

Public Agenda Pack



Minutes of a Meeting of the Audit Committee held in the John Meikle Room, The Deane House, Belvedere Road, Taunton TA1 1HE, on Thursday, 25 January 2024 at 10.00 am

Present:

Cllr Mike Hewitson (Chair)

Cllr Steve Ashton

Cllr Mike Caswell

Cllr Mandy Chilcott

Cllr Habib Farbahi

Jansen van Vuuren

Cllr Mike Stanton

Cllr Simon Carswell

Cllr Norman Cavill

Cllr Simon Coles

Cllr Tim Kerley

Cllr Mike Rigby

In attendance:

Cllr Liz Leyshon

Cllr Sarah Wakefield

Cllr Heather Shearer

Cllr Ros Wyke

Other Members present remotely:

Cllr Andy Kendall

Cllr Christine Lawrence

Cllr Sue Osborne

Cllr Rosemary Woods

Cllr Marcus Kravis

Cllr Martin Lovell

Cllr Jo Roundell Greene

A minute silence was held following the sad passing of Cllr Dean Ruddle, formerly Lead Member for Adult Social Care and former Chair of the Audit Committee.

The Chair, Cllr Mike Hewitson, paid tribute to Cllr Ruddle, that he was a dedicated Councillor, and his tireless work for both the residents of Somerset and Somerton.

59 Apologies for Absence - Agenda Item 1

Apologies were received from Cllr Andy Sully (substitute Cllr Mike Rigby) and Cllr Lee Baker (substitute Cllr Mike Stanton).

Cllr Simon Coles left the meeting at 12pm

Cllr Simon Carswell left the meeting at 1pm

Cllr Mike Rigby left the meeting at 2pm

60 Minutes from the Previous Meetings: 26 October 2023 & 14 December 2023 - Agenda Item 2

The minutes of the Audit Committee meeting held on 26 October 2023 were agreed upon, with the amendments as below, and signed by the Chair.

Cllr Simon Carswell attendance – in attendance virtual.

Minute 43:

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Amend the sentence:

The S151 Officer affirmed the importance of communication, it was suggested that the proper response be sought from central government as the central government placed Somerset Council in this position.

To read: The S151 Officer affirmed the importance of communication with central government.

Minute 45:

add the amended recommendation:

Cllr Tim Kerley proposed amendments to the South Somerset District Council audit findings.

The Audit Committee delegated authority to the chair to sign off the accounts, subject to there not being any material change to those accounts

The minutes of the Extraordinary Audit Committee meeting held on 14 December 2023, were agreed upon and signed by the Chair.

61 Declarations of Interest - Agenda Item 3

There were no declarations of interest made at the meeting.

62 Public Question Time - Agenda Item 4

63 Strategic Risk Management Update as at January 2024 - Agenda Item 5

The Audit Committee received a strategic risk management update for Somerset Council from the Strategic Risk Manager, Pam Pursley.

The Strategic Risk Manager highlighted that the report covered the strategic risk position up to January 2024; summarised the movement and breakdown of the current 18 strategic risks, the proactive controls, reactive actions, including: the movement in ORG0062 health and safety management and the review in April 2024, the removed risks ORG0076 as the required LGR staff savings not achievable against expectation and ORG0077, the risk that new structures are not affordable and that both risks will be reassessed taking into consideration the work of the transformation programme.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- The request for inherent risk to be included in future updates to the Committee and the JCAD report – the Strategic Risk Manager undertook to amend the report to include the risk by the next Audit Committee meeting 28 March 2024
- Expression of concern regarding the need for improved reporting across the strategic risk register to give assurance to Audit Committee that actions are in place, including: the proactive controls and reactive actions, mitigating and management of risks reporting, the review and implementation of target dates reporting and monitoring, accountability of officers not meeting targets and organisational culture, explanatory notes as to why targets are not met, the need for clear presentation of position and pathway to targets, improvement of Equality Impact assessments and a Council direction of travel statement. Executive Director for Corporate and Resources and Strategic Risk Manager undertook the action to address these concerns.
- Resource and time capacity for reporting of risks and the limited corporate risk management staffing resources for Somerset Council with recognition that services are responsible for updating the risk register.
- That the sustainable MTFP remains a significant risk, the effect of the control measures put into place, work and actions completed across the Council – The Executive Director Resources and Corporate Services, Jason Vaughan, and the Deputy Leader of the Council and Lead Member for Resource & Performance, Cllr Liz Leyshon, advised that it is clear that under the current financing model for Local Government the Council in its current form is not financially sustainable and the need for urgent reform of the funding mechanism for Local Government is required.

Additionally, that ongoing financial support from the Government will be required due to the cost of delivering services increasing significantly faster than the income the Council receives particular in relation to social care.

- The transformation programme, including the One Somerset Business savings and the revised program in response to the Council situation and the consideration of interdependency scores in relation to the restructure and reshaping of the Council.
- Strategic risk ORG0061 delivery of climate emergency and the limited resource and potential impacts of not recruiting. The Strategic Risk Manager undertook to share the risk report with Executive Lead Members.
- The process of removing the risks from the risk register and the requirement for approval and consistency across the Council.
- Consideration of a potential task and finish group to look at best practice in terms of risk register reporting and risk management.

The Committee acknowledged the work to date to improve risk reporting, and requested that Officers look to bring a risk reporting improvement plan to the Audit Committee 28 March 2024,

The Executive Director Resources and Corporate Services, Jason Vaughan, and the Service Director Finance and Procurement, Nicola Hix, acknowledged and agreed with the Audit Committee that there is work required across the Council to improve risk reporting in areas, including supporting an internal culture to improve risk reporting, the monitoring of risk and training in risk reporting, with a report to be presented for consideration to the Audit Committee on 28 March 2024.

Following consideration of the officer report, appendices and discussion, the Audit Committee noted the Strategic Risk Management Update.

64 Assurance Reports - Financial Emergency Governance - Agenda Item 6a

The Committee received a report from the Interim Head of Governance & Democratic Services, Scott Wooldridge.

The Interim Head of Governance & Democratic Services presented the report, making reference to the presentation that had been published with the report, highlighting: the appropriate leadership and governance arrangements for command control and coordination in response to the financial emergency and the number of actions taken to address the forecast overspend in the current year and the budget gap for 2024/25 including; alongside monthly reporting of budget monitoring position to scrutiny and executive, the financial emergency work streams, strategic teams - strategic gold, tactical silver operations bronze, the control and spend

boards and the adult social care and children's social care panels.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- The actions taken to mitigate the financial emergency, including the initial response, the identification of the budget gap and formation of several internal control boards to manage expenditure and recruitment.
- The recruitment pause protocol and recruitment and retention of staff through the restructure and reshaping of the Council and the impact on areas of the Council, and the retention of critically essential posts.
- The continued reinforcement of the no order no pay policy, the work to address the submission respective orders – the Service Director Finance and Procurement, Nicola Hix, advised of the positive effect of the spend boards across the Council and that the boards to remain in place with a focus on consequences and escalation of non compliant services and officers.
- Commercial and procurement controls process and the governance framework of VFM through Council policy, procedures and assurance systems.

Following consideration of the officer report, appendices and discussion, the Audit Committee reviewed the Council's Financial Emergency governance arrangements and was assured on the mitigations being progressed.

65 Assurance Reports - Balance Sheet Review - Agenda Item 6b

The Audit Committee received a report from the Executive Director – Resources and Corporate Services, Jason Vaughan.

The Executive Director Resources and Corporate Services introduced the report, highlighting: the action to undertake a financial sustainability and resilience review of Somerset Council in the light of 2022/23 statement of accounts for the five previous Councils, the governance and financial risks and that the review had been undertaken independently, and introduced a Consultant who is assisting the Council, Peter Robinson, to present the report.

The Executive Director and consultant presented the report highlighting: that overall the review found that the new Council was relatively well placed as at 1 April 2023, and summarised the significant factors contributing to the financial emergency and comparisons with other Councils; that the report identified a number of issues for the Council to consider, summarising the recommended 27 areas of action, with

some actions addressed and in progress; that a report setting out progress on the 27 actions to be presented to the Audit Committee for consideration on 28 March 2024; the importance of looking forward as a new Council and being financially resilient; and the recognition of the increased workload to sign off legacy Council accounts.

The Committee recognised and acknowledged the increased workload and amount of work being undertaken across the finance team and the Audit Committee.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- The Committee welcomed the report and opportunity to aid Councillors to be more informed of Somerset Council's inherited issues and the mitigating actions to address these.
- The large amount of content and possible requirement for a further meeting to discuss areas of concern. The Executive Director Resources and Corporate Services undertook to provide a further update at the Audit Committee meeting on 28 March 2024, including the governance route of the actions and recommendations, and his availability to answer any questions and queries in more detail post meeting.
- The analysis of revenue income, the low level of fees and charges with comparator Councils and the potential opportunities moving forward.
- The 5% general fund working balances and the separation in the report of reserves held for partners.
- Net operating losses and investment properties debt charges.

The Chair invited the Lead Member for Economic Development, Planning and Assets, Councillor Ros Wyke, to comment on the implementation and ongoing work of the Council's asset disposal strategy process and programme of disposals.

The Lead Member for Economic Development, Planning and Assets advised the Audit Committee of the work being undertaken following the approval of the asset disposal strategy pre vesting day, highlighting: the Executive Sub Committee work, the constraints of a difficult property market and the careful work to move at pace with external partners, the work with unions and staff, an update on three properties in West Somerset and Bridgwater House; the Government one public estate approach and the work with colleagues taking place and evolving issue of the new Council.

Following consideration of the officer report, appendices and discussion, the Audit Committee reviewed the Balance Sheet Review and to receive a progress report at the next Audit Committee meeting – 28

March 2024.

66 Somerset Joint Auditor's Annual Report - Agenda Item 7

The Chair welcomed the Director and PSA Head of Audit Quality - Regulation, Audit Grant Thornton UK LLP, Barrie Morris, and the Value for Money Senior Manager, National VFM Team, Grant Thornton, Dan Povey.

The Director and PSA Head of Audit Quality - Regulation , introduced the report, highlighting: the issues identified from the review of the former five Councils; the identification of seven significant weaknesses and the number of improvement recommendations and key recommendations; that the report covers the period and the year ending the 31 March 2023, with additional appropriate updates recognising the significant progress and actions that the Council has taken; and the current satisfied opinion that the Council is moving in the right direction.

The Value for Money Senior Manager , presented the report, highlighting: the main themes across financial sustainability, governance, economy, efficiency and effectiveness; the seven key recommendations and the reporting of overall significant weakness with financial sustainability.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- Does this organization have the capacity and maturity to undertake a system wide transformation program at scale and pace, given the evidence of the slow pace in the last 18 months and in the auditor's words, there is not significant pipeline savings identified and that if the budget gap remains at the current levels, Somerset Council will have negative reserves by 2025/26?
- What should this Committee do to record their concerns and stress them to the Executive?

In response, the Executive Director Resources and Corporate Services, Jason Vaughan, advised on the concerns set out in the budget report on maturity, pace of delivery and risks to be considered at the Executive meeting 7 February 2024. The Director further explained staff savings and transformation activities that have taken place and the challenge of the approach to transformation and recommended that the report be forwarded to Executive to be considered as part of budget report.

The Chair responded that it was for each member the Audit Committee to make an assessment on capacity and maturity, and clarified the action taken by the Audit

Committee in response to the Financial Emergency and requested that the Transformation Programme report be considered at the Audit Committee meeting 28 March 2024 to provide understanding, clarity and assurance of the governance arrangements of the transformation programme. The Chair further commented on the scale and pace of the work required, the enormous challenge to set future budgets and the need for Government support.

During debate the following was discussed:

- The local and national impacts and factors contributing to the financial emergency – The Deputy Leader of the Council and Lead Member for Resources & Performance, Cllr Liz Leyshon, paid tribute to the finance team for all of their hard work, the work that has taken place to find a local solution and the need for a national solution to Local Government funding.
- The progress on delivering the £18m saving from the One Somerset Business case and the need for reprofiling due to the scale of the challenge.
- The quality of the management responses within the report, and the potential of an additional meeting to discuss the findings of the report.
- Contract management arrangements at the former Somerset County Council and the recommendation within the report to implement robust procurement and contract management arrangements at Somerset Council.
- The Commercial investment portfolio performance of the predecessor Councils assets and the options for asset disposal, financing and risk mitigation for Somerset Council – The Lead Member for Resources & Performance advised of the complexity of the program of work, overseen by specialists, to take place over a number of years to ensure that income is protected as much as possible.
- The High Needs Block, with the Department of Education grant not meeting provision and the Somerset Council response and deficit management plan.
- The backlog of unpaid supplier invoices and the progress of the finance team to positively address the issues and further develop the functionality of the finance system.
- The Audit Committee requested the report be shared in its entirety with the Executive – The Executive Director Resources and Corporate Services agreed to strengthen the cover report prior to presenting at Full Council and Democratic Services undertook to circulate the report to Executive prior to 7 February 2024 Executive meeting.

Having been duly proposed by Cllr Mike Stanton and seconded by Cllr Tim Kerley, the Audit Committee agreed an amendment to add to the recommendations:

That the Audit Committee request that Management responses to be improved and strengthened and considered at Audit Committee 28 March 2024

Following consideration of the officer report, appendices and discussion, the Audit Committee:

- Noted the Somerset Joint Auditor's Annual Report and recommendations.
- Recommended the report to Full Council 20 February 2024.
- Requested that management responses to be improved and strengthened and considered at Audit Committee 28 March 2024.

67 External Audit Findings Report for Mendip District Council 2022/23 - Agenda Item 8

The Chair welcomed Kevin Suter, Ernst and Young LLP.

Kevin Suter presented the findings of the external auditors Ernst and young LLP audit results and clarified that the report presented the unqualified audited accounts for mendip District Council for 2022-2023; commended the team for producing a good quality set of accounts and that the external auditors have no significant concerns.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- Acknowledgment of work pressure of the finance team and the positive presentation, outcomes and easy to read report.
- Cllr Ros Wyke, former Leader of Mendip District Council, thanked the external auditors and the Council's Financial Services for their hard work on the production of the accounts.
- Planning and growth services and the accounting of and reporting of the Glastonbury Town Fund.
- The five Council Capita contract and services supplied.
- Statement of Accounts governance route – the Interim Head of Legal, Jill Bryon, to confirm the governance route.
- The Annual Governance Statement (AGS) references to Mendip District Council and whether an explanatory note or cover report is needed to clarify events that the Audit Committee had no oversight of – Duncan Moss confirmed the AGS was considered by the former Mendip District Council and the Principal Financial Accountant, James Collier, confirmed the format presented was correct and appropriate to be signed by the successor Somerset Council senior officer / Audit Committee.

Cllr Mandy Chilcott advised that there was no disagreement with what had been

presented, however, without oversight or knowledge of the history of references she felt unable to make comment, agree or disagree or support the sign off.

Following consideration of the officer report, appendices and discussion, the Audit Committee:

- Approved the Statement of Accounts as attached in Appendix 1 for Mendip District Council for 2022/23 Report, and delegated approval for the accounts to the Executive Director of Resources and Corporate Services in conjunction with the Chair or Vice Chair, once any outstanding matters have been resolved.
- Approved the amended Annual Governance Statement for 2022/23 attached at Appendix 2 for Mendip District Council for 2022/23 Report.
- Noted the Audit Findings report from the external Auditors Ernst & Young as per Appendix 3 for Mendip District Council for 2022/23 Report.
- Approved the signing of the letter of representation as per Appendix 4 for Mendip District Council for 2022/23 Report.

68 External Audit Findings Report for Somerset County Council 2022/23 - Agenda Item 9

The Audit Committee received the External Audit Findings Report for Somerset County Council 2022/23.

The Director and PSA Head of Audit Quality - Regulation, Audit Grant Thornton UK LLP, Barrie Morris, highlighted; the audit findings report for Somerset County Council; an update on the items that were outstanding in relation to the receipt and testing of completeness and receipt and testing of grant income; the completed testing of the completeness of income and expenditure and the identification of some errors in relation to the completeness of expenditure, to be updated in the final report for information and confirmed that the accounts can be approved without amendment; Appendix 2 - matters experienced by the auditors whilst undertaking the audit causing delays and the need for issues to be raised with management; commended the work of the finance team that reflects a significant degree of hard work and support by the finance officers, in particular the Interim Chief Accountant, Paul Griffin; a number of audit adjustments and the provision of an unmodified auditor opinion on the financial statements, assuming that the letter of representation is approved and receipt of the final signed version of the accounts. The Interim Chief Accountant further added to the above points regarding Agenda item 9, Appendix 1 that the report presented was not the final audited set of accounts, as there was a last minute audit adjustment identified after the paper deadline for the final reports, the Officer confirmed the late adjustment was an income re-classification issue that did not impact on the overall level of income

being reported. Due to the immaterial nature of the adjustment, and recommended that the accounts (Appendix 1) could be approved as the only change to the accounts being presented at the Committee meeting was a minor disclosure restatement.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- Annual Governance Statement and the look forward to improving the controls to mitigate the risks efficiently.
- Sought assurance that management were looking to mitigate and prevent reoccurrence of delay / engagement issues – The Service Director Finance and Procurement, Nicola Hix, and the Interim Chief Accountant, Paul Griffin, provided assurance to the Audit Committee that action had been taken, with the look to improve the culture through learnings from the findings and training to be provided if required.
- Contract management – Alastair Woodland (SWAP) to include contract management signing as part of the scope for this quarter.
- Capital programme management – The Service Director Finance and Procurement, Nicola Hix, advised of the scheduled work to improve Capital programme reporting.
- Adult and Children Services significant overspend budget setting regarding setting a budget lower than where it ended the previous year – The Executive Director Resources and Corporate Services, Jason Vaughan, advised of the complexity of budget reporting and the work taken place on the 2024/25 to report increased costs, demand modelling, savings.

Following consideration of the officer report, appendices and discussion, the Audit Committee:

- Approved the Statement of Accounts, subject to no material changes, as attached in Appendix 1 for Somerset County Council for 2022/23, and delegated approval for the accounts to the Executive Director of Resources and Corporate Services in conjunction with the Chair or Vice-Chair, once any outstanding matters have been resolved.
- Approved the updated Annual Governance Statement as included within the Statement of Accounts. • Noted the matters raised and findings in Grant Thornton's Audit Findings Report in Appendix 2.
- Approved the signing of the letter of representation on behalf of the Council and Somerset Pension Fund, as per Appendix 3.

- Noted the position of the External Auditors assessment of the Authority's Value for Money (VFM) judgment.

69 External Audit Plan for South Somerset District Council for 2022/23 - Agenda Item 10

The Audit Committee received the External Audit Plan South Somerset District Council 2022/23 from the Director and PSA Head of Audit Quality - Regulation, Audit Grant Thornton UK LLP, Barrie Morris

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, including confirmation from Grant Thornton that the proposed fee for the Audit Plan 2022/23 was £116, 918.

Following consideration of the officer report, appendices and discussion, the Audit Committee the Audit Committee noted the attached external auditors (Grant Thornton) Audit Plan for South Somerset District Council for 2022/23.

70 Internal Audit Progress Report for Somerset Council 2023/24 - Agenda Item 11

The Audit Committee received the Internal Audit Progress Report for Somerset Council 2023/24.

The Assistant Director SWAP Internal Audit Services, Alastair Woodland, highlighted: the updated layout to the report based on some of the Audit Committee provided; summarised the limited assurance audits, noting schools have their own governance structure; that the school audit isn't included in detail due to their own governance structure and monitored through the Finance Committee at individual school; summarised limited assurance and financial controls assessment and the work taking place to provide an update at the 28 March 2024 Audit Committee; the 11 reviews currently not started, and scheduled to start this quarter; the follow-ups in progress and recommendations to be reported 28 March 2024; noted the current capacity of staff issues and the look to support officers in supporting to clear the outstanding recommendations; summary of work on coverage against strategic risks.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- How did Somerset Council discover high levels of unpaid placement invoices as well as the significant overspend in CLA placement costs, and why did spot placements not go through a tender process before being awarded? – The Assistant Director SWAP Internal Audit Services, Alastair Woodland to provide a written

answer to the Audit Committee.

- On going monitoring to ensure money is spent in line with grant conditions – The Assistant Director SWAP Internal Audit Services confirmed that the arrangements around monitoring grant payments have been strengthened.
- Somerset Council embedded health and safety culture – The Assistant Director SWAP Internal Audit Services advised on the work to date and that findings to be share with the Audit Committee.
- Aged Debt and debt and recovery management reporting to Councillors –The Executive Director Resources and Corporate Services, Jason Vaughan, advised of the Somerset Council debt management policy, monitored as part of the corporate and resources scrutiny committee, the Service Director Finance and Procurement, Nicola Hix, advised of the work taking place to amalgamate the predecessor Council systems and that the reporting in future would be to the Audit Committee.
- Fire safety records inspection limited assurance – The Assistant Director SWAP Internal Audit Services confirmed the risk could be higher than reported, and looking at the overall governance process to be brought to the Audit Committee. The Deputy Leader of the Council and Lead Member for Resources & Performance, Cllr Liz Leyshon further advised of the recent capital approval for work on fire safety doors and the risks addressed in the upcoming HRA reports.

Following consideration of the officer report, appendices and discussion, the Audit Committee Members noted the position of the 2023-24 Internal Audit Plan.

71a **Medium Term Financial Reports 2024/25 - Capital Strategy 2024/25**

The Audit Committee received the Capital Strategy 2024/25 report.

The independent Consultant, Peter Robinson, presented the report, highlighting: that the Capital Strategy is a key element of the Council's Budget Framework which must be considered and approved by Full Council prior to the start of each new financial year; that the Capital Strategy sits alongside the Medium-Term Financial Strategy and the 2023-2027 Council Plan.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- Capital financing requirement for the HRA – The Independent Consultant, Peter Robinson, advised the that the HRA is a ring fenced self financing account, with a balanced 30 year business plan.
- miFID II explanation - Financial Instruments Directive for a professional investor.

- The capitalisation direction and MRP, the engagement with Central Government, and the requirement for numbers to be clearer given the large figures – The Independent Consultant, Peter Robinson, to update the report to give some more background and information to the numbers provided.

Following consideration of the officer report, appendices and discussion, the Audit Committee made comment on and noted the Capital Strategy 2024/25 report to be received by Executive 7 February 2024.

72 Medium Term Financial Reports 2024/25 - Treasury Management Strategy 2024/25 - Agenda Item 12b

The Audit Committee received the Treasury Management Strategy 2024/25. The Principal Investment Officer, Alan Sanford, presented the report, highlighting: that Treasury management is the management of the Council's cash flows, borrowing and treasury investments and the associated risks; that the report set out the proposed Treasury Management Strategy (TMS) for Somerset Council for 2024-25; that the report brought together the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice Revised 2021 Edition (CIPFA TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities: that as at the 30 November 2023, the Council held nearly £700m of debt as part of the strategy of funding for previous capital projects and summarised the breakdown and the expectation of further borrowing; that the Council's investment balance as at 30 November 2023 stood at just over £211m; that a review of the non treasury investments during 2023/24 had concluded that current non treasury investments do not contribute to the new Council's key objectives going forward and plans are being developed to dispose of these in an orderly manner which achieves best value for money; that debt for the general fund will be taken mainly in shorter periods to provide sufficient flexibility so that debt can be paid down as and when non treasury investments are sold or holdings in strategic pooled funds and liquidated.

The Audit Committee asked a number of questions and made a number of comments which were responded to at the meeting, as follows:

- Investment balances reduction
- Request for a line graph to show movement of investment and borrowing figures, to aid understanding of the wider context and the direction trend.

Following consideration of the officer report, appendices and discussion, the Audit Committee made comment on and noted the Treasury Management Strategy 2024/25 report to be received by Executive 7 February 2024

73 Medium Term Financial Reports 2024/25 - Flexible use of Capital Receipts 2024/25 - Agenda Item 12c

The Audit Committee received the Flexible use of the Capital Receipts 2024/25 report.

The Executive Director Resources and Corporate, Jason Vaughan introduced the report and advised of the governance route of the report and the proposed changes as part of the Financial Settlement expected from Central Government early February 2024.

The Audit Committee made no specific comments or recommendations to the Executive.

Following consideration of the officer report, appendices and discussion, the Audit Committee made comment on and noted the Flexible use of Capital Receipts 2024/25 report to be received by Executive 7 February 2024.

74 Audit Committee Workplan - Agenda Item 13

The Chair invited the Audit Committee to comment on the Audit Committee Workplan.

The Chair recognised the heavy and challenging workload for the Audit Committee, and Cllr Mandy Chilcott further commenting that the extremely large agenda and amount of information and consideration of manageable agendas moving forward to enable the Audit Committee to do their job properly.

The Service Director Finance and Procurement, Nicola Hix and Barrie Morris, Grant Thornton, provided an update on the two outstanding audits South Somerset District Council 2022/23 and Sedgemoor District Council 2022/23.

The contributing factors and the legal risks of not being able to set a balanced budget and the engagement with and assurance required from DLUHC regarding Council Tax and capitalisation direction.

Following consideration of the workplan and discussion, the Audit Committee reviewed and noted the Audit Committee workplan, and agreed the below items be added to the 28 March 2024 Audit Committee Agenda:

- Transformation programme Update

- Balance sheet Update
- Review of MRP provision policy plan
- Review of risk management plan
- Somerset Joint Auditor's Annual Report – Management Responses

(The meeting ended at 3.15 pm)

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CHAIR

Name of person submitting	Statement and questions
Nigel Behan	Relate to Agenda Item 6b Assurance - Balance Sheet Review and Appendix - Balance Sheet Review
	<p>Question 1a</p> <p>One of the Key Issues identified included: “there was a DSG deficit of £20m at 1 April 2023 with a projected deficit of £100m at 31.03.26 when the statutory exemption ceases. The Council needs to prioritise successful delivery of agreed recovery plans, and start to make realistic provisions in respect of any remaining deficits expected at 1 April 2026 when the current statutory over-ride expires.” What progress has been made in addressing the projected deficit of £100m at 31st March 2026?</p>
	<p>Response from Jason Vaughan</p> <p>The Council has been part of the Department for Education (DFE) Delivering Better Value (DBV) programme and has received £1m of funding to support work on this. The DBV requires the council to work with DFE delivery partners, Newton Europe and CIPFA to undertake a diagnostic exploration of Somerset SEND system. We are in the process of updating the deficit management plan and will be submitting this to CIPFA by the 31 January 2024. The work on this has identified 8 mitigation factors to try and reduce down the in-year overspend. CIPFA will review the plan and provide feedback with it going to the final programme board at the end of February 2024.</p>
	<p>Question 1b</p> <p>Interestingly it is stated in the Appendix that: “there is scope to make additional employer contribution payments into the pension fund, to reduce pressure on revenue budgets going forward,.....”</p> <p>Whilst Room 151 (“Room151 is an online news, opinion and resource service for local authority Section 151 and other senior officers covering treasury, pensions, strategic finance, funding, resources and risk”) reports: Should LGPS funds lower contribution rates to relieve council funding pressure? Can a comment be provided?</p>
	<p>Response from Jason Vaughan</p> <p>Somerset Council is the administers the Somerset Pension Fund. Every pension fund is different. Recently we have seen the fund drop in value with the 30th September 2023 position being 91.7% funded compared to the 31 March 2022 position of 95.2%. So it</p>

	<p>would be difficult to justify reducing contributions. Additional contribution would indeed reduce down the annual revenue contribution but you need to the available funds to do this.</p>
	<p>Question 1c</p> <p>Q1 c) The appendix also notes: “earmarked reserves have either been repaid to third parties or utilised to support revenue budgets. By 1 April 2025 it is anticipated that General Fund earmarked reserves will have reduced from £291m to c£75m.”</p> <p>“This report identifies a number of issues for the Council to consider and a suggested action plan is provided in Appendix 3.</p> <p>Key issues are: • to maintain financial resilience, we recommend that General Fund working balances are kept, as a minimum, at the current level of 5% of net revenue expenditure. Robust processes need to be established to control the use of remaining earmarked reserves and to match growth items in the revenue budget with achievable savings plans.”</p> <p>“R25. A review of all earmarked reserves should take place to ensure that the reason for establishing each reserve remains appropriate and in line with financial reporting requirements. Expected timescales for using each reserve should also be more clearly understood.”</p> <p>What will happen to the “earmarked” proposals and the £216m anticipated difference indicated above?</p>
	<p>Response from Jason Vaughan</p> <p>There has been significant work on reviewing the councils reserves and repurposing £36.8m from earmarked reserves to support the 2024/25 budget. This was reported to the Executive and Scrutiny Committee in December. The report to the 2 February Scrutiny Committee set out the summary of reserves using the DLUHC reporting categorisation. We have been very careful to identify those reserves we hold on behalf of others / accountable bodies, have contractual commitments etc in order to be clear on the level of reserves that can be used to support the budget.</p> <p>The level of General Reserves are currently at £49.8m which is over 9% after allowing for the Month 9 forecast overspend of £17.5m will be £32.3m which is above the risk based minimum of £30m. The £30m represents 5.5% and will be around 5% of the 2024/25 budget.</p>

Somerset Council Reserves (DLUHC Reporting Categories)	31 March 2023 £m	Adjust - ments £m	01 April 2023 £m	Forecas t Use £m	31 March 2024 £m	Forecas t Use £m	31 March 2025 £m
Contractual commitments	14.8	(1.1)	13.7	(0.4)	13.2	(0.1)	13.2
Planned future revenue & capital spending	50.9	(18.9)	32.1	(15.7)	16.4	(4.2)	12.2
Specific risks	24.7	(7.2)	17.6	(2.9)	14.6	(3.7)	11.0
Budget stabilisation	52.3	(10.1)	42.2	1.2	43.4	(39.5)	3.9
Public Health	4.1	(1.7)	2.4	0.0	2.4	(1.8)	0.6
Other	142.4	(4.0)	138.4	(99.8)	38.6	(6.9)	31.7
Total Earmarked Reserves	289.2	(43.0)	246.3	(117.7)	128.6	(56.1)	72.5
General Fund Reserves	26.8	23.1	49.8	(17.5)	32.3	0.0	32.3
Total Reserves	316.0	(19.9)	296.1	(135.2)	161.0	(56.1)	104.9

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