysis of the CIPFA capital estimate returns for 2021/22 shows that Somerset Council would have a combined CFR of £1.1bn as at 31 March 2022.

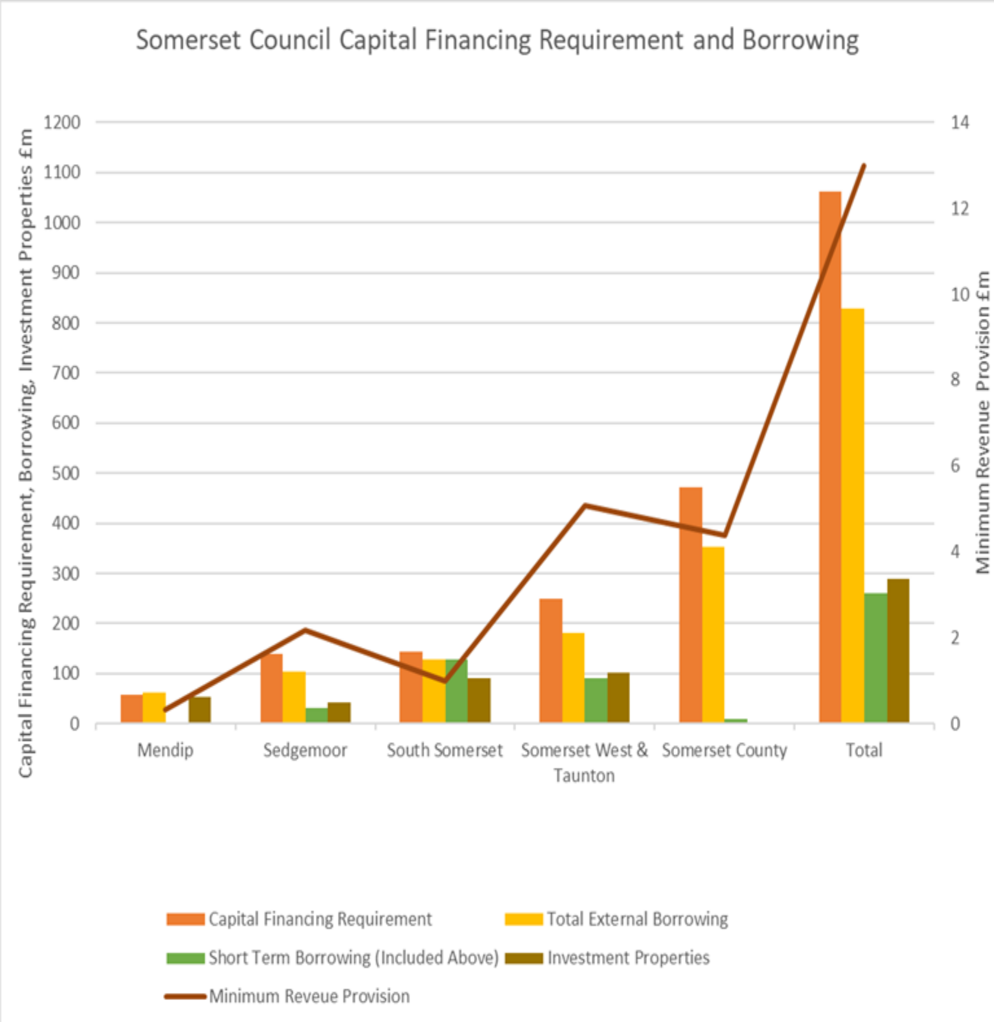
This would be the sixth highest CFR in England when compared to all other unitary authorities as demonstrated in the graph overleaf. The external debt levels associated with this CFR are approximately £780m, with significant amounts of short term debt that will need refinancing over the next three years. Associated interest costs are estimated at £31m per annum, with MRP charges of £13m.

Therefore a key element to setting a balanced and sustainable budget for Somerset Council will be to agree a borrowing strategy that manages the risk of rising interest rates and ensures that the cost of borrowing is affordable, while MRP remains prudent. Using data from the draft 2021/22 accounts, the combined impact of amalgamating the CFR, borrowing and commercial property portfolio of the five predecessor councils is demonstrated in the graph on page 15.

Ensuring the affordability of borrowing is also dependent on the size of the ongoing capital programme. The combined capital programme of the five legacy councils is approximately £405m and requires £154m of borrowing to fund expenditure, which will further increase Somerset Council's CFR. Increasing costs on capital works due to supply chain issues, inflation, increasing demand and rising interest rates creates a financial risk that capital budgets previously approved will not be sufficient. Work is underway to review the combined capital programme to identify schemes that could be stopped or paused to mitigate financial risk.



Financial sustainability



Having sufficient levels of useable reserves will be critical to the financial sustainability of Somerset Council. Reserves may be required to fund ongoing transformation costs in order to achieve the savings required to balance the budget gap identified in the MTFP. It is possible that reserves will need to be used to balance annual budgets in the short term while ongoing savings are delivered. Reserves should only be used to fund short term budget gaps when there is a robust savings plan supported by a business case to deliver financial sustainability.

Therefore a reserves strategy should be approved which identifies and earmarks the level of reserves required for transformation and to smooth budget gaps, while maintaining an adequate General Fund balance to mitigate budget risk. In order to protect the level of reserves available to Somerset Council, sovereign councils should implement actions to reduce in-year budget overspends during 2022/23, currently estimated at £23.6m in total.

Due to the scale of the budget gap identified for 2023/24, the November 2022 MTFP update acknowledges that additional savings will need to be identified that are not part of the LGR programme or transformation. Additional actions are identified to balance the budget, which include the identification of service reductions. Work should be undertaken to identify potential areas for service efficiency that can be implemented within a short timescale in order to balance the 2023/24 budget.

In conclusion, we have identified that there is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge. We have made an improvement recommendation that as part of the budget process for 2023/24, the following key budget risks should be addressed:

- continue progress in identifying potential service efficiencies that are not part of the LGR programme;
- determining the approach for holding, financing and mitigating the risk relating to commercial property investments;
- managing the capital financing requirement and approving a borrowing strategy that ensures the affordability of borrowing;
- reviewing the future capital programme to manage financial risk with regards to scheme cost and associated borrowing costs; and
- ensuring the level of reserves is adequate to fund transformation and mitigate risk.

Improvement recommendations

Financial sustainability

Recommendation 1	The Council should continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23.
Why/impact	Reducing the overspend and protecting reserves is particularly important to ensure that the new Somerset Council has sufficient reserves to mitigate financial risk and fund transformation from 1 April 2023.
Summary findings	Revenue monitoring identifies significant pressures to the 2022/23 budget, particularly within Adult's Services due to increased demand for residential and nursing placements, and within Children's Services due to external placements. Rapidly increasing inflation is also having a significant impact upon the Council's budget. An action plan to address the potential overspend was set out in the Month 3 Budget Monitoring Report. The forecast overspend reported at Month 5 was £22m.
Management Comments	The Council will develop and implement mitigating actions to address the budget deficit forecasted for 2022/23.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability

Recommendation 2	the Council should review the minimum revenue provision charge for 2022/23 in order to ensure that it reflects current guidance and provides a prudent provision on an annual basis.
Why/impact	Based on a 2% MRP charge on the Council's CFR, we have extrapolated that prudent MRP would be in the region of £9.4m, and so the Council is underproviding MRP by an estimated £5m for 2021/22.
Summary findings	The Council provided for £4.4m of MRP in 2021/22 against a CFR of £471.8m. This represents 0.9% revenue provision compared to an average of 2.2% for all county councils. The Statutory Guidance on Minimum Revenue Provision confirms that useful asset lives, which are used in order to calculate a prudent MRP charge, should not normally exceed 50 years. This would equate to an MRP charge of 2% of the CFR. Somerset County Council's MRP charge of 0.9% of the CFR represents an average useful asset life closer to 111 years. In our view this is not a prudent MRP charge and is not calculated on the basis of the period the underlying assets are likely to provide service benefits to the Council.
Management Comments	The Council will review the MRP charge for 2022/23. A new MRP policy from 2023/24 is being considered.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability

Recommendation 3	Somerset County Council should work with the four district councils to develop a cash flow model for Somerset Council.
Why/impact	Developing a cash flow model for the new council will ensure that sufficient liquidity is available from vesting day to provide services and make revenue and capital payments.
Summary findings	Somerset County Council utilises its treasury management software to manage cash flow. Once the development of the 2023/24 budgets for Somerset Council is sufficiently progressed, a cash flow model should be developed for the new unitary council.
Management Comments	The Treasury Management Workstream will be reviewing the current 5 authorities cash flow forecasts to build a model for Somerset Council before vesting day.

The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations

Financial sustainability

Recommendation 4

As part of the budget process for 2023/24 the following key budget risks should be addressed:

- continue progress in identifying potential service efficiencies that are not part of the LGR programme;
- determining the approach for holding, financing and mitigating the risk relating to commercial property investments;
- managing the capital financing requirement and setting a borrowing strategy that ensures the affordability of borrowing;
- reviewing the future capital programme to manage financial risk with regards to scheme cost and associated borrowing costs; and
- ensuring the level of reserves is adequate to fund transformation and mitigate risk.

Why/impact

Somerset County Council will be required to set a balanced budget for the new authority in February 2023. The ongoing provision of services will depend on the financial sustainability of the new council.

Summary findings

The challenge to set a balanced budget for the first year of Somerset Council is significant, with a savings target of £44.5m identified. We have identified several key budget key risks that relate to the scale of the commercial property portfolio, the size of the capital programme, the capital financing requirement, reserves, and the level of savings required.

Management Comments

The Council will consider the risks identified above as part of the 2023/24 budget process.

The range of recommendations that external auditors can make is explained in Appendix C.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Risk management

The Council has a Risk Management Pathway in place that includes the Risk Management Strategy, Policy and Process. These pathways set out the corporate approach to risk management, roles and responsibilities, and provide guidance on the identification, assessment and monitoring of risk.

The Strategic Risk Management Group meets monthly, chaired by a Corporate Director and has attendees from risk management functions from across the council, along with representatives from services. The Group has an assurance role in establishing compliance with the Risk Management Strategy and escalates risks that are beyond approved tolerances to the Senior Leadership Team for management action. The Strategic Risk Management Group review at least two strategic risks at each monthly meeting.

The Audit Committee receives Risk Management Update Reports twice a year. These updates include the strategic risk register which contains most of the areas of best practice we would expect. This includes risk description, cause, consequence, RAG rated risk scores, review dates, risk owner and control measures. Only strategic risks are reported, with the January 2022 risk register focusing on seven risks, thus allowing for detailed consideration of key risks by the Audit Committee. We note however that the risks within the risk register are not mapped to corporate priorities.

Internal audit carried out a follow up review of risk management in 2021/22, in response to the limited assurance opinion provided for the 2019/20 audit. Several actions were still not complete, including setting a risk appetite, ensuring consistency in recording risk, training, and timely review of operational risk. It was determined that a full audit of risk management was required as part of a larger review of the arrangements at all Somerset councils in preparation for LGR.

From our work we have not identified any significant weaknesses in the Council's risk management arrangements. We have made an improvement recommendation that as part of the work to transition to the new unitary council, a risk management process should be developed that addresses the recommendations made by internal audit. The risks within the unitary council strategic risk register should also be mapped to corporate priorities to ensure that their impact on achieving these priorities is understood.

Internal audit and internal control

The Council has an effective internal audit function that is delivered through the South West Audit Partnership (SWAP). The Audit Committee approve the annual internal audit plan which is based on a risk assessment and is linked to corporate objectives, while ensuring that key financial systems are also reviewed. The Audit Committee receive internal audit updates at each meeting which provide a summary of performance against the plan and additional detail where limited assurance opinions are provided.

Governance

Internal audit completed 98% of the 2021/22 audit plan to final, draft or discussion reporting stage, and provided a reasonable assurance annual audit opinion for the year.

During 2021/22 the Council appointed an independent Member to the Audit Committee in response to CIPFA guidance and recommendations from the Redmond Review of local audit. As part of establishing the democratic arrangements for the new unitary Council, we understand that consideration will be given to the need for two independent Members of the Audit Committee. From our attendance at Audit Committee we have observed a good level of challenge that demonstrates an effective Committee is in place.

Adequate arrangements are in place for the prevention and detection of fraud and corruption. The Audit Committee undertook the annual review of the Council's Anti-Fraud and Corruption Policy and associated policies in July 2021. The Council also has a Whistle Blowing Policy which is available on the website and details how to raise concerns around fraud and how the Council will respond.

Review of the Annual Governance Statement (AGS) 2021/22 does not highlight any significant weaknesses in governance arrangements. Progress is noted against 2020/21 actions with regard to financial planning, local government reorganisation, Covid-19 and the integrated care system. Progress noted in the AGS is in accordance with our understanding from the work we have undertaken. We acknowledge that the Council has a good approach to identifying where improvements to arrangements are required, and is open and transparent in reporting these. Issues to address in 2022/23 relate to:

- development of a balanced budget for 2023/24;
- local government reorganisation;
- Covid-19 recovery, addressing health and social inequalities;
- development of the integrated care system;
- SEND improvement plan;
- organisational capacity and resilience.

Our value for money work has not identified any risk of significant weakness in these areas. We have identified improvement recommendations following our detailed review of the budget setting arrangements for 2023/24, and the governance arrangements for the transition to the new unitary council.

We have not identified any risk of significant weakness with regard to arrangements for internal audit and internal control. The Council has appropriate arrangements in place.

Informed decision making and compliance with regulatory standards

Arrangements are in place to ensure that relevant information is provided to decision makers before major decisions are made. These arrangements include:

- reports to Council and Cabinet require sign off from the relevant finance, legal and service officers before they are considered by Members;
- Scrutiny Committees provide for challenge on decisions, policies and performance during the year;
- the Constitution includes the principles of decision making and the rules, codes and protocols that govern how the Council operates, including Financial Regulations and the Scheme of Delegation;
- the Constitution sets out the functions of the statutory posts of Head of Paid Service, Monitoring Officer and the Section 151 Officer, including providing advice to Members on staff management, financial, legal and ethical governance issues; and
- Member budget briefings are held to provide assurance on the budget and ensure sufficient information is provided to enable an informed decision to be made;

The Council approved the revised Members Code of Conduct in February 2022 for incorporation into the Constitution after the May 2022 elections. The Code was reviewed as part of the LGR governance workstream in collaboration with the four district councils, with the districts also adopting the revised Code to ensure alignment during the transition to the new authority.

The Council also maintains Registers of Interest and Registers of Gifts and Hospitality for both Members and Officers.

The Governance Board tracked actions against the Healthy Organisation Governance

Governance

Scorecard during 2021/22. The Healthy Organisation review framework assesses nine corporate themes, including governance, finance, risk, performance and commissioning.

In carrying out our work and through discussions with senior officers we are not aware of any instances of decision making that is unlawful or of non-compliance with the Constitution or regulatory standards.

We have not found any significant weaknesses in the arrangements in place to ensure informed decision making or compliance with regulatory standards.

Local government reorganisation – governance arrangements

We identified in the External Audit Plan 2021/22 that there is a risk of significant weakness with regards to the arrangements in place to support a successful transition to the new Somerset Council on 1 April 2023. In response to this risk we have undertaken additional work to assess the programme's governance arrangements.

Governance structures to manage and oversee the LGR programme were established following the decision of the Secretary of State in July 2021, and have adapted as the LGR programme developed. Arrangements are in place to support democratic decision making and ensure adequate Member oversight. Initially an LGR Joint Committee was established as a collaborative committee to oversee the LGR implementation plan, with membership including the Leaders of all five sovereign councils in Somerset. Following the Structural Changes Order, the Joint Committee was replaced by the LGR Implementation Executive that maintained the same membership, and was created to ensure the efficient and timely transition to the new council.

As Somerset County Council (SCC) is the continuing authority, since the May 2022 elections the SCC Executive became the decision making Member body responsible for the implementation of local government reorganisation. In order to maintain a collaborative approach and appropriate Member oversight, the SCC Executive is supported by the Implementation Board made up of the Leaders or relevant portfolio holders from the four districts and five SCC Members, including the Leader and Leader of the Opposition. The Implementation Board oversees and reviews the implementation plan and provides advice and recommendations to Executive as appropriate. The Implementation Board meets regularly to review programme update reports, the risk register and assurance reports from PwC.

There are additional layers of governance in place. The LGR Programme Board includes the Chief Executives from the existing five councils and the SCC S151 Officer and Monitoring Officer, and reports to the Implementation Board. The Programme Board makes decisions relating to the six LGR workstreams, who are supported by a Programme Steering Group and Programme Management Office (PMO).

There is a detailed Implementation Plan that sets out the strategic objectives and key deliverables of the programme. There are three phases to the plan, with products essential to be delivered to achieve a safe and legal vesting day (T1), products that are desirable for vesting day (T2), and products to be delivered as part of transformation post vesting day (T3).

To ensure that the delivery of products and milestones is kept on track, the PMO maintains a detailed Programme Plan which combines all workstream plans. The PMO makes good use of SharePoint to provide real time monitoring of workstream delivery, and to create monthly progress reports and scorecards for the Programme and Implementation Boards. The PMO monitors workstream progress on a weekly basis and maintains an 8-week rolling plan to identify T1 products that are due for delivery. This allows for the early identification of, and mitigation for, delays to the plan.

The reliance on workstreams to deliver LGR products is a decentralised approach, which encourages collaboration, but which risks inconsistency between workstreams and inconsistency of reporting. This risk is recognised within the LGR programme and is mitigated through the weekly workstream monitoring by the PMO, monthly quality assurance sessions, change control processes, and the assignment of project managers to each workstream.

The LGR programme has good governance arrangements in place that allow for effective monitoring, timely reporting and the identification and management of risk to programme delivery. Arrangements also support a collaborative approach. Our work has identified the following examples of strong governance arrangements and good practice:

- Member oversight from all existing councils through the Implementation Board;
- LGR Joint Scrutiny Committee comprising Members from all Somerset councils;

Governance

- tiered programme governance structure allowing for escalation of decisions as required;
- county and district council workstream leads for each of the six LGR workstreams;
- a strong PMO providing project management and detailed monitoring for individual workstreams within the programme;
- arrangements in place to identify, report and mitigate risks through the LGR programme risk register which is reported to the Implementation and Programme Boards, LGR Joint Scrutiny Committee and the SCC Audit Committee;
- change control process to ensure changes to product target dates, scope, cost or benefits are agreed with the PMO;
- independent assurance provided on implementation progress, through PwC for the LGR programme and Socitm for MS Dynamics; and
- review of the governance arrangements to ensure that they remain fit for purpose and that the resources within the Programme Steering Group are best utilised.

The status of programme delivery as reported in the September Programme Update is an overall RAG rating of Amber due to some slippage and resource pressures in key areas. At that point it was reported that out of 277 T1 and T2 products, there were eight deemed at risk or off track. From discussions with officers we understand that the current position is that there are only two T1 products currently at risk. These relate to the recruitment protocol and costed service structures, and would not have a material impact on vesting day.

The greatest risks to the LGR programme identified in the risk register relate to the budget gap for 2023/24 and the loss of staff deemed essential to programme delivery. The arrangements for setting a balance budget for 2023/24 are considered in the Financial Sustainability section of this report.

Risks relating to availability of officer resources to deliver the programme are managed through the Recruitment and Mutual Aid Protocols, approved through the Implementation Plan. These seek to promote collaboration and manage resources to reduce potential redundancy costs, but also ensure individual councils have the capacity to deliver LGR. Staff are being supported through the change process through a programme of staff engagement exercises, frequently asked questions and weekly news letters. Staff surveys have also been conducted to determine engagement levels, awareness and commitment to the LGR programme.

Resources to deliver the programme are likely to remain high risk however due to the scale of the programme and necessary speed of implementation. With officers fully engaged in delivering multiple products over different workstreams, resilience is low and there could be a significant impact on the programme should key officers be absent. The programme clearly recognises this risk and mitigates it as much as possible through a strong PMO alongside staff support and engagement initiatives.

From our discussions with Chief Executives and senior officers across Somerset, it is evident that there is a strong culture of collaboration within the LGR programme. Officers and Members from all the Somerset councils are working well together in order to effect a successful transition to the new council. This is to be commended.

Local government reorganisation programmes are complex activities that often require rapid implementation due to the short timescales between Secretary of State decisions and vesting day. The programme rightly prioritises the delivery of key products that are required for vesting day to create a safe and legal council.

However, there also needs to be a focus on, and adequate resources allocated to, planning and delivering the transformation of services that is required after vesting day. Transformation is required to achieve the business case benefits relating to joining up services and collaboration, but also to help bridge the significant budget gaps the new Council will need to address over the medium term.

We have made an improvement recommendation that in order to achieve successful transformation the Council should ensure adequate resources are allocated to its planning and delivery, that business as usual activities are reviewed as required to create capacity, and that key organisational enablers such as the staff structure, target operating model and the Council Plan are approved. The Target Operating Model should provide the benchmark against which to assess the current state of services and identify priorities for service redesign. The Council Plan will determine the priorities for the new authority and how these will be delivered, again informing the level of service redesign required.

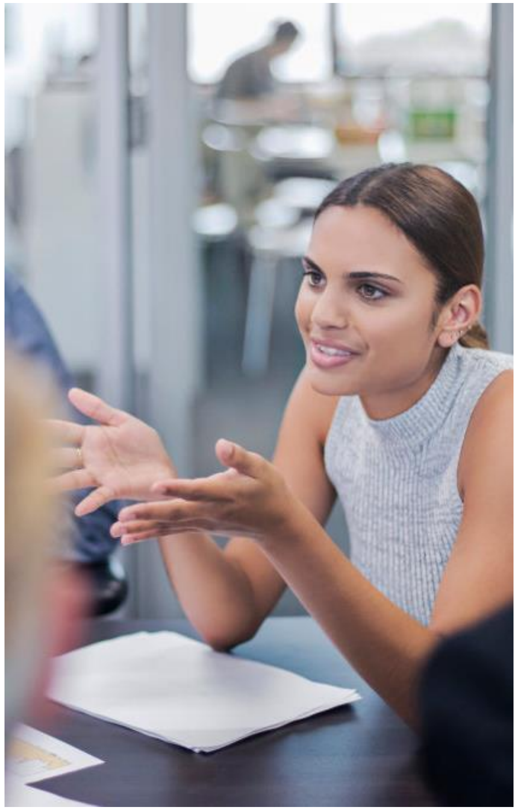
Governance

Therefore from our work we have identified that there are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified. The programme should ensure that sufficient resources are allocated to planning the transformation stage, which will be critical to realising the benefits within the business case and in balancing the budget gap identified for Somerset Council.

Improvement recommendations

Governance

Recommendation 5	A risk management process should be developed for Somerset Council that addresses the recommendations made by internal audit. The risks within the strategic risk register should also be mapped to corporate priorities.
Why/impact	The new unitary council should have a robust risk management process in place that reflects best practice from all predecessor authorities. Mapping risks to corporate priorities ensures only strategic risks are included in the strategic risk register and that their impact on achieving priorities is understood.
Summary findings	Internal audit carried out a follow up review of risk management in 2021/22, in response to the limited assurance opinion provided for the 2019/20 audit. Several actions were still not complete, including setting a risk appetite, ensuring consistency in recording risk, training, and timely review of operational risk. It was determined that a full audit of risk management was required as part of a larger review of the arrangements at all Somerset councils in preparation for LGR. Risk within the Somerset County Council risk register are not mapped to corporate priorities.
Management Comments	The Council will develop a risk management process to ensure the internal audit recommendations are addressed

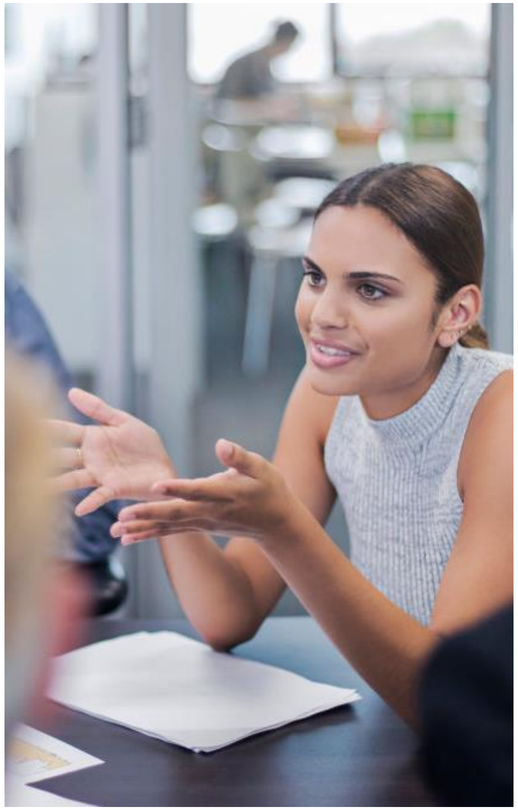


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

Recommendation 6	The Council should ensure adequate resources are allocated to the planning and delivery of transformation, that business as usual activities are reviewed as required to create capacity, and that key organisational enablers such as the staff structure, target operating model and the Council Plan are approved.
Why/impact	Transformation is required to achieve the business case benefits relating to joining up services and collaboration, but also to help bridge the significant budget gaps the new Council will need to address over the medium term.
Summary findings	The LGR programme rightly prioritises the delivery of key products that are required for vesting day to create a safe and legal council. However, there also needs to be a focus on, and adequate resources allocated to, planning and delivering the transformation of services that is required after vesting day.
Management Comments	The Council will ensure transformational and business as usual activities are adequately resourced, and key organisational enablers are approved.



The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance management

The Council Business Plan 2021-23 sets out how the Council will deliver its "Vision for Somerset" and was approved in July 2021. Performance against the outcomes and priorities set out in the Business Plan was reported during the year to Cabinet or Executive on a quarterly basis through the Corporate Performance Reports.

Corporate Performance Reports include the key activities and key performance indicators (KPIs) for each of the five outcomes within the Business Plan. Key project monitoring includes a Red/Amber/Green (RAG) risk rating and narrative describing the latest position, risks and milestones for the project. Other KPIs are data driven and include the target, RAG rating, direction of travel, comparative data and a supporting narrative. Where appropriate KPIs are supported by graphs to aid understanding of the performance trajectory over time. The Corporate Performance Reports provide a good overview of performance against key corporate priorities and contain the areas of best practice we would expect to see.

The Corporate Performance Report for Quarter 4 2021/22 identified areas of success for the year, such as the reduced number of placements in residential and nursing care, the refresh of the Covid-19 Local Outbreak Management Plan, and improving outcomes for vulnerable learners. Where there are areas of performance concern, these are highlighted in the report. The concerns identified at Quarter 4 related to packages of care, pressures on staff, and the Connecting Devon and Somerset capital project. Where performance is below target mitigating actions are identified. Overall performance for the year against the outcomes measured through the Corporate Performance Reports was good, with only three KPIs red RAG rated out of a total of 33.

Our review of the Council's arrangements for managing performance has not identified any significant areas of weakness. The Council has appropriate arrangements in place.

Children's services

Ofsted and the Care Quality Commission (CQC) wrote to the Council in April 2020, raising concerns over the implementation of SEND reforms. These concerns focused on the speed of implementation, capacity and joint commissioning. The Council and Somerset Clinical Commissioning Group responded through a joint written statement of action to address the weaknesses identified, which was approved by Ofsted and the CQC in November 2020. The Council can demonstrate that it has continued to make positive progress against the nine improvement priority areas, with progress monitored monthly through the SEND Improvement Board. Additional monitoring visits were made by the Department for Education and NHS England during the year.

The SEND Strategic Partnership was set up in September 2021 and meets monthly to bring partners together to agree local priorities and monitor performance against them. The Partnership Board is responsible for developing and overseeing Somerset's new SEND Strategy.

Improving economy, efficiency and effectiveness

Ofsted inspected Somerset local authority Children's Services in July 2022, publishing their inspection letter in September 2022. Somerset County Council was awarded 'Good' across all areas, and significant progress was noted since the last inspection in 2017.

The Council can demonstrate continued improvement with regard to Children's Services, both through progress with the SEND written statement of action and through the recent Ofsted inspection. Therefore we have found no evidence of significant weaknesses in arrangements in this area.

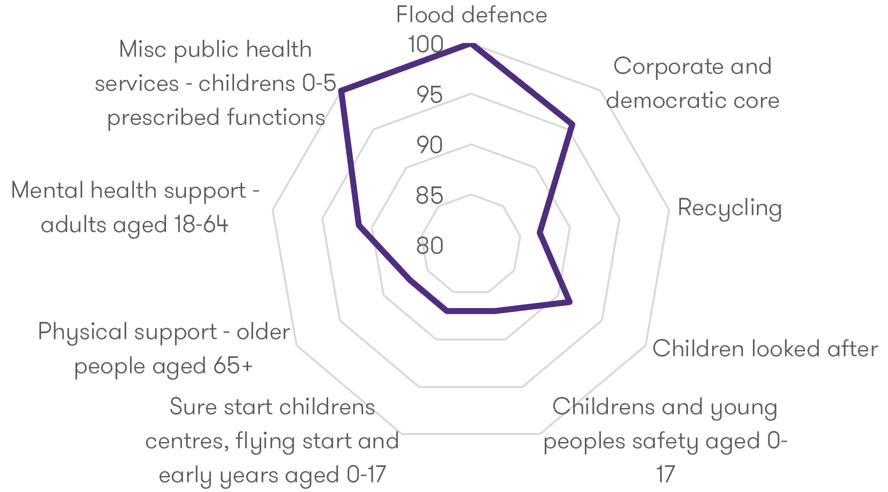
Benchmarking and learning from others

Benchmarking is an effective tool that enables an organisation to compare and analyse its performance with others. It can provide a basis for collaboration and identify areas for improvement. Somerset County Council uses benchmarking of service cost and performance were relevant.

Benchmarking was used in the recent MTFP challenge sessions for Children's and Adult's Services. Adult's Services benchmarking included performance data for demand at the front door, discharge from hospital, unmet needs, and placements in residential and nursing settings. Cost benchmarking was undertaken for spend on adult care against statistical nearest neighbours and by geographical area. Variations in demographic data between local authorities was also considered. The Children's Services benchmarking also included performance and cost analysis against statistical nearest neighbours.

We have undertaken benchmarking using our management tool 'CFO Insights' in order to compare unit costs for a range of services, identifying areas where the unit costs were very high in comparison to other county councils. These are summarised in the graph opposite and have been discussed with the finance team. No significant weaknesses in arrangements have been identified through our discussions. The Council is aware of high unit costs within Children's and Adults Services through its own benchmarking. One-off costs within other service areas are contributing to higher unit costs, for example the costs of local government reorganisation within corporate and democratic core, and the costs of rolling out Recycle More within waste collection. The finance team understand what elements are contributing to the high unit costs within public health and flood defence.

Services with very high units costs



Improving economy, efficiency and effectiveness

Very high unit costs were noted within Children's and Adult's Services which are demand led and which were subject to MTFP challenge sessions as described above. Budget pressures were noted for Children's Services social care in the 2021/22 outturn report due to the increasing number of children with complex needs coming into care and increasing costs of care. During 2021/22 the Council selected a strategic partner to run Council-owned children's homes, which will be purchased to provide additional local capacity and reduce expensive residential placements.

From our work we have not found any risk of significant weakness with regard to the Council's arrangements for benchmarking service cost and performance.

Partnership working

The Council's Business Plan recognises that working with partners and communities to deliver sustainable local services is a key priority.

We have reviewed how the Council interacts with key partners to develop meaningful actions to be delivered, and how the performance of partners is monitored and fed back to Members. The key partnerships that we have considered include:

- Health and Wellbeing Board – a statutory body for local services to work together to produce a Health and Wellbeing Strategy and oversee the local health system;
- Intermediate Care Home First – a collaborative partnership providing care services in the community to keep people independent and living at home;
- Heart of the South West Joint Committee – a strategic committee with the objectives of improving the economy and maximising economic opportunities within the area;
- Somerset Waste Partnership – a partnership of local authorities in Somerset to collect and recycle waste, contributing to climate resilience and sustainable service priorities.

The Council maintains a partnership register of statutory partnerships and those that are fundamental to the delivery of Council priorities. We identified an improvement recommendation in 2020/21 that the Council should update the partnership register to include a link to the strategic objectives to which they contribute.

From discussion with officers we understand that as part of the work to transition to the new unitary council, Somerset County Council is working with the districts to develop a partnership strategy and framework. This will include linking partnerships to the strategic objectives of the new organisation.

Therefore the Council can demonstrate that it has appropriate arrangements in place with regard to partnership working. The Council can articulate who its key partners are and can demonstrate how it works with partners to achieve corporate priorities.

Procurement and contract management

The Council has a Procurement Strategy which identifies three priorities relating to leadership, commercial behaviour, and improving lives.

The Council approved revised Contract Procedure Rules and Standing Orders in February 2022. The purpose of the Contract Procedure Rules are to provide a framework for making contracts for the supply of goods and services that ensures compliance with legislation. Contract Procedure Rules include an updated approach to assessing the most economically advantageous tender of 60% price, 30% quality and 10% social value, reflecting the Council's revised Social Value Policy.

We note that internal audit provided a limited assurance opinion for their review of the Strategic Commissioning Framework in 2021/22, recognising that the operating model is reasonable but improvements could be made in areas such as updating business plan priorities for commissioning and improving governance around the Strategic Commissioning Group. We note from discussions with officers that local government reorganisation has delayed the implementation of internal audit recommendations. The commissioning workstream is in the process of developing the approach to commissioning for the new authority, which will be part of the Target Operating Model.

We made an improvement recommendation in the Auditor's Annual Report 2020/21 that an action plan should be developed to set out how the aspirations within the Procurement Strategy will be achieved and provide a basis on which to monitor progress. This recommendation has not been actioned due to the impact of Covid-19 and also the focus of resources on local government reorganisation. An LGR workstream is considering the procurement strategy for the new unitary authority.

Improving economy, efficiency and effectiveness

We have identified an improvement recommendation that as LGR workstreams consider the Procurement Strategy and commissioning arrangements for the new unitary council, they should take into account previous external and internal audit recommendations in order to ensure the new arrangements are robust.

The Council undertook several significant procurements during 2021/22 that demonstrate that an open and competitive procurement exercise was undertaken, and that the risks and rewards of procurement options are properly considered. Examples include the procurement of the Community Equipment and Wheelchair Service and the selection of Aspire for Housing as the strategic partner to run Council-owned children's homes.

We note that in February 2022, Cabinet approved the extension of the contract for the delivery of care and support services for clients living within Extra Care Housing. The decision was subject to a public report setting out the reasons for the contract extension. The report set out the legal implications of the extension in terms of the Public Contract Regulations and the Constitution. Mitigating actions to the risk of legal challenge were identified, with the proposal that the decision to extend the contracts should be made transparent at an early stage and published on the Council's contracts register.

From discussion with officers we have determined that the decision to extend the contract was not published as planned. We have made an improvement recommendation that when contracts are extended the Council should ensure transparency and mitigate the likelihood of legal challenge by publishing the decision in a timely manner through the contracts register.

We identified an improvement recommendation in the Auditor's Annual Report 2020/21 that the Council should continue to work with services to reduce contract breaches, and should consider reporting waivers and breaches to the Audit Committee. The Council does now produce an annual waivers and breaches report which is considered by the Governance Board. We understand that from 2023/24 this will be reported to the Audit Committee.

The annual waivers and breaches report for 2021/22 identifies 18 breaches totalling £22.7m, in addition to 43 waivers totalling £4.7m. Therefore the level of breaches and waivers is still significant, with the majority of non-compliance with procurement rules due to time and resource pressures.

Therefore we have made an improvement recommendation that the Council should continue to focus on reducing the number and value of breaches and waivers in order to ensure procurement rules are followed, and that opportunities to drive efficiencies from procurement exercises are taken.

We have not identified any significant weaknesses in the Council's procurement arrangements, and recognise that resources have been diverted to determine procurement and commissioning arrangements for the new authority. We have identified improvement recommendations to strengthen arrangements for Somerset County Council, and for consideration when transitioning to Somerset Council.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 7	It should be ensured that previous external and internal audit recommendations are taken into account when LGR workstreams consider the Procurement Strategy and commissioning arrangements for the new unitary council.
Why/impact	Procurement and commissioning arrangements for the new council will be more robust if they take account of recommendations previously made to address identified weaknesses.
Summary findings	Internal audit provided a limited assurance opinion for their review of the Strategic Commissioning Framework in 2021/22, recognising that the operating model is reasonable but improvements could be made in areas such as updating business plan priorities for commissioning and improving governance around the Strategic Commissioning Group. We made an improvement recommendation in the Auditor's Annual Report 2020/21 that an action plan should be developed to set out how the aspirations within the Procurement Strategy will be achieved.
Management Comments	Previous audit recommendations will be considered when the Procurement Strategy and commissioning arrangements for the new council are developed.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 8	When contracts are extended the Council should publish the decision in a timely manner through the contracts register.
Why/impact	Publishing decisions to extend contracts on the contracts register promotes transparency and mitigates the likelihood of legal challenge.
Summary findings	Cabinet approved the extension of the contract for the delivery of care and support services for clients living within Extra Care Housing. The decision was subject to a public report setting out the reasons for the contract extension. The report set out the legal implications of the extension in terms of the Public Contract Regulations and the Constitution. Mitigating actions to the risk of legal challenge were identified with the proposal, namely that the decision to extend the contract should be made transparent at an early stage and published on the Council's contracts register. From discussion with officers we have determined that the decision to extend the contract was not published as planned.
Management Comments	The Council will ensure contract extensions are published in a timely manner through the contracts register.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

Recommendation 9	The Council should continue to focus on reducing the number and value of procurement breaches and waivers in order to ensure procurement rules are followed.
Why/impact	Breaches of procurement rules increase the risk of legal challenge. Conducting compliant procurement exercises can identify opportunities to drive efficiencies from contracts.
Summary findings	The annual waivers and breaches report for 2021/22 identifies 18 breaches totalling £22.7m, in addition to 43 waivers totalling £4.7m. The level of breaches and waivers is significant, with the majority of non-compliance with procurement rules due to time and resource pressures.
Management Comments	The Council will focus on reducing the number/value of procurement breaches and waivers.

The range of recommendations that external auditors can make is explained in Appendix C.

Pension Fund Arrangements

Our review of the arrangements for administering the Pension Fund has not identified any evidence of significant weakness.

The Pension Fund plans and manages its resources, monitors performance, and manages risk to ensure that it can continue to deliver its services. The Fund appoints an external Actuary to provide specialist advice on funding, contribution levels, and carry out Pension Fund valuations.

The Pension Board's role is to ensure the effective governance of the Local Government Pension Scheme (LGPS) and compliance with regulations and legislation. The Board met twice during 2021/22 to consider the risk register, Investment Strategy and Business Plan.

The Pension Committee represents the decision making body for the Pension Fund. They met four times during 2021/22 to monitor investment and administration performance, and to review key governance documents such as the risk register, Funding Strategy and Business Plan. The Pension Committee receives an Annual Report and Accounts which includes summaries of investment activity, performance and cost.

The Risk Register is a standing agenda item for the Pension Board and Pension Committee meetings. The Risk Register includes control measures, current and target RAG rated risk scores, additional mitigating actions, target dates, and the risk owner.

The Funding Strategy Statement identifies how employer's pension liabilities are best met going forward, and seeks to ensure the solvency and long term cost efficiency of the Pension Fund. Funding objectives include setting levels of employer contributions to target a 100% funding level over an appropriate time. Valuation assumptions are made when completing the actuarial valuation of the Fund and these are set out in the Funding Strategy. These include inflation, pension increases, pay increases, investment returns, demographic assumptions and asset valuations. Where employers show a deficit between assets and accrued benefits, a deficit recovery adjustment is made to increase their contributions over an agreed period of between 3 and 19 years.

The Investment Strategy sets out the policy for asset allocation, managing risk, and is designed to achieve an investment return consistent with the objectives and assumptions set out in the Funding Strategy.

The Pension Committee Training Policy confirms that Members are expected to undertake regular training to ensure they have sufficient knowledge of the LGPS and investment issues in order to make informed decisions. The Fund has formally adopted the CIPFA Pensions Finance Knowledge and Skills Framework for Members and officers, and assesses individuals against suggested standards of knowledge. The Annual Report 2021/22 confirms that while opportunities for external training was limited due to Covid-19, three internal training sessions were held in the year focussing on developing the new Investment Strategy.

The Pension Fund awaits the response from the government on the National Scheme Advisory Board's good governance report, and which elements will have statutory backing for the LGPS, or whether the government will produce their own set of requirements. It will then consider how to implement the recommendations.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	The capital programme and funding should remain under constant review and the revenue cost implications should be factored into the budget. This should be at County and Unitary level.	Improvement	February 2022	The capital programme is currently being examined to identify schemes that can be paused or reprofiled in response to the adverse revenue forecast for 2022/23 and in preparation for local government reorganisation.	Yes	Scrutiny of the future capital programme should continue to manage financial risk with regards to scheme cost and associated borrowing costs.
2	The general level of reserves should remain under constant review as LGR and other areas of focus progress.	Improvement	February 2022	The level of SCC reserves has increased and provides for improved financial resilience. Reserves are reviewed as part of the LGR budget process.	Yes	A reserves strategy should be approved to identify the level of reserves required for transformation and risk mitigation.
3	Savings should be clearly monitored and reported. The joint medium term financial challenge should be fully understood.	Improvement	February 2022	SCC savings are monitored through quarterly budget reports to Executive. LGR savings are monitored through programme governance.	Yes	None.
4	The partnership register should be updated to include a link to strategic objectives to which they contribute.	Improvement	February 2022	As part of the transition to the new unitary council work is underway to develop a partnership strategy and framework, including linking partnerships to strategic objectives.	In progress	None.
5	The Procurement Strategy should include an action plan that sets out actions required to achieve the aspirations set out in the strategy.	Improvement	February 2022	This recommendation has not been actioned due to the impact of Covid-19 and also the focus of resources on LGR.	No	Improvement recommendation made that this should be considered as part of transition to the new council.
6	The Council should reduce contract breaches and report waivers and breaches to the Audit Committee.	Improvement	February 2022	An annual breaches and waiver report is reported to Governance Board. The value of breaches and waivers is still significant.	Partly	The Council should continue to focus on reducing the number and value of procurement breaches and waivers.
7	The Pension Fund should implement the recommendations from the National Scheme Advisory Board's good governance report. Members should be appropriately trained.	Improvement	February 2022	Pension Committee Members are provided with appropriate training in order to make informed decisions.	Partly	The Council awaits the response from Government on the National Scheme Advisory Board's good governance report, and which elements will have statutory backing.

Opinion on the financial statements

Audit opinion on the financial statements

Our work is substantially complete and we anticipate to issue an unqualified audit opinion.

Audit Findings Report

More detailed findings can be found in our AFR, which will be published and reported to the Council's Audit Committee on 24 November 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council.

We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.

Guidance has not yet been received for the 2021-22 financial year. If the thresholds remain the same as the prior year, we expect that work will not be required as the Council does not exceed the threshold of £2 billion. Note that work is not yet complete and the timescales are unknown, as we await central guidance.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline.

Both your finance team and our audit team faced audit challenges again this year, such as the continuation of remote working and the need to access supporting evidence remotely, which necessitates additional work and takes longer. Many of the Council's officers respond proactively and in a timely way to our enquiries, although there remains some areas where further improvement is required to ensure that we receive sufficient and robust supporting evidence in a timely way. Some of these delays, and the need for additional enquiries and audit work, was required in order for us to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements. This has also resulted in additional fees being levied to the Council. We are keen to continue to work proactively with the Council to address these areas and ensure that the audit can be completed as efficiently as possible, and this will be even more important as the Council transitions into the new Unitary Auditory from 1 April 2023 and the unique challenges that this will present.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

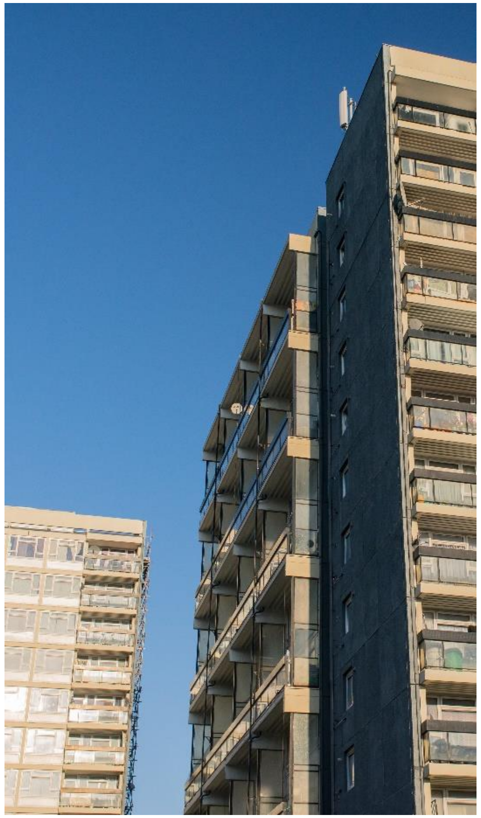
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness, see page 13 for more details.	We have undertaken additional work to assess the progress made across key financial LGR workstreams.	There is a robust process in place for delivering a balanced budget for 2023/24, but the scale of savings required to achieve a balanced position for the first year of Somerset Council represents a significant challenge.	Appropriate arrangements are in place, with four improvement recommendations raised.
Governance was identified as a potential significant weakness, see page 22 for more details.	We have undertaken additional work to assess the LGR programme's governance arrangements.	There are good governance arrangements in place to manage the complex task of local government reorganisation in Somerset. Progress is closely managed and monitored and at the time of writing no material gaps in delivery of products for vesting day have been identified.	Appropriate arrangements are in place, with two improvement recommendations raised.
Improving economy, efficiency and effectiveness was not identified as a potential significant weakness.	No additional procedures undertaken.	Appropriate arrangements are in place to improve economy, efficiency and effectiveness.	Appropriate arrangements are in place, with three improvement recommendations raised.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	Not applicable.
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No.	Not applicable.
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes.	Pages 16-19 Pages 25-26 Pages 31-33

Grant Thornton

grantthornton.co.uk