

# Interim Auditor's Annual Report to Somerset Council

Covering arrangements for:

**Somerset County Council**  
**Sedgemoor District Council**  
**Somerset West and Taunton Council**  
**South Somerset District Council**  
**Somerset Pension Fund**

**2022/23**

January 2024



# 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.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive summary



## Value for money arrangements and key recommendation(s)

On 1 April 2023 the following five councils merged to form Somerset Council:

- Somerset County Council;
- Mendip District Council;
- Sedgemoor District Council;
- Somerset West and Taunton Council; and
- South Somerset District Council.

Grant Thornton UK LLP is the appointed auditor for Somerset County Council, Sedgemoor District Council, Somerset West and Taunton Council, and South Somerset District Council.

This report is addressed to the newly established Somerset Council. However, it covers the arrangements in place for the four predecessor councils for which Grant Thornton UK LLP is the appointed auditor for the 2022/23 financial year.

For the remainder of this report the three predecessor District Councils of Sedgemoor, Somerset West and Taunton, and South Somerset will be referred to as “the District Councils”. As Grant Thornton are not the appointed auditors for Mendip District Council their arrangements will be covered by a separate report. Where we believe it provides appropriate context for the new authority, we have included Mendip District Council’s outturn and financial planning figures.

Under the National Audit Office Code of Audit Practice, we are required to consider whether Somerset County Council and the District Councils have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their commentary on the Councils’ arrangements under specified criteria and 2022/23 is the third 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 councils’ arrangements for securing economy, efficiency and effectiveness in their use of resources.

The conclusions from our work and recommendations raised for each council are summarised in the following tables. All of the recommendations raised in this Auditor’s Annual Report are addressed for Somerset Council to consider.

This Auditor’s Annual Report is issued as an interim report, pending the completion of the audits of the County Council and the District Council financial statements for 2022/23. Once these audits are all completed the Auditor’s Annual Report will be updated for any significant findings and issued as a final version.

As we complete the audit of the financial statements for 2022/23 for South Somerset District Council, we will assess the management actions taken to address the key recommendation raised in the Auditor’s Annual Report 2020/21, to ensure that there is sufficient capacity to produce accurate financial statements by the statutory deadline.



# Executive summary



## Financial sustainability

Somerset Council is facing financial challenges that are impacting on the current year's financial position and on the ability to set a balanced budget for 2024/25 and beyond, and as such are a significant risk to the Council's financial sustainability. These challenges include financial pressures and financial planning arrangements inherited from predecessor councils during 2022/23, for example relating to the cost and demand of Adult and Children's services, the risks associated with commercial investment property, deficits on the dedicated schools grant, and the absence of a Council-wide transformation programme. Inflation, increasing cost and demand for services together with rising interest rates are creating additional pressures on Somerset Council's financial position. We have raised key recommendations across a number of areas aimed at strengthening the arrangements in place to secure financial sustainability. We recognise the proactive role that Somerset Council is taking to mitigate the financial pressures that it is facing, and in the open and transparent way it has reported these pressures to Members, the government, and external audit.

## Financial planning

Somerset County Council and the District Councils each set balanced budgets for 2022/23, setting out their expenditure plans for the last year that they would operate as separate sovereign organisations. We have found no evidence of significant weakness with regard to the 2022/23 budget setting or monitoring processes for Somerset County or the District Councils.

The District Councils delivered underspends against their approved budgets for 2022/23. The positive outturn position allowed for additional contributions to reserves or reduced reliance on the use of reserves to balance budgets. We have found no evidence of significant weakness with regard to the outturn positions for the District Councils.

Somerset County Council overspent by £23.4m during 2022/23, with the deficit reducing the General Fund balance to £3.7m in comparison to a minimum recommended range of between £20m - £30m. The impact of the overspend on the General Fund balance is considered to be a significant weakness in arrangements at Somerset County Council. The main drivers for the County Council's overspend were increased demand and cost of care within Adult Services and Children's Services. These cost pressures continue to significantly impact the financial position of Somerset Council, driving both the overspend forecast for 2023/24 and the significant budget gap in 2024/25. We judge the financial risk that Adult and Children's Services pose to the financial sustainability of Somerset County Council and now Somerset Council to be a significant weakness in arrangements.

We have made a key recommendation that **Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs in relation to Adult and Children's Services.**

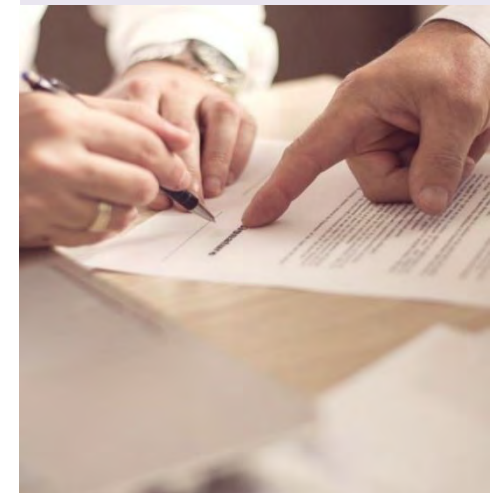
Somerset County Council, as the continuing authority under the Structural Change Order, was responsible for approving the 2023/24 budget for Somerset Council. While robust budget setting arrangements were in place to set the 2023/24 budget, we identified in the Auditors' Annual Report 2021/22 that it would still be a significant challenge to deliver a balanced budget for 2023/24 due to the level of savings required, with a budget gap of £74.2m identified as at November 2022.



## Financial Statements opinion

We have not yet completed the 2022/23 financial statement audits for Somerset County Council, Sedgemoor District Council, Somerset West and Taunton Council, or South Somerset District Council.

Once these audits are completed this Auditor's Annual Report will be updated for any significant findings and issued as a final version.



# Executive summary (continued)



## Financial sustainability (continued)

Somerset County Council set a balanced budget for 2023/24. The budget gap was balanced through a combination of local government reorganisation savings, reserve contributions, and increased Council Tax income flexibilities announced in the annual finance settlement. However, due to cost and demand pressures in Adult and Children's Services, the October 2023 budget monitoring position forecasts an £18.3m overspend for 2023/24.

The declaration of a financial emergency and the introduction of spend controls during 2023/24 is starting to have an impact on the position, with the forecast deficit reduced from the August position of £27.3m.

As at January 2023, the forecast budget gap for 2024/25 is £82.5m and is too large to bridge through the normal budget setting process. The Council can reduce this gap using one-off resources from reserves and the collection fund surplus to £37.9m. The Council is in discussion with the Department for Levelling Up Housing and Communities (DLUHC) to bridge the remaining gap through increasing council tax by 5% above referendum principles (generating an additional £17.1m) and through a capitalisation directive of £20.8m. If DLUHC does not agree to these dispensations, then the Council will be forced to issue a Section 114 Notice to suspend all expenditure on non-statutory services for 2024/25.

The gap is driven by cost pressures within Adult and Children's Services. Somerset Council has identified a structural budget gap where costs are increasing at a higher rate than Council Tax can be increased. We raised an improvement recommendation in each of the County Council and District Council Auditors Annual Reports 2021/22 that adequate resources should be allocated to the planning and delivery of transformation in order to bridge the significant budget gaps over the medium term. However, there is currently no Council-wide transformation programme in place and there is not a significant pipeline of savings identified to balance the 2024/25 or future year budgets.

We recognise that Somerset Council has started to establish the governance arrangements for the transformation programme and the strategy is now to bring forward transformation so that it can start to deliver savings rapidly from 2024/25. The transformation programme will need to be implemented rapidly and at scale in

order to bridge the significant structural budget gap.

The absence of a transformation programme is a significant weakness in arrangements to ensure financial sustainability for Somerset County Council, the District Councils and Somerset Council.

We have raised a key recommendation **that Somerset Council should now implement the transformation programme at scale and pace in order to address the significant structural budget deficit.**

We wrote to Somerset Council on 17 October 2023 to express our concerns over the significant financial challenges that the Council is facing and the risk they represent to financial sustainability.

Somerset Council currently has a General Fund Balance of £49.8m and £104.9m of earmarked reserves. Unless the forecast overspend for 2023/24 is mitigated and actions are taken to significantly reduce the budget gap for 2024/25, there is a risk that unsustainable calls will have to be made on reserves, reducing them to levels that are insufficient to manage financial risk. If the budget gaps remain at their current levels Somerset Council will have negative reserves by 2025/26.

It is essential that Somerset Council mitigates the 2023/24 revenue overspend and closes the budget gap for 2024/25 in order to protect reserves and provide financial resilience going forward. Failure to reduce the potential impact on reserves from these pressures could result in Somerset Council having to issue a Section 114 Notice as soon as February 2024. We have made a key recommendation that **Somerset Council should ensure that General Fund and Earmarked Reserves are maintained at a prudent level in order to provide financial resilience.**

## Commercial investment property

Somerset Council has inherited a significant commercial investment property portfolio from the predecessor district councils with acquisition costs of £289m and gross income of £20m. The scale of the commercial investment property portfolio represents a significant financial risk in relation to income generation, financing costs and capital value. The capital value of the portfolio has decreased to £219.5m and once the costs of borrowing are taken into

# Executive summary (continued)



## Financial sustainability (continued)

account, the portfolio is making a net £2.9m revenue loss per annum. The reduction in capital value and income losses apply to all the District Council portfolios that Somerset Council has inherited.

We consider that the financial performance of the portfolio represents a significant risk to the financial sustainability of Somerset Council and represents a significant weakness in arrangements at each of the District Councils. Since vesting day Somerset Council has considered these risks and has approved the disposal of the commercial investment property portfolio. Somerset Council is currently developing an exit strategy to dispose of these commercial investments.

We have raised a key recommendation that **Somerset Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio to ensure that best value is obtained as assets are disposed of.**

## Dedicated schools grant

There is significant pressure on the High Needs Block of the Dedicated Schools Grant (DSG). Somerset County Council overspent on the DSG by £3.4m in 2022/23 and this pressure continues into 2023/24. The cumulative DSG deficit is forecast to rise to £96.2m by 31 March 2026, when the statutory override for ring fencing the deficit ends. It is not clear what the arrangements will be from 2026/27, but Somerset Council recognises this as a significant risk to financial sustainability and is taking mitigating actions to reduce the annual deficit.

Somerset County Council did have a DSG Deficit Management Plan in place for 2022/23. However, the Plan was not updated for 2023/24 as the Council understood that their participation in the Delivering Better Value Programme superseded the requirement for a specific Deficit Management Plan. The DfE has informed Somerset Council that it is required to develop a new Deficit Management Plan and submit this to the DfE in February 2024.

We consider that the growing DSG deficit and the £96.2m potential deficit forecast by March 2026, when the statutory override ends, to be a significant risk to the financial sustainability of the Council.

**We have made a key recommendation that Somerset Council should develop a robust DSG Deficit Management Plan.**



# Executive summary (continued)



## Governance

### Local Government Reorganisation

As part of the transition to Somerset Council a new finance system, Microsoft Dynamics, was implemented from 1 April 2023. While the minimum agreed viable finance system was implemented from 1 April 2023, there have been weaknesses in the functionality of the system and associated processes since vesting day relating to budget monitoring, interfaces, cash allocation and invoice payment. This has impacted on the performance of the system, the information available to users and the audit of the financial statements for 2022/23. We have identified this as a significant weakness in arrangements during the transition to the new authority and is relevant to the County Council and each of the District Councils.

While Somerset County Council led the implementation of the new finance system, all predecessor council partners in Somerset had a role to play in ensuring sufficient resources were allocated to the system project team and in ensuring data was cleansed for migration into Microsoft Dynamics.

We have made a key recommendation **that Somerset Council should continue to develop the functionality of the Microsoft Dynamics finance system and resolve outstanding processes at pace.**

Good governance arrangements were established for the Local Government Reorganisation (LGR) programme that allowed for effective monitoring, timely reporting and the identification and management of risk to programme delivery. The predecessor councils in Somerset successfully transitioned to a safe and legal Somerset Council on 1 April 2023.

Somerset Council has started to establish the governance arrangements for the wider transformation programme, but there has been limited progress in developing transformation business cases and projects for delivery. LGR savings are being delivered more slowly than envisaged in the business case.

We have identified the absence of a Council-wide transformation programme as a significant weakness in the arrangements to deliver financial sustainability.

### Risk management

The County Council and the District Councils each had adequate arrangements in place to identify, mitigate and report on risk and we have found no significant weaknesses in risk management arrangements for 2022/23.

The County Council and District Council risk registers contained most of the elements of best practice that we would expect to see. We note that risk mitigations were not reported in detail at Somerset West and Taunton Council. Risk reporting to Members would be strengthened at the County Council and for all District Councils if risks on the strategic risk register were mapped to corporate priorities.

We have raised an improvement recommendation that robust risk management reporting arrangements should be implemented at Somerset Council with consideration given to the strengths and weaknesses identified in each of the predecessor council arrangements.

### Internal control

The County Council and each of the District Councils had an effective internal audit function in place for 2022/23, which was undertaken by the South-West Audit Partnership.

The Audit Plan was substantially delivered for each of the councils by March 2023 and this work informed the Head of Internal Audit's Annual Opinion. The County Council and the District Councils all received a "Reasonable Assurance" opinion for the overall control environment in 2022/23. There is no evidence of pervasive and significant weaknesses in the control environment for the County Council or District Councils for 2022/23.

### Monitoring standards

Anti-fraud and corruption policies and whistleblowing policies were in place at the County Council and the District Councils during 2022/23. Member and Officer Codes of Conduct and policies for registering interests, gifts and hospitality were also in place during the year.

# Executive summary (continued)



## Governance (continued)

The County Council and District Councils undertook assessments of the maturity of their arrangements to prevent and detect fraud and corruption during 2020/21, with action plans in place to address weaknesses identified. The County Council and District Councils reported the progress made improving controls to their Audit Committees during the year.

We have raised an improvement recommendation that robust arrangements for preventing and detecting fraud and corruption should be implemented at Somerset Council with consideration given to the strengths and weaknesses identified in each of the predecessor council arrangements.

The Local Government and Social Care Ombudsman Annual Review Letter 2022/23 for Somerset County Council confirms that 25 complaints were upheld and in all these cases the Council successfully implemented the Ombudsman's recommendations. While the volume and outcome of complaints does not provide evidence of weakness in arrangements, the Ombudsman commented that during the year there were several occasions when investigations were delayed by the Council's failure to respond in a timely way and that a third of Council responses were late. There were also instances of poor-quality and incomplete responses.

We have raised an improvement recommendation that Somerset Council should ensure that there is sufficient capacity in place and staff are suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales.



## Improving economy, efficiency and effectiveness

### Procurement and contract management

Arrangements to report procurement activity varied within each council during 2022/23.

We note that neither South Somerset District Council nor Somerset West and Taunton Council reported procurement waivers to the Audit Committee during 2022/23. Somerset West and Taunton Council was working to strengthen procurement arrangements following a limited assurance internal audit review in 2020/21. Due to limited resources in the run up to LGR some actions were not progressed, including rolling out procurement training across the Council.

We do not consider that there were any significant weaknesses with regard to the arrangements for procurement and contract management at the District Councils. We consider that an improvement recommendation would have been appropriate in relation to the procurement arrangements for South Somerset District Council and Somerset West and Taunton Council, to ensure that robust procurement arrangements are implemented with regard to waiver reporting and addressing remaining weaknesses from the internal audit review.

However, we have identified a significant weakness with regard to the contract management and procurement arrangements in place for 2022/23 at Somerset County Council. Internal audit provided two limited assurance opinions relating to procurement and contract management.

The internal audit review of contract management at the County Council found that the contract register contains outdated information, manager understanding and application of the requirements of contract management varied, and there were gaps in managers understanding of their contracts.



# Executive summary (continued)



## Improving economy, efficiency and effectiveness (continued)

The review of the Athena contract identified that the proper procurement process was not followed with responsible officers in the Adults Service not undertaking procurement training and not involving commissioners in the procurement process. Contract oversight was fragmented for this statutory service and invoices were not validated. A contract exit plan was not prepared in accordance with the contracted timescale and expenditure of £1.11m exceeded the contract value of £0.6m.

Due to the significant weakness identified at Somerset County Council we have raised a key recommendation **that robust procurement and contract management arrangements should be implemented at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements.**

## Performance management and benchmarking

Adequate arrangements were in place to monitor, manage and report service performance in 2022/23 for the County Council and the District Councils. While the frequency of performance reporting was reduced in 2022/23 due to local government reorganisation, the respective council Executives each received detailed performance reports during the year, and we have found no evidence of significant weakness in arrangements.

The District Councils did not have a corporate-wide approach to benchmarking the cost and performance of services to identify opportunities for improvement. Somerset County Council and Somerset Council can demonstrate greater use of benchmarking to understand cost drivers and identify opportunities for efficiencies.

The benchmarking we have carried out using the CFO Insights Tool has not identified any areas of significant weakness with regard to service efficiency for the District Councils. We have identified that the method for apportioning support service recharges to front line services for South Somerset District Council and Somerset West and Taunton Council was not reflective of true cost and so made benchmarking difficult. Benchmarking of County Council service costs identified Childrens Social Care as having a very high unit cost.

We have made a key recommendation as part of the financial sustainability work that Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs within Children's Services.

We have raised a further improvement recommendation that robust arrangements should be implemented for benchmarking at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements and a corporate approach to benchmarking should be developed. Somerset Council have subscribed to the CFO Insights tool and should ensure that it fully utilises its benchmarking capabilities.

# Executive summary



Value for money arrangements and key recommendation(s)

## Summary of actions for Somerset Council to address

Criteria	Recommendation	Relevant Council
Financial sustainability	<b>Significant weaknesses in arrangements identified and five key recommendations made relating to:</b>	
	1) Developing and delivering mitigating actions to manage demand and costs in relation to Adult and Children’s Services.	Somerset County Council
	2) Implementing the transformation programme at scale and pace.	Somerset County Council Sedgemoor District Council Somerset West and Taunton Council South Somerset District Council
	3) Ensuring that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio following the decision by Somerset Council to dispose of these investments.	Sedgemoor District Council Somerset West and Taunton Council South Somerset District Council
	4) Ensuring that General Fund and Earmarked Reserves are maintained at prudent levels in order to provide financial resilience.	Somerset County Council
	5) Developing a robust DSG Deficit Management Plan.	Somerset County Council
	<b>In addition, two improvement recommendations have been made relating to:</b>	
	1) Completing the review of the capital programme and challenging future capital bids in order to manage the capital financing requirement;	Somerset Council
	2) Continuing to review and align the legacy Housing Revenue Account (HRA) business plans inherited from predecessor councils to identify efficiencies and address the financial challenges identified to financial sustainability within the HRA.	Somerset Council

- R** Significant weaknesses in arrangements identified and key recommendations made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- G** No significant weaknesses in arrangements identified or improvement recommendation made.

# Executive summary



Value for money arrangements and key recommendation(s)

## Summary of actions for Somerset Council to address

Criteria	Recommendation	Relevant Council
Governance	<p>Significant weaknesses in arrangements identified and a key recommendation made relating to:</p> <p>1) Continuing to develop the functionality of the Microsoft Dynamics finance system and resolve outstanding processes at pace to ensure that the system supports efficient and accurate financial reporting.</p>	<p>Somerset County Council Sedgemoor District Council Somerset West and Taunton Council South Somerset District Council</p>
	<p>In addition, three improvement recommendations have been made relating to:</p>	
	<p>1) Implementing robust risk management reporting arrangements at Somerset Council.</p>	<p>Somerset County Council Sedgemoor District Council Somerset West and Taunton Council South Somerset District Council</p>
	<p>2) Implementing robust arrangements for preventing and detecting fraud and corruption at Somerset Council.</p>	<p>Somerset County Council Sedgemoor District Council Somerset West and Taunton Council South Somerset District Council</p>
	<p>3) Ensuring that there is sufficient capacity in place and staff are suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales.</p>	<p>Somerset County Council</p>

# Executive summary



Value for money arrangements and key recommendation(s)

## Summary of actions for Somerset Council to address

Criteria	Recommendation	Relevant Council
Improving economy, efficiency and effectiveness	Significant weaknesses in arrangements identified and a key recommendation made relating to:	
	1) Implementing robust procurement and contract management arrangements at Somerset Council.	Somerset County Council Somerset West and Taunton Council* South Somerset District Council*
	In addition, an improvement recommendation has been made relating to:	
	1) Implementing robust arrangements for benchmarking service cost and performance at Somerset Council.	Sedgemoor District Council Somerset West and Taunton Council South Somerset District Council

\* We do not consider that there were any significant weaknesses with regard to the arrangements for procurement and contract management at the District Councils. We consider that an improvement recommendation would have been appropriate to strengthen the procurement arrangements for Somerset West and Taunton Council and South Somerset District Council. However, for the purposes of this Auditor's Annual Report, a single key recommendation has been made in respect of procurement due to the significant weaknesses in arrangements identified at the County Council.

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# Use of auditor's powers

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We bring the following matters to your attention:

2022/23

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## 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 make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

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## 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.

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## 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 make an application to the Court.

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## 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 any advisory notices.

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## 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 make an application for judicial review.

# Key recommendations

## Key Recommendation 1

Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs in relation to Adults and Children's Services. Actions should include:  
embedding and delivering the Adults and Children's Services transformation programmes; and  
continuing to model and challenge demand and cost data to ensure budgets are based on accurate projections.

## Identified significant weakness in arrangements

Due to the impact that the financial pressures within Adult and Children's Services are having on past and current overspends and on the budget gap for 2024/25, they represent a significant risk to the financial sustainability of Somerset Council.

## Summary findings

Adult and Children's Services each incurred significant overspends in 2022/23, driving Somerset County Council's net overspend of £23.4m.

Significant budget growth was included in the 2023/24 base budget for Somerset Council for both of these services, but significant overspends are still forecast as at the end of Month 7 (October 2023) for the year. Taking into account the budget growth and forecast overspend, Adult Services are forecast to require £42.9m additional resources and Children's Services £32.7m additional resources in 2023/24, in comparison to the 2022/23 base budget.

These financial pressures are forecast to continue into 2024/25. Pressures of £56.9m are modelled for Adult Services and £15.8m are modelled for Children's Services.

## Criteria impacted by the significant weakness



Financial sustainability

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

## Management comments

Management comments are provided on the next page.

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

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

# Key recommendations

## Key Recommendation 1 (continued)

Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs in relation to Adults and Children's Services. Actions should include:  
embedding and delivering the Adults and Children's Services transformation programmes; and  
continuing to model and challenge demand and cost data to ensure budgets are based on accurate projections.

A detailed transformation programme is being implemented to create a council that is sustainable for the future. The "My life, My Future" Programme (Adults Transformation) and Children's Services Transformation are incorporated into this programme.

Whilst many services are demand-led and subject to delivery standards and statute, we are proposing savings where services are discretionary or no longer required, and to increase income where fees and charges can be maximised. Control Boards for Adults Social Care and Children's Services are now in place to review and challenge placements.

## Management comments

Next steps include:

Reviewing the assumptions and modelling on the Adult's budget in light of the National Living Wage increase and latest diagnostic from our partner Newton Europe.

Update the Children's budget with the findings from the Peopletoo deep dive into spend in Children's Social Care.

There is also on-going work to review and refine the demand modelling in Adults and Children's to ensure that it is robust and based upon the very latest data including the provisional local government finance settlement.

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

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the weaknesses identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place.

# Key recommendations

## Key Recommendation 2

Somerset Council should implement the transformation programme at scale and pace in order to address the significant structural budget deficit. This should include:

- embedding the emerging governance arrangements for the transformation programme;
- developing detailed business cases for Member and officer scrutiny and approval;
- fostering a culture of financial stewardship where the cost and levels of service are routinely and consistently challenged; and
- clearly determining the scope and interrelationship of transformational and transitional savings.

## Identified significant weakness in arrangements

The transformation programme will need to be implemented at scale and at pace in order to bridge the significant structural budget gap and contribute to the Council's financial sustainability.

## Summary findings

We identified in the Auditors Annual Report 2021/22 that adequate resources should be allocated to the planning and delivery of transformation. To date a Council-wide transformation programme has not been developed.

The budget for 2023/24 was based on LGR business case efficiencies and already established efficiency or income generation programmes. While there were some savings resulting from transformational activity in Adults and Children's Services, these services continue to overspend significantly in 2023/24 and savings are at risk or delayed. There was no Council-wide transformation programme to contribute to the 2023/24 budget.

There is no pipeline of savings for balancing the significant budget gap from 2024/25. The Council is now planning to bring forward the transformation programme and has started to develop the governance arrangements through the Transition and Transformation Board.

## Criteria impacted by the significant weakness



Financial sustainability

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

## Management comments

Management comments are provided on the next page.

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



# Key recommendations

## Key Recommendation 2 (continued)

Somerset Council should implement the transformation programme at scale and pace in order to address the significant structural budget deficit. This should include:

- embedding the emerging governance arrangements for the transformation programme;
- developing detailed business cases for Member and officer scrutiny and approval;
- fostering a culture of financial stewardship where the cost and levels of service are routinely and consistently challenged; and
- clearly determining the scope and interrelationship of transformational and transitional savings.

We are developing a comprehensive transformation programme to deliver our vision to be a smaller leaner council, employing fewer people, focusing only on the unique value the authority can provide. The purpose of this programme is to deliver the organisational design principles underpinning the vision: flexibility and agility, smaller and leaner council, driven by data and digitally enabled, sustainable and resilient.

The outline transformation programme Business Case is now being prepared, programme governance is agreed and will be implemented in the first quarter of 2024.

The programme will deliver several interrelated packages of activity, coordinated as a single comprehensive programme, overseen by a Transformation Board with assurance and challenge from Executive:

## Management comments

- Building a new Council
  - o Organisational Redesign & Innovation
  - o Workforce
  - o Partnerships & Devolution
    - My Life My Future (Adults Transformation)
    - Children's Services Transformation
    - Place shaping
    - Medium Term Financial Plan Savings

Transformation savings will be additional to savings laid out in the 2024-25 budget and Medium-Term Financial Plan.

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

# Key recommendations

## Key Recommendation 3

Somerset Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio to ensure that:

- an exit strategy is developed that ensures best value is obtained as assets are disposed of;
- the income and financing risks associated with the commercial investment property portfolio are managed in the interim;
- there is monitoring of income, direct and indirect costs (including financing charges), with a comparison to the original business case for each asset;
- landlord responsibilities are discharged; and
- financial performance is reported to Members regularly to allow appropriate scrutiny and challenge.

## Identified significant weakness in arrangements

The financial performance of the commercial property portfolio represents a significant risk to the financial sustainability of the Council.

## Summary findings

Somerset Council has inherited a significant commercial investment property portfolio from the predecessor district councils. Largely due to the rise in interest rates since the investments were acquired, the capital value of the portfolio has decreased from £289.1m to £219.5m, a reduction of £69.6m (24%). Once the costs of borrowing are taken into account, the portfolio is making a net £2.9m revenue loss per annum, representing a negative yield of 1%.

Somerset Council Executive approved the disposal of the commercial investment portfolio in November 2023.

## Criteria impacted by the significant weakness



Financial sustainability

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

## Management comments

Management comments are provided on the next page.

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

# Key recommendations

## Key Recommendation 3 (continued)

Somerset Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio to ensure that:

- an exit strategy is developed that ensures best value is obtained as assets are disposed of;
- the income and financing risks associated with the commercial investment property portfolio are managed in the interim;
- there is monitoring of income, direct and indirect costs (including financing charges), with a comparison to the original business case for each asset;
- landlord responsibilities are discharged; and
- financial performance is reported to Members regularly to allow appropriate scrutiny and challenge.

## Management comments

Generation of capital receipts from asset disposals is a key part of our financial strategy. We have agreed to dispose our commercial property investments and have developed a pipeline of future disposals of surplus assets. The Executive have also approved the appointment of Jones Laing LaSalle as external agents to support us in this work.

A Member led Property and Investment Sub Committee are fully engaged in this work and the Executive have also tasked our Asset Management Group to bring forward asset disposals from assets held outside of the commercial investment portfolio, including council office rationalisation proposals. They are currently overseeing the disposal of 74 sites that have been declared surplus.

Subject to agreements and options, a total value in the range of £15m-£20m is targeted be achieved from the current pipeline of approved disposals during 2023-24 and 2024-25.

Governance for this activity takes place through the Asset Management Group at a practical level, with formal democratic governance and oversight to ensure transparency.

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

# Key recommendations

## Key Recommendation 4

Somerset Council should ensure that General Fund and Earmarked Reserves are maintained at a prudent level in order to provide financial resilience. There should be a focus on:

- urgently mitigating the 2023/24 budget overspend and bridging the 2024/25 and 2025/26 budget gaps in order to reduce their impact on reserves;
- continuing to review earmarked reserves to identify resources that can be reallocated to supporting financial resilience; and
- determining the minimum prudent level for General Fund Reserves in light of the continuing financial challenges that Somerset Council faces.

## Identified significant weakness in arrangements

Failure to reduce the potential impact of financial pressures on reserves could result in Somerset Council having to issue a Section 114 Notice as soon as February 2024.

## Summary findings

General Fund and Earmarked Reserves are under considerable pressure due to the forecast revenue overspend for 2023/24 and the budget gap identified for 2024/25. If the Month 7 2023/24 overspend of £18.3m is not mitigated, then the General Fund Balance will reduce to £31.5m which is at the lower end of the minimum prudent range of £30m-£50m established by the Council's S151 Officer. The current forecast budget gap of £82.5m for 2024/25 would reduce the General Fund Balance to zero and earmarked reserves to only £53.9m, with the potential for negative reserves by 2025/26. We recognise that the Council is already engaging with DLUHC in order to develop a range of mitigating actions.

## Criteria impacted by the significant weakness



Financial sustainability

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

## Management comments

Management comments are provided on the next page.

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

# Key recommendations

## Key Recommendation 4 (continued)

Somerset Council should ensure that General Fund and Earmarked Reserves are maintained at a prudent level in order to provide financial resilience. There should be a focus on:

- urgently mitigating the 2023/24 budget overspend and bridging the 2024/25 and 2025/26 budget gaps in order to reduce their impact on reserves;
- continuing to review earmarked reserves to identify resources that can be reallocated to supporting financial resilience; and
- determining the minimum prudent level for General Fund Reserves in light of the continuing financial challenges that Somerset Council faces.

In addition to Executive and Scrutiny oversight, we have taken a range of actions to address the in-year budget position, including Control Boards for adults and children's care placements, establishment and recruitment, commercial and procurement, and spend over £100. By adopting the approach of operating as if a Section 114 notice has been issued, these and other actions have seen the in-year forecast overspend reduce from £28.6m to £18.3m. Our rigour and focus on this year's financial position will not reduce to drive this overspend down even further.

We have determined that our minimum level of reserves is £25m based on the council's risk appetite. This figure has been factored into our thinking, forecasting and activity to deliver savings. Total reserves could change following rationalisation of our capital programme and ability to use capital for transformation. We continue work to deliver the greatest level of savings for 2024-25 and beyond.

## Management comments

Ongoing activity includes reviews into:

- Earmarked Reserves to identify reserves that can be repurposed to support the budget.

- The level of corporate contingency budget (currently £6m) in the light of emerging budget proposals, risks and level of reserves.

- Financing costs in the light of capital programme, potential capitalisation direction and use of reserves.

Furthermore, we continue to engage with DLUHC concerning the 2024-25 budget and potential for an application for a capitalisation direction and flexibility for a Council Tax increase for 2024-25 above the referendum threshold without requirement for a referendum. If successful, this would enable the current £37.7m budget gap to be closed for 2024-25.

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

# Key recommendations

## Key Recommendation 5

Somerset Council should develop a robust Dedicated Schools Grant (DSG) Deficit Management Plan and ensure that sufficient resources are allocated to monitoring and reporting progress against the plan to Members and stakeholders such as the Schools Forum.

## Identified significant weakness in arrangements

We consider that the growing DSG deficit and the £96.2m potential deficit forecast by March 2026, when the statutory override ends, to be a significant risk to the financial sustainability of the Council.

## Summary findings

There is significant pressure on the High Needs Block of the DSG. Somerset County Council overspent on the DSG by £3.4m in 2022/23 and this pressure continues into 2023/24 with a forecast deficit of £38.1m at the year end. The cumulative DSG deficit is forecast to rise to £96.2m by 31 March 2026, when the statutory override for ring fencing the deficit ends. It is not clear what the arrangements will be from 2026/27, but Somerset Council recognises this as a significant risk to financial sustainability and is taking mitigating actions to reduce the annual deficit.

Somerset County Council did have a DSG Deficit Management Plan in place for 2022/23. However, the Plan was not updated for 2023/24 as the Council understood that their participation in the Delivering Better Value Programme superseded the requirement for a specific Deficit Management Plan. The DfE has informed Somerset Council that it is required to develop a new Deficit Management Plan and submit this to the DfE in February 2024.

## Criteria impacted by the significant weakness



Financial sustainability

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

## Management comments

In line with the potential challenge of ending the statutory override, we are refreshing our Dedicated School Deficit Management Plan, and this is intended to be presented to our Children and Families Scrutiny Committee in February.

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

# Key recommendations

## Key Recommendation 6

Somerset Council should continue to develop the functionality of the Microsoft Dynamics finance system and resolve outstanding processes at pace to ensure that the system supports efficient and accurate financial reporting. There should be a focus on:

- continuing to develop financial processes relating to interfaces, invoice payment and data validation to ensure that transactions are promptly and efficiently processed and that the data within the finance system is accurate and complete;
- developing standardised system generated budget monitoring reports for budget holders to ensure that timely and efficient budget monitoring arrangements are in place;
- ensuring that finance system users are adequately trained and understand their roles and responsibilities; and
- applying the lessons learned from the implementation of Microsoft Dynamics to future system implementations undertaken as part of the transformation programme.

## Identified significant weakness in arrangements

The finance system should support timely, efficient and accurate financial processes. This is particularly important due to the financial challenges that Somerset Council is facing and the need for prompt and accurate financial monitoring.

## Summary findings

A new finance system, Microsoft Dynamics, was implemented on 1 April 2023. While the minimum agreed viable finance system was implemented, which allowed for payment of invoices and collection of income, there have been weaknesses in the functionality of the system and associated processes since vesting day relating to budget monitoring, interfaces, cash allocation and invoice payment. This has impacted on the performance of the system, the information available to users and the audit of the financial statements for 2022/23.

## Criteria impacted by the significant weakness



Governance

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

## Management comments

Microsoft Dynamics continues to be implemented, issues understood and resolved. A learning hub and access to Super Users is designed to be single channel for questions and feedback to the system can be embedded more effectively and lessons learned and acted upon at pace. Regular updates are shared with all users including new functionality or where data shows particular challenges for users or need to refresh on processes.

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

# Key recommendations

## Key Recommendation 7

Robust procurement and contract management arrangements should be implemented at Somerset Council, including: considering the strengths and weaknesses identified in each of the predecessor councils' arrangements; ensuring that procurement waivers are regularly reviewed by the Audit Committee; ensuring that staff receive appropriate procurement and contract management training; and addressing the weaknesses identified at Somerset County Council with regard to contract management and the Athena contract.

## Identified significant weakness in arrangements

By considering the strengths and weaknesses identified in the arrangements of predecessor councils, Somerset Council can ensure that robust arrangements are implemented going forward and value for money is achieved through procurement and contract management.

## Summary findings

We have found no significant weaknesses in the District Councils' procurement or contract management arrangements. There was an opportunity to strengthen procurement arrangements at South Somerset District Council and Somerset West and Taunton Council, but the weaknesses noted regarding reporting of waivers and rolling out of training are not considered to be significant.

We have identified a significant weakness in arrangements with regard to contract management and procurement at Somerset County Council during 2022/23. Internal audit provided two limited assurance opinions relating to general contract management arrangements and to the procurement and contract management arrangements for the Athena contract.

## Criteria impacted by the significant weakness



Improving economy, efficiency and effectiveness

## Auditor judgement

Based on the work undertaken, we are not satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources in 2022/23. We have therefore identified a significant weakness in arrangements.

## Management comments

Management comments are provided on the next page.

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



# Key recommendations

## Key Recommendation 7 (continued)

Robust procurement and contract management arrangements should be implemented at Somerset Council, including: considering the strengths and weaknesses identified in each of the predecessor councils' arrangements; ensuring that procurement waivers are regularly reviewed by the Audit Committee; ensuring that staff receive appropriate procurement and contract management training; and addressing the weaknesses identified at Somerset County Council with regard to contract management and the Athena contract.

Our priority is to find savings through efficiencies and improved practice before reducing services. This therefore includes tackling weaknesses in contracts and procurement to ensure value for money. We are reviewing the use of consultants, reducing bills associated with our estates (including through asset disposal) transforming our ICT infrastructure as our council reduces in size, removing other unnecessary contract spend and using grants and external funding in preference to calls on our revenue budget.

## Management comments

A Commercial and Procurement Control Board has been created to review and challenge all new commissions, annual uplifts in contracts, and contract renewals.

Our "No Purchase Order, no Pay" is putting robust procurement arrangements in place to ensure spend is subject to proper governance and decision-making, and that monitoring, and contract management is also robust.

Training has also begun with staff on implementation of the Public Procurement Act 2023.

The intent and actions outlined here also support mitigation of strategic risks relating to achieving a sustainable Medium Term Financial Plan and managing budget overspend.

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

# 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.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 29 to 61.

# The current LG landscape



## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies;
- a failure to address and resolve relationship difficulties between senior officers and members;
- significant challenges associated with financial capability and capacity;
- a lack of compliance with procurement and contract management processes and procedures;
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

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# The current LG landscape (continued)

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## Local context

Although Somerset is one of the ten most rural counties in England, one third of the population of approximately 564,000 live in one of the largest towns of Taunton, Yeovil, Bridgwater and Frome. With 1 in 4 residents over the age of 65, the county's age profile is weighted slightly towards people of older age. While average annual earnings within Somerset are lower than the UK average, the employment rate of 77.8% is higher than the national average of 75.6%.

The Secretary of State issued the Somerset Structural Changes Order 2022 in March 2022, which provided legislative backing to local government reorganisation in Somerset and for the establishment of a new unitary Somerset Council on 1 April 2023. Somerset Council replaced the existing councils within Somerset, comprising of Somerset County Council, Mendip District Council, Sedgemoor District Council, Somerset West and Taunton Council, and South Somerset District Council. Under the Structural Changes Order, Somerset County Council was the continuing authority, and therefore responsible for setting the 2023/24 budget for Somerset Council and for ensuring arrangements were in place for a successful transition to the new authority on vesting day.

The benefits of local government reorganisation in Somerset were set out in the One Somerset Business Case for a new single unitary council. Based on one-off implementation costs of £16.5m, ongoing annual savings from the transition to one council were identified of £18.5m. Additional benefits were identified that included creating new local opportunities, reducing bureaucracy, aligning services and putting the people of Somerset at the heart of the new authority.

The Somerset Structural Changes Order approved the May 2022 local elections to appoint 110 councillors to Somerset County Council. From 1 April 2023 these 110 councillors were responsible for the services previously provided by the county and four district councils. The elections held in May 2022 have resulted in the following political make-up of the Council: Liberal Democrat 61; Conservative Party 36; Labour 5; Green Party 5; Independent 3.

Grant Thornton UK LLP is the appointed auditor for Somerset County Council, Sedgemoor District Council, Somerset West and Taunton Council, and South Somerset District Council. Due to local government reorganisation, the 2022/23 financial year was the last year that these councils existed as sovereign organisations. This joint Auditor's Annual Report therefore combines the findings from our value for money audit work for 2022/23 for these four councils.

# 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 2022/23

Local authorities are facing increasing financial challenges due to the cost-of-living crisis, inflation and increasing demand for services. Financial pressures are particularly acute for upper tier authorities who provide Adults and Children's Services. Against this background the District Councils delivered modest surpluses for 2022/23, while Somerset County Council incurred a £23.4m overspend against the approved budget. The continuing cost pressures within Adult and Children's Services represents a significant risk to the financial sustainability of Somerset Council.

Somerset County Council and the District Councils all set balanced budgets for 2022/23, setting out their expenditure plans for the last year that they would operate as separate sovereign organisations. Budget management and forecasting was challenging during the year due to the impact of inflation, rising interest rates, and increased demand for services after the pandemic.

We have found no areas of significant weakness with regard to the 2022/23 budget setting or monitoring processes for Somerset County or the District Councils.

The District Councils within Somerset delivered underspends against the approved budget for 2022/23. This position was achieved largely through increased service income, additional grants, and increased investment income due to the higher base rate. The positive outturn position allowed for additional contributions to reserves or reduced reliance on the use of reserves to balance budgets.

The budget outturn position for Somerset County Council was a £23.4m deficit as at 31 March 2023. The overspend was funded from the General Fund balance, reducing it to £3.7m at the year-end in comparison to a minimum recommended balance of between £20m - £30m.

The main drivers for Somerset County Council's deficit were Adult

Services (£15.4m overspend) and Children's Services (£21.2m overspend) due to increased demand and cost of care. The increasing cost of these services is a national issue for upper tier councils.

These cost pressures are continuing into 2023/24 and 2024/25 and represent a significant risk to the financial sustainability of Somerset Council.

We have considered these demand led services in more detail elsewhere in this Auditors Annual Report. We have made a key recommendation that Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs in relation to Adult and Children's Services.

The consolidated outturn position for the Somerset councils is set out in Figure 1, resulting in a net overspend of £19.8m. This net position includes Mendip District Council's year end position.

Figure 1: Budget Outturn Position 31 March 2023

Council	Outturn 2022/23 Overspend / (Underspend) £m
Somerset County Council	23.4
Mendip District Council	(0.8)
Sedgemoor District Council	(1.1)
Somerset West and Taunton Council	(1.0)
South Somerset District Council	(0.7)
<b>Net Somerset outturn position *</b>	<b>19.8m</b>

\* This position will be finalised once the audit of the financial statements 2022/23 is complete.

# Financial sustainability (continued)

## Budget 2023/24

The 2023/24 budget setting process for Somerset Council continued through 2022/23. Each predecessor council forecast a budget gap for their services in 2023/24, with the total forecast budget gap growing to £74.2m by November 2022 due to the impact of inflation, rising interest rates and demand. Somerset County Council approved the 2023/24 budget for Somerset Council in February 2023. A balanced budget was set which protected front line services with the recognition that Members would need to make difficult choices in the future to create financial sustainability. The Month 7 (October) 2023/24 budget monitoring report forecasts a revenue budget overspend of £18.3m with cost pressures from 2022/23 continuing into 2023/24 and future years. The Council recognises that the scale of the forecast overspend could undermine its financial sustainability if not adequately mitigated.

### Budget setting 2023/24

Somerset County Council, as the continuing authority under the Structural Change Order, was responsible for approving the financial strategies and budgets that relate to the new Somerset Council from 1 April 2023.

We reviewed the budget setting arrangements to set a balanced budget for 2023/24 in detail as part of our value for money audit in 2021/22. We found elements of good practice relating to Member engagement, early consideration of the predecessor council budget proposals, and the development of the medium-term financial strategy during 2022/23.

We reported in the Auditors Annual Reports 2021/22 that although robust budget setting arrangements were in place, it would still be a significant challenge to deliver a balanced budget for 2023/24 due to the level of savings required. Key risk areas relating to the budget were identified as the scale of the commercial investment property portfolio funded principally from short term borrowing, the size of the capital programme, the capital financing requirement, and reserves levels.

When the predecessor councils were setting their 2022/23 budgets in February 2022, a forecast budget gap of £28.6m was forecast for Somerset Council in 2023/24. It should be noted that all of the predecessor councils in Somerset were forecasting significant budget gaps for 2023/24. In the absence of local government reorganisation from 1 April 2023, all

local authorities in Somerset would have been required to rapidly identify and deliver significant levels of savings to balance their 2023/24 position.

The budget gap grew during 2022/23 with each subsequent iteration of the Medium-Term Financial Strategy as demonstrated in Figure 2. Due to the impact of inflation, rising interest rates and increasing demand for services, a budget gap of £74.2m was forecast by November 2022.

In addition to the scale of savings required, setting a balanced budget for 2023/24 was made more challenging as the new unitary council was not yet established. The operating model, corporate plan and staff structure were all under development as part of LGR workstreams.

Figure 2: Somerset Council Budget Gap Projections 2023/24

Council	Estimated Gap 23/24 £m
<b>Forecast February 2022:</b>	
Mendip	1.9
Sedgemoor	2.8
Somerset West and Taunton	5.2
South Somerset	4.5
Somerset County Council	14.2
<b>Total Forecast Gap Feb 2022</b>	<b>28.6</b>
<b>Updates July 2022:</b>	
Assumed District budget inflation	1.5
Somerset County Council	14.4
<b>Total Forecast Gap July 2022</b>	<b>44.5</b>
<b>Updates November 2022:</b>	
Additional inflationary and demand pressures	29.7
<b>Total Forecast Gap November 2022</b>	<b>74.2</b>

# Financial sustainability (continued)

## Budget 2023/24 (continued)

Work to develop the Somerset Council budget for 2023/24 continued through 2022/23. The Somerset County Council Executive approved the Somerset Council Medium Term Financial Plan in July 2022. This included a high-level strategy for balancing the budget comprising efficiency savings, service level reviews, income generation and asset management.

The November 2022 Medium Term Financial Plan Update identified savings and income generation proposals of £27.8m which were based largely on the delivery of the LGR Business Case, transformation projects already approved, and income generation.

Somerset County Council approved the 2023/24 budget for Somerset Council in February 2023. A balanced budget was set with the recognition that Members would need to make difficult choices in the future to create financial sustainability. The budget for 2023/24 reflected the local government finance settlement and financial planning assumptions were clearly set out in the budget report.

The budget gap identified in November 2022 was balanced through a combination of measures. These included £40.8m of savings, a £10.0m contribution from reserves, increased Council Tax income through additional referendum flexibilities, and favourable grant settlements including New Homes Bonus.

The focus for the 2023/24 budget was to protect front line services, with the budget delivered through delivering LGR business case savings relating to staff restructures, efficiencies from combining local authorities.

These LGR savings and other efficiencies total £40.8m for 2023/24 and include:

- Non-Directorate savings (£11.0m) including reduced pension costs and LGR staff savings;
- Resources (£4.7m) including dividends from council-owned companies;
- Climate & Place (£7.7m) including the full implementation of Recycle More;
- Adults Services (£10.5m) including use of Disabled Facility Grant funding and estimated process improvement savings; and

Children's Services (£4.6m) reflecting reduced numbers of looked after children and diagnostic review of the service.

## Budget monitoring position 2023/24

The Month 6 budget monitoring report provided a forecast for savings delivery for 2023/24. At this point £11.1m of the savings target of £40.8m were at risk or unachievable (27%), including Adults Services (£4.8m) and Children's Services (£1.8m) due to delays in delivering transformational and staff savings. There were also £1.3m of LGR staff savings at risk.

The Month 5 (August) 2023/24 budget monitoring report presented to Executive in November 2023 forecast a revenue budget overspend of £27.3m, largely driven by Adult Services (£14.9m overspend) and Children's Services (£11.8m overspend). The budget monitoring report recognised that the magnitude of the overspend could potentially undermine Somerset Council's financial sustainability and potentially require a Section 114 notice to be issued. The Section 114 Notice would suspend all expenditure apart from spend on statutory services for 2024/25 due to insufficient resources, including the exhaustion of General Fund reserves. This deteriorating position precipitated the Council engaging with DLUHC setting out their concerns and seeking support to identify mitigations.

There are indications that the Council is making some progress in mitigating the overspend for 2023/24, with the latest forecast showing an improvement of £9.0m with a year-end overspend of £18.3m. This level of overspend would reduce the General Fund Reserve to £31.5m against the minimum prudent level of £30m. Therefore, while the current level of forecast overspend can be accommodated within the General Fund Balance, it will reduce the reserve to the minimum prudent level at a time of significant financial risk.

The cost pressures that contributed to the 2022/23 overspend have continued into 2023/24, and are likely to continue into 2024/25 and beyond, creating ongoing budget pressures in the future. Cost and demand pressures are being compounded by shortfalls in the delivery of the benefits envisaged from LGR and other service savings.

# Financial sustainability (continued)

## Budget 2023/24 (continued)

We have made a key recommendation elsewhere in this report that Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs in relation to Adults and Childrens Services. We have also considered Somerset Council’s approach to delivering savings through transformation and made a further key recommendation that the transformation programme should be developed and implemented at pace.

## Medium term financial planning and budget 2024/25

Financial planning in 2022/23 concentrated on balancing the budget for the new unitary authority for 2023/24. Subsequent financial planning undertaken by Somerset Council has identified a significant budget gap, before one-off mitigations, for 2024/25 of £82.5m as at January 2024. Somerset Council has a structural budget gap where costs are increasing at a higher rate than council tax can be increased. The financial challenges that Somerset Council faces are a significant risk to financial sustainability. The Council is responding to these challenges through emergency governance arrangements to reduce spend and identify efficiencies, as well as bringing forward the transformation programme. We have raised a key recommendation that Somerset Council should now implement the transformation programme at scale and pace in order to address the significant structural budget deficit.

### Forecast budget gap and budget 2024/25

During 2022/23 financial planning was understandably focused on balancing the budget for 2023/24, the first year of operation for the new Council. Detailed financial planning for future years was made more difficult without first establishing the base budget for Somerset Council.

The Medium-Term Financial Plan (MTFP) update that accompanied the Budget Report in February 2023 forecast a budget gap of £41.6m in 2024/25, rising to a cumulative annual gap of £45.5m in 2025/26. The report highlighted that the budget process for 2024/25 would need to start early with a rolling budget approach that would include early implementation of savings plans.

The July 2023 Medium Term Financial Strategy (MTFS) forecast an annual cumulative budget gap of £98.8m by 2026/27 and recognised that it was imperative that action is

taken to identify significant savings. A targeted approach was identified that included focusing on 17 key budget areas, reviewing MTFP assumptions, and identifying service budget options to develop savings pipeline.

Due to the forecast budget gap and financial pressures that the Council is facing, the July 2023 MTFS raised “the very real prospect of a Section 114 Notice” having to be issued.

The November 2023 MTFS Update identifies that Somerset Council has a structural budget problem with the cost base increasing at a significantly higher rate than income. This is due to high inflation rates impacting cost while referendum limits restrict the amount that the Council’s main source of income, council tax, can be increased.

The November 2023 MTFS forecast a significantly larger budget gap for 2024/25 of £100.0m due to increasing cost and demand pressures within Adults and Children’s Services. The latest forecast, as at January 2024, is a budget gap of £82.5m in 2024/25. The Council can reduce the £82.5m gap using one-off resources from reserves and the collection fund surplus to £37.9m. The annual cumulative budget gap rises to £137.3m by 2026/27. The changes to the forecast annual cumulative budget gap reported to Members is demonstrated in Figure 3.

Figure 3: Somerset Council Budget Gap Projections 2024/25 and 2025/26

	Annual Cumulative Gap 24/25 £m	Annual Cumulative Gap 25/26 £m	Annual Cumulative Gap 26/27 £m
Budget Report 2023/24	41.6	45.5	Not reported
MTFS (July 2023)	41.6	45.5	98.8
MTFS (November 2023)	100.0	142.0	183.0
Revenue Budget Update (December 2023)	87.0	114.8	144.2
Revenue Budget Update (January 2024)	37.9	105.1	137.3

Therefore, in the absence of recurring savings being delivered, the one-off resources required to support the budget gaps identified from 2024/25 to 2026/27 are £280.3m.



# Financial sustainability (continued)

## Medium term financial planning and budget 2024/25 (continued)

### Somerset Council response to financial challenges

Due to the scale of the budget overspend forecast of £18.3m for 2023/24 and the significant budget gap of £82.5m identified for 2024/25, which both need to be resolved at pace before March 2024, the S151 Officer wrote to the Department for Levelling Up, Housing and Communities (DLUHC) on 26 September 2023 to highlight the financial challenges that the Council is facing.

We wrote to Somerset Council on 17 October 2023 to express our concerns over the significant financial challenges that the Council is facing and the risk they represent to financial sustainability.

The Council currently has a General Fund Balance of £49.8m and £104.9m of earmarked reserves. Unless the forecast overspend for 2023/24 is mitigated and actions are taken to significantly reduce the budget gap for 2024/25, there is a risk that unsustainable calls will have to be made on reserves, reducing them to levels that are insufficient to manage financial risk and fund service improvements in the future.

As part of our value for money audit work, we have considered how Somerset Council is responding to the financial challenges it faces and the actions that it is taking to reduce the 2023/24 overspend and 2024/25 budget gap.

The Council has implemented additional governance arrangements, budget processes and controls on expenditure, including:

- a programme of Member briefings to provide a detailed understanding of the financial situation, its drivers, and mitigating actions;

- MTFP Board set up, comprising of Executive Members and officers from the Executive Leadership Team to coordinate the budget process;

- establishment of a Financial Focus Group to develop the financial plan and review key areas such as Adult Services, Children's Services, and the capital programme;

- budget options and challenge sessions held with Directors to develop savings options and challenge financial pressures;

- dialogue with DLUHC regarding an application for a capitalisation direction to allow revenue costs to be funded from capital resources;

- a review of earmarked reserves is underway to identify what reserves can be released to support the Council's financial position;

- bringing forward the transformation programme to generate savings earlier than planned in 2024/25;

- Somerset Council declared a financial emergency on 26 September 2023 in order to provide a corporate response with emergency governance arrangements reflecting the seriousness of the Council's financial position; and

- Recruitment, Commercial and Procurement, and Spend Control Boards have been established as part of the emergency governance arrangements to reduce discretionary spending and ensure that expenditure meets agreed criteria.

The latest estimate of the budget gap for 2024/25 is £82.5m which is too large to bridge through the budget process. The Council can reduce this gap using one-off resources from reserves and the collection fund surplus to £37.9m. The Council is in discussion with DLUHC to bridge the remaining £37.9m budget gap through increasing council tax by 5% above referendum principles (generating an additional £17.1m) and through a capitalisation directive of £20.8m. If DLUHC does not agree to these dispensations, then the Council will be forced to issue a Section 114 Notice to suspend all expenditure on non-statutory services for 2024/25.

If the Council is issued with a capitalisation direction from DLUHC, it will be able to fund revenue expenditure from capital funds. This will not solve the structural budget gap for Somerset Council, but would allow the 2024/25 budget and potentially the 2025/26 to 2026/27 budgets to be balanced. The granting of a capitalisation direction would also add to Somerset Council's financial pressures in the medium term due to the 1% premium charged for PWLB borrowing. There are also potential additional financing costs if the capitalisation direction has to be funded from additional borrowing.

The Council awaits the outcome of discussions with DLUHC on whether additional council tax flexibilities and a capitalisation direction will be approved and the period that it will cover. Regardless of any additional dispensations granted, the Council will need to work at pace in order to balance the financial position in the short to medium term.

# Financial sustainability (continued)

## Medium term financial planning and budget 2024/25 (continued)

### Transformation programme and LGR savings

We raised an improvement recommendation in each of the County Council and District Council Auditors Annual Reports 2021/22 that adequate resources should be allocated to the planning and delivery of transformation and that business-as-usual activities be reviewed to create capacity. Transformation is required to reduce the structural budget deficit and to bridge the significant budget gaps that need to be addressed urgently.

The budget for 2023/24 was based on LGR business case efficiencies and already established efficiency or income generation programmes (for example Recycle More and company dividend distribution). While there were some savings resulting from transformational activity in Adult and Children's Services, there was no Council-wide transformation programme to contribute to the 2023/24 budget.

While efficiencies of £40.8m were built into the 2023/24 budget, there was not a significant pipeline of savings identified for future years when this budget was set. Identified savings as at February 2023 totalled £4.2m for 2024/25 and £6.2m for 2025/26.

The Somerset Council Interim Transition and Transformation Board (TTB) has met regularly since April 2023 with the objective of overseeing the planning and mobilisation of the transition and transformation programmes. The main areas of work that the Board has overseen relate to the Adult transformation programme, local government staff restructure savings, and reviewing the governance arrangements for the transformation programme.

The TTB became the Transformation Board in September 2023 with revised terms of reference to provide strategic overview of the transformation programme, manage risks and opportunities, and deliver LGR business case objectives and MTFP projects. At this point 60 transition projects and 7 transformation projects had been identified.

Therefore, while during 2023/24 the Council has started to establish the governance arrangements for the wider transformation programme, there has been limited progress in developing transformation business cases and projects for delivery. The S151 Officer's letter to DLUHC on 26 September 2023 confirms that there is no Council-wide transformation

programme and there is no pipeline of savings that can be built into the MTFP.

From discussions with the S151 Officer and Chief Executive we understand that the strategy is to bring forward the transformation programme so that it can start to deliver savings from 2024/25. The transformation programme will seek to right-size Somerset Council through new operating models and automation of processes, determining service levels, and reducing the workforce.

The transformation programme will need to be implemented rapidly and at scale in order to bridge the significant structural budget gap. Although the Council needs to deliver rapid transformation, it should ensure that any plans are based on robust and detailed business cases that are sufficiently scrutinised by both Members and senior managers prior to approval. The business cases should set out the objectives of transformation, the costs of implementation, and the forecast financial and service benefits.

Transformation should also be supported by an appropriate organisational culture, where service costs and levels of service are routinely and consistently challenged and there is corporate ownership for solving the budget gap. Governance arrangements and Council policies should support efficient decision making and implementation of savings plans, while ensuring the proper scrutiny and approval of proposals.

The Council will need to determine how the savings identified in the LGR business case correlate with the rapidly emerging transformation programme. The LGR business case identified on-going transition savings of £18.5m within 2 years of vesting day. As at November 2023 we understand that £17.7m of savings were forecast to be delivered in the three-year period to 2025/26 and so savings are being delivered at a slower rate than envisaged in the business case. Budget monitoring for Month 6 identifies £1.3m of planned LGR staff savings are at risk for 2023/24. While the Council is currently recruiting to tier four of the new management structure, Somerset Council will need to accelerate the level of staff savings delivered in order to balance the budget gap.

The Council will need to be clear on the scope and interrelationship of transformational and transitional savings as it undertakes what will necessarily be a large and complex programme of change to balance the financial situation.

# Financial sustainability (continued)



## Adult Social Care

Single and upper tier Councils are responsible for providing adult social care (ASC) services to help adults of all ages who may need additional support to stay well, safe and where possible to live independently.

ASC represents a significant part of Council spending with £19bn being spent in 2021/22 with budgeted expenditure rising to £19.7bn in 2022/23, reflecting growing demand.

There have been several reforms to ASC funding for Councils over recent years, including the introduction of the better care fund and giving Councils the power to raise additional revenue locally through Council Tax (the social care precept). Despite these changes Councils are delivering ASC services within a challenging environment that is shaped by more people, particularly working-age adults, requesting support, an ageing population and increasing complexity of need. These factors are being managed by Councils alongside financial challenges such as the impact of inflation, acute workforce pressures, the sustainability of commissioned ASC providers and uncertainty around longer term ASC funding and reform. Despite these pressures Councils will need to establish sufficient capacity to track and then transform service delivery to meet the challenges of evolving need and demand.

## Medium term financial planning and budget 2024/25 (continued)

We have identified the absence of a Council-wide transformation programme as a significant weakness in the arrangements to deliver financial sustainability, having previously identified that the Council should ensure that adequate resources are allocated to the planning and delivery of transformation.

We have raised a key recommendation that Somerset Council should now implement the transformation programme at scale and pace in order to address the significant structural budget deficit.

### Demand led services

**There are various demand led services within the Council, but the services with the most significant financial pressures are Adult Services and Children's Services due to increases in demand and in the cost of care. These financial pressures were key drivers to the overall financial position of Somerset County Council and continue to significantly impact the financial position of Somerset Council, representing a significant risk to financial sustainability.**

As demonstrated in Figure 4, Adult and Children's Services both overspent significantly in 2022/23, driving Somerset County Council's net overspend of £23.4m.

Significant budget growth was included in the 2023/24 base budget for Somerset Council for both these services, with significant overspends forecast as at Month 7 2023/24 in addition to this growth. Taking into account the budget growth and forecast overspend, Adult Services are forecast to require

£42.9m additional resources and Children's Services £32.7m additional resources in 2023/24 in comparison to the 2022/23 base budget.

These financial pressures are forecast to continue into 2024/25, and again are key drivers for the forecast budget gap of £82.5m. Pressures of £56.9m are modelled for Adult Services and £15.8m are modelled for Children's Services.

Due to the impact that the financial pressures within Adult and Children's Services are having on past and current overspends and on the budget gap for 2024/25, they represent a significant risk to the financial sustainability of Somerset Council.

We have made a key recommendation that Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs in relation to Adult and Children's Services.

Figure 4: Adult and Childrens Services Financial Pressures

	Adult Services £m	Children's Services £m
Overspend 2022/23	15.4	21.2
Budget Growth 2023/24	28.0	18.8
Forecast Overspend M7 2023/24	14.9	13.9
<b>Total Additional Resource 2023/24</b>	<b>42.9</b>	<b>32.7</b>
<b>Forecast Growth 2023/24 to 2024/25</b>	<b>56.9</b>	<b>15.8</b>

# Financial sustainability (continued)

## Demand led services (continued)

### Adult Services

Increasing demand, increasing complexity of need, and the rising costs of care are recognised as driving the budget growth within Adult Services. Somerset County Council, and now Somerset Council, has embarked on an adult transformation programme to mitigate the increases in demand and cost of care.

Adult Services are one of the 17 key budget focus areas identified in the MTFP and one of the key actions for the Financial Focus Group is to review the 2023/24 overspend and forecast gap for 2024/25. A deep dive session has been held to review data and modelling relating to adult social care demand and cost, and to identify opportunities to generate savings.

Somerset County Council engaged an external partner, Newton Europe, in November 2022 to undertake a diagnostic review across Adult Services in order to identify opportunities for controlling spend and managing demand.

The review identified three areas of focus to improve outcomes:

- improving the environment in which practitioners operate;
- ensuring the right care is available in the right place at the right time; and
- optimising intermediate care, especially discharge and reablement services.

Enablers to achieve improvements are identified as:

- workforce development to improve productivity;

- optimising the process of sourcing care;
- developing performance and financial monitoring; and
- developing the use of technology.

The Council has now engaged Newton Europe as a strategic change partner to deliver transformational change by implementing the opportunities identified in the diagnostic review. Savings opportunities of £14.2m per annum have been identified, with a stretch target of £17.2m by 2026/27.

The Council has agreed a contingent fee payable to Newton Europe, based on the delivery of at least a £10.0m annual saving, but with an annual target of £14.2m.

Progress on the adult transformation programme, My Life, My Future, is reported to the Somerset Council Transformation Board. A programme consisting of five workstreams has been mobilised and the design and implementation of solutions will be delivered over the next 12-18 month period.

Governance arrangements are in place for the adult transformation programme with a Programme Steering Group, supported by a Project Initiation Working Group, reporting to the Transformation Board.

### Children's Services

Children's Services are also one of the 17 key budget focus areas identified in the MTFP and the Financial Focus Group has carried out a deep dive review of the cost drivers, trend analysis and demand modelling for the service.

Trend analysis identifies increases in the number of Education, Health and Care plans, increases in the number of external



### Children and Young People - Social Care

Single tier councils and county councils spent £12.2 billion in 2021/22 and have increased their budget to £12.7 billion in 2023/24 as demand for children's social care services have increased. Councils have a statutory duty to safeguard and promote the welfare of children at risk. A range of services can be provided including support to families as well as keeping children safe from harm and providing services for those children who are 'looked after' by the council. In recent years there has been an increase in demand with an increase in the number of child protection places and looked after children, as well as an increase in complexity of the needs of the children.

The increase in demand and complexity has resulted in an increase in the cost of individual residential placements which are often not local and outside the Council's geographical locality as well as private and agency foster carers. Many councils have failed to model and anticipate the increase in demand and as a result lack sufficient local quality provision and are now actively trying to meet this challenge.

# Financial sustainability (continued)

## Demand led services (continued)

placements and a reduction in the number of in-house foster care placements. External placement numbers have increased by 19% with costs increasing by 101% between 2020/21 and 2022/23. The trend for placement numbers and placement days is continuing to increase for 2023/24.

Somerset Council is in the process of implementing a transformation programme to deliver the efficiency opportunities identified through a diagnostic review by Impower. The diagnostic review identified potential savings and cost avoidance measures of up to £8.1m over three years.

Three key areas have been identified as transformation priorities for Children's Services:

- sufficiency – ensuring there are adequate resources to predict demand and manage need through increasing the number of in-house foster careers and children's home places;

- efficiency – working with Connect Somerset to develop neighbourhood teams and multi-agency community hubs for the effective delivery of early help and support for children with special educational needs and disabilities; and

- managing risk – improving the early identification of need and effective intervention to reduce escalation to high needs and reduce school exclusions.

## Commercial investment property portfolio

**Somerset Council has inherited a significant commercial investment property portfolio from the predecessor district councils with acquisition costs of £289m and gross income of £20m. The scale of the commercial investment property portfolio represents a significant financial risk in relation to income generation, financing costs and capital value. Since vesting day Somerset Council has considered these risks and has approved the disposal of the commercial investment property portfolio and is currently developing an exit strategy to dispose of these commercial investments.**

In the years prior to 2022/23 the District Councils in Somerset built up significant commercial

investment property portfolios as part of their commercial strategies to generate additional income to support the delivery of services and balance the medium-term financial plan. Somerset County Council has not undertaken such property investments purely for yield.

HM Treasury sought to restrict the use of PWLB funding where councils were planning to invest in assets purely for yield from December 2020, in order to discourage this type of investment. A revised CIPFA Prudential Code was published in December 2021 which confirmed that capital investment purely for yield is not prudent activity for local authorities.

Somerset Council has inherited a significant commercial investment property portfolio with a purchase price of £289.1m and gross income of £20m. The portfolio was acquired during a period of low interest rates, but, in the main, short-term borrowing was secured to fund the assets rather than locking in longer-term low-cost borrowing. The majority of the portfolio is funded from borrowing of £281.6m (97%), of which £231.2m is short term or internal borrowing, thus increasing refinancing risk in a period of rising interest rates.

Somerset Council has undertaken a detailed review of the commercial investment property portfolio that was transferred on vesting day, with commercial investment properties identified as one of 17 key budget areas to consider as part of the medium-term financial strategy. This has identified that largely due to the rise in interest rates since the investments were acquired, the capital value of the portfolio has decreased from £289.1m to £219.5m, a reduction of £69.6m (24%). Once the costs of borrowing are taken into account, the portfolio is making a net £2.9m revenue loss per annum, representing a negative yield of 1%. While the investment strategies of predecessor councils varied, net yields of at least 2.4% were originally anticipated.

This position is set out in Figures 5 and 6, which demonstrate that the capital and income losses apply across the predecessor council commercial investment property portfolios.

# Financial sustainability (continued)

## Commercial investment property portfolio (continued)

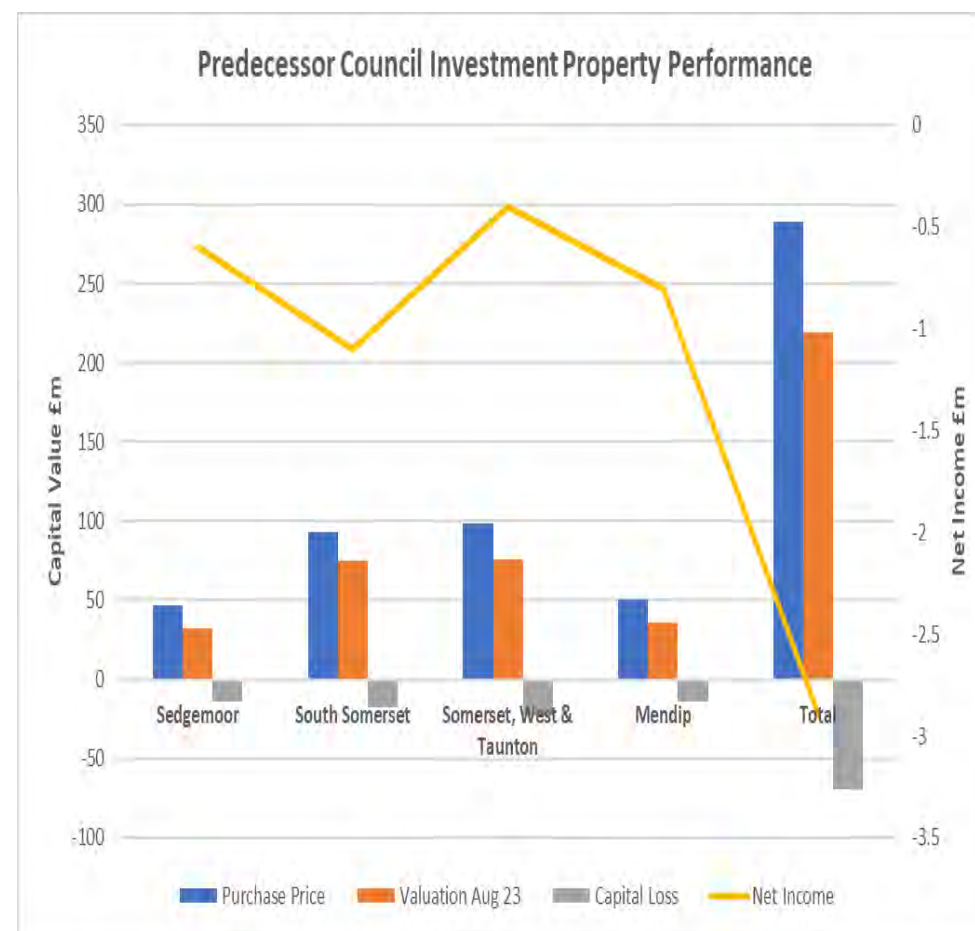
Figure 5: Predecessor Council Commercial Investment Property Portfolio Performance

District Council	Purchase Price £m	Valuation Aug 2023 £m	Capital Loss £m	Net Income £m	Net Yield %
Sedgemoor	46.5	32.2	-14.3	-0.6	-1.21%
South Somerset	93.2	75.3	-17.9	-1.1	-1.19%
Somerset, West and Taunton	98.9	75.9	-23.0	-0.4	-0.45%
Mendip	50.4	36.1	-14.3	-0.8	-1.57%
<b>Total</b>	<b>289.1</b>	<b>219.5</b>	<b>-69.6</b>	<b>-2.9</b>	<b>-1.01%</b>

The County Council and District Council Auditors Annual Reports 2021/22 identified the scale of the commercial investment property portfolio that Somerset Council would inherit as a key budget risk. We raised an improvement recommendation to address this through the 2023/24 budget process by determining the approach for holding, financing and mitigating risk relating to commercial investment property. Somerset Council has taken appropriate action to address this recommendation.

Somerset County Council, as the continuing authority, approved the Somerset Council Non-Treasury Investment Strategy in February 2023. The Strategy confirms that the new unitary authority will not acquire any new commercial investment properties primarily for yield, but that modelling would be undertaken to determine the net return achieved from assets and options for disposal, financing and risk mitigation reviewed.

Figure 6: Predecessor Council Commercial Investment Property Portfolio Performance



# Financial sustainability (continued)

## Commercial investment property portfolio (continued)

Somerset Council Executive approved the disposal of the commercial investment property portfolio in November 2023 in order to reduce financial risk associated with declining asset values and increased financing costs that are making the portfolio unprofitable. The resultant capital receipts can be used to either reduce the Council's capital financing requirement or fund the costs of transformation.

Somerset Council is currently working to develop an exit strategy to dispose of the commercial investment property portfolio. More financial modelling will be undertaken to inform the exit strategy and to identify which assets to dispose of and the timetable for disposal. The Council has approved the formation of a Property and Investment Sub Committee to ensure appropriate governance arrangements are in place and that commercial property is properly managed pending any disposal.

We note that internal audit provided a limited assurance opinion for the commercial rent audit at South Somerset District Council in January 2023. Weaknesses were found with regard to the maintenance of property and tenancy management records and documentation of procedures. While Somerset Council retains commercial investment properties, it should ensure that weaknesses identified in predecessor council arrangements are addressed and property management arrangements are robust.

While recognising that Somerset Council has approved the disposal of the commercial investment property it has inherited, we consider that the financial performance of the portfolio represents a significant risk to the financial sustainability of the Council. Commercial investment property, after taking into account borrowing costs, is forecast to make a loss of £2.9m in 2023/24 and so is not achieving the original business objectives of supporting the delivery of services. The Council is also considering an exit strategy at a time when commercial investment property values are significantly suppressed due to high interest rates and will need to consider how best to achieve value for money as assets are disposed of.

We have raised a key recommendation that Somerset Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio to ensure that best value is obtained as assets are disposed of.

The Council should continue to manage the risks associated with the portfolio in the interim, including financing risks, income risks and ensuring that landlord responsibilities are discharged. While the Council retains commercial investment property, it should also ensure that the financial performance of individual assets is monitored, after accounting for financing costs, and reported to Members regularly to allow appropriate scrutiny and challenge.

## Reserves

**Somerset Council's General Fund and Earmarked Reserves are under considerable pressure due to the forecast revenue overspend for 2023/24 and the budget gap identified for 2024/25. If budget gaps are not urgently mitigated, then the call on reserves will be unsustainable and could result in Somerset Council having to issue a Section 114 Notice as soon as February 2024. Somerset Council should ensure that General Fund and Earmarked Reserves are maintained at a prudent level in order to provide financial resilience.**

The District Councils delivered underspends against the approved budget for 2022/23, with the surplus transferred to their General Fund Balances to increase financial resilience, except in the case of Sedgemoor District Council where the underspend reduced the reliance on earmarked reserves to balance the budget.

Somerset County Council set the minimum level of General Fund Balances at £20m-£30m for 2022/23. The in-year revenue overspend of £23.4m reduced the General Fund Balance from £27.1m as at 1 April 2022 to £3.7m as at 31 March 2023. This is significantly less than the minimum prudent level.

The Somerset Council Consolidated Outturn Report 2022/23 amalgamated the General Fund Balance for all predecessor Somerset councils for a total of £26.8m as at 31 March 2023. As part of the outturn report a further £23m was allocated to this balance from earmarked reserves to give an opening General Fund Balance of £49.8m for Somerset Council. Therefore, the General Fund Reserve was at the upper end of the prudent range determined as part of the budget process for Somerset Council of £30m-£50m and equates to 10% of the net budget. This level of General Fund Reserve is deemed

# Financial sustainability (continued)

## Reserves (continued)

appropriate considering the financial risks that the new authority faced in the first year of operation.

Somerset Council inherited earmarked reserves of £104.9m from the predecessor Somerset councils after accounting for commitments and replenishing the General Fund Balance.

Somerset Council's General Fund and Earmarked Reserves are under considerable pressure due to the forecast revenue overspend for 2023/24 and the budget gap identified for 2024/25.

If the Month 7 2023/24 overspend of £18.3m is not further mitigated, then the General Fund Balance will reduce to £31.5m which is at the lower end of the minimum prudent range of £30m-£50m established by the Council's S151 Officer. The current forecast budget gap of £82.5m for 2024/25 would reduce the General Fund Balance to zero and require the use of earmarked reserves depleting these to only £53.9m. It is noted that the Council plans to utilise £36.8m of earmarked reserves to reduce the £82.5m budget gap for 2024/25.

This level of reserves would not provide the level of financial resilience or capacity to invest in transformation for an organisation with a current net budget of £493.4m. If the budget gaps remain unmitigated Somerset Council will have negative reserves by 2025/26. The pressure on reserves caused by the current and future year budget deficits are demonstrated in Figure 7.

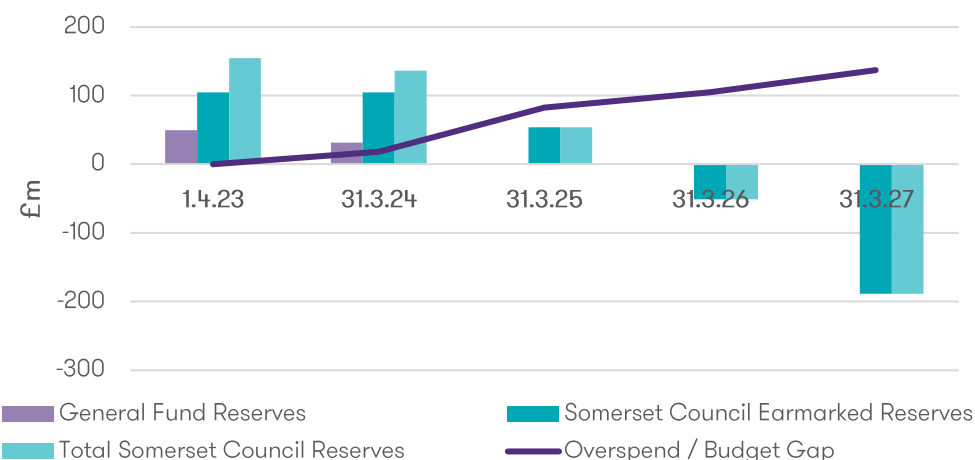
Somerset Council is currently undertaking a review of reserves to identify earmarked reserves that can be released to support financial resilience and help bridge budget gaps while efficiencies and transformation projects are delivered.

It is essential that Somerset Council mitigates the 2023/24 revenue overspend and closes the budget gap for 2024/25 at pace in order to protect reserves and provide financial resilience going forward. Failure to reduce the potential impact on reserves from these pressures could result in Somerset Council having to issue a Section 114 Notice as soon as February 2024.

Figure 7: Somerset Council Reserve Forecast

	1 April 2023 £m	31 March 2024 £m	31 March 2025 £m	31 March 2026 £m	31 March 2027 £m
Overspend / Budget Gap	-	-18.3	-82.5	-105.1	-137.3
General Fund Reserves	49.8	31.5	0	0	0
Earmarked Reserves	104.9	104.9	53.9	0	0
<b>Total Useable Reserves</b>	<b>154.7</b>	<b>136.4</b>	<b>53.9</b>	<b>-51.2</b>	<b>-188.5</b>

## Somerset Council Reserve Forecast





# Financial sustainability (continued)

## Reserves (continued)

We have made a key recommendation that Somerset Council should ensure that General Fund and Earmarked Reserves are maintained at a prudent level in order to provide financial resilience. There should be a focus on:

urgently mitigating the 2023/24 budget overspend and bridging the 2024/25 budget gap in order to reduce their impact on reserves;

continuing to review earmarked reserves to identify resources that can be reallocated to supporting financial resilience; and

determining the minimum prudent level for General Fund Reserves in light of the continuing financial challenges that the Council faces.

## Treasury management and capital strategy

**Somerset Council has a significant capital financing requirement (CFR), forecast at £1.2bn for 2023/24, with associated budget risk in terms of high levels of minimum revenue provision (MRP) and interest costs which are forecast to increase as the capital programme is delivered. As part of the overall strategy to achieve financial sustainability, minimising the capital financing requirement and associated borrowing costs are recognised by Somerset Council as key areas of focus. A review of the capital programme is currently underway to determine which schemes dependent on borrowing can be delayed or removed from the programme.**

### Treasury management

We identified a significant weakness in 2021/22 regarding the arrangements for treasury management at Sedgemoor District Council. The Council was not complying with the requirements of the CIPFA Code of Practice on Treasury Management because mid-year and outturn treasury performance reports were not provided to Members for scrutiny. We also identified that Sedgemoor District Council was not undertaking proactive and detailed cash flow monitoring, instead taking a reactive approach through checking the cash balance each

day and making treasury decisions accordingly. We raised a key recommendation in the Auditors Annual Report 2021/22 that Sedgemoor District Council should comply with the requirements of the CIPFA Code.

Through our review of arrangements in place for 2022/23 we have determined that this significant weakness has been largely addressed. Sedgemoor District Council approved the Treasury Management Strategy 2022/23 in March 2022, and quarterly Corporate Performance Reports to Executive included updates on treasury performance. Somerset Council considered the Sedgemoor District Council Treasury Outturn Report in October 2023. Therefore, the reporting requirements of the CIPFA Treasury Management Code have been complied with.

Sedgemoor District Council continued with its reactive approach to cashflow monitoring for 2022/23, but we have made no further recommendations regarding this as no liquidity issues were noted for the Council during 2022/23, who were able to borrow for treasury purposes from Somerset County Council in the run up to LGR.

We raised an improvement recommendation in the Somerset County Council Auditor's Annual Report 2021/22 that the Council should review the MRP charge for 2022/23 in order to ensure that the CFR is financed over a prudent period. The MRP charge for Somerset County Council in 2022/23 is £9.0m and has increased from 0.9% of the CFR in 2021/22 to 1.82%. This is closer to the 2% benchmark, based on maximum asset values of 50 years, that we would expect. However, the increase is based on an additional voluntary revenue provision of £3.7m, and in our view the underlying calculation for MRP is not consistent with statutory guidance.

Somerset Council will need to ensure that their MRP charge is in line with statutory guidance for 2023/24.

Somerset County Council approved the Somerset Council Treasury Management Strategy 2023/24 in February 2023. The Strategy recognised that a key determinant of the borrowing strategy for the new authority will come from the review of the combined commercial investment property portfolio and options for the disposal of these assets which are largely funded from short term debt totalling £231.2m.

# Financial sustainability (continued)

## Treasury management and capital strategy (continued)

Due to the amount of short-term debt requiring refinancing in 2023/24 the Strategy sets out to balance the cost of finance and risk associated with long term debt. With the current high levels of interest rates the strategy identifies it is likely to be more cost effective in the short term to use internal borrowing or short-term borrowing.

Somerset Council is also developing the new unitary cash flow model, using the cash flow forecasts of the predecessor councils as the starting point and refining this data as the new council becomes established and a payment history is developed.

### Capital strategy

The County Council and District Council Auditor's Annual Reports 2021/22 identified the size of the inherited capital programme as a key budget risk for Somerset Council in 2023/24 and recommended that the programme should be reviewed to manage the financial risks associated with scheme cost and borrowing costs.

Based on analysis of the Capital Estimates Return 2023/24, Somerset Council forecast a total CFR of £1,232.4m for the year, comprising both the Housing Revenue Account and General Fund CFR. This represents the fifth highest CFR for a unitary council in England and compares to an average CFR across all unitary councils of £582.9m. This position is demonstrated in Figure 8.

Although the relative size of the CFR is consistent with the size of Somerset Council, which is the fourth largest unitary council in the country based on net revenue budget, the scale of the Council's CFR and the debt associated with it represents a significant financial risk that requires careful management. The risk is further compounded in the current financial climate of high interest rates and due to the significant amount of short-term debt that Somerset Council inherited from predecessor councils.

Somerset County Council approved the Capital Strategy and Programme for Somerset Council in February 2023. The total general fund capital programme inherited from the five predecessor councils, plus £75.9m of new capital bids, was £332.2m for the period 2023/24 to 2025/26 and was dependent on £107.1m (32%) of borrowing.

The Capital Strategy confirmed that the programme would be reviewed by Somerset Council post vesting day alongside the new Corporate Plan. Due to the increased borrowing required to fund the capital programme, which is front loaded in earlier years due to the profile of capital spend, the General Fund MRP was forecast to increase from £15.1m in 2022/23 to £24.5m in 2025/26. This increase in MRP reflects a forecast increase in the General Fund capital financing requirement from £945.2m in 2022/23 to £1,015.7m by 2025/26.

As a result of slippage with predecessor council capital programmes in 2022/23, an additional £99.5m was added to the capital programme to give a total Somerset Council capital programme of £431.8m as at September 2023. The revised capital programme is dependent on £136.7m of borrowing (32%).

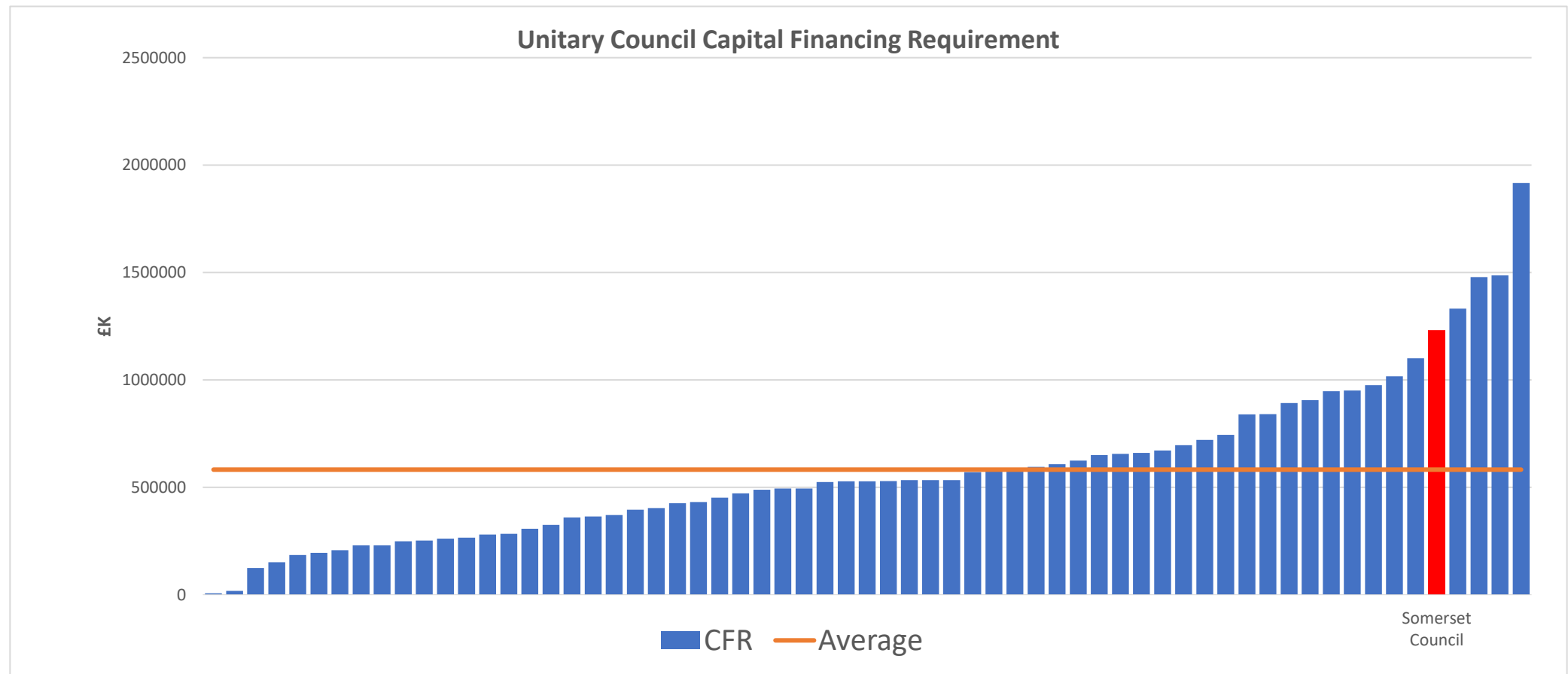
Somerset Council is in the process of reviewing its capital programme as part of the 2024/25 budget process to determine which schemes dependent on borrowing can be delayed or removed from the programme, and to ensure that any new bids relate to statutory health and safety compliance or are fully funded.

As part of the overall strategy to achieve financial sustainability, minimising the capital financing requirement and associated borrowing are recognised by Somerset Council as key budget areas in order to reduce the revenue impact of the significant interest and MRP costs that are modelled in the Capital Strategy.

We have raised an improvement recommendation that Somerset Council should complete the review of the capital programme and challenge future capital bids in order to manage the capital financing requirement and the risks associated with MRP and interest costs.

# Financial sustainability (continued)

Figure 8: Unitary Council Capital Financing Requirement Estimates 2023/24



# Financial sustainability (continued)

## Dedicated schools grant (DSG)

There is significant pressure on the High Needs Block of the DSG. Somerset County Council overspent on the DSG by £3.4m in 2022/23 and this pressure continues into 2023/24. The cumulative DSG deficit is forecast to rise to £96.2m by 31 March 2026, when the statutory override for ring fencing the deficit ends. It is not clear what the arrangements will be from 2026/27, but Somerset Council recognises this as a significant risk to financial sustainability and is taking mitigating actions to reduce the annual deficit. We have made a key recommendation that Somerset Council should develop a robust DSG Deficit Management Plan.

Somerset County Council overspent on the DSG by £3.4m for 2022/23, driven by the £3.9m overspend on the high needs block. The cumulative deficit on the DSG as at 31 March 2023 was £20.7m.

Pressures on the high needs element of the DSG have continued into 2023/24 for the new unitary council. These pressures are driven by the increased number of children with education, health, and care plans, and increases in the number and costs of school placements for children with social, emotional, and mental health needs.

The Somerset Council Month 7 Budget Monitoring Report 2023/24 forecasts a £17.4m annual deficit on the DSG, driven by an overspend on the high needs block. The cumulative DSG deficit is forecast at £38.1m as at 31 March 2024, the majority of which relates to the high needs block.

The Council forecasts that the level of the DSG deficit could rise to £96.2m by 31 March 2026 and recognises that this

presents a significant financial risk due to the statutory override ending at this time.

Somerset Council is participating in the Department for Education (DfE) Delivering Better Value Programme aimed at 55 councils with significant high needs DSG deficits. However, based on analysis of opportunities to reduce the deficit, these will not be sufficient to resolve the gap and modelling forecasts the cumulative deficit will continue to grow each year.

Somerset County Council did have a DSG Deficit Management Plan in place for 2022/23. However, the Plan was not updated for 2023/24 as the Council understood that their participation in the Delivering Better Value Programme superseded the requirement for a specific Deficit Management Plan. The DfE has informed Somerset Council that it is required to develop a new Deficit Management Plan and submit this to the DfE in February 2024.

We consider that the growing DSG deficit and the £96.2m potential deficit forecast by March 2026, when the statutory override ends, to be a significant risk to the financial sustainability of the Council.

We have made a key recommendation that Somerset Council should develop a robust DSG Deficit Management Plan and ensure that sufficient resources are allocated to monitoring and reporting progress against the plan to Members and stakeholders such as the Schools Forum.

We do recognise that, in addition to participating in the Delivering Better Value Programme, Somerset County Council and now Somerset Council have taken other actions to mitigate the risk presented by the rising DSG deficit.



## Dedicated Schools Grant Deficits

On 12<sup>th</sup> December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years.

Recent estimates put the total national deficit for local authorities in tens of billions by March 2023. Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalize as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

# Financial sustainability (continued)

## Dedicated schools grant (DSG) (continued)

Somerset County Council received £10.1m of DfE capital funding in 2022 to develop special school satellites, enhanced learning provision, and new therapeutic education capacity. The objective is to increase the number of children able to access inclusive education provision close to home. Somerset County Council also successfully bid for two special free schools which DfE is responsible for delivering which will increase capacity by 120 new school places.

Somerset Council is working with an external consultant to identify further opportunities to reduce the pressure on high needs budgets. Work is focused on early identification and support, as well as the use of the Somerset Inclusion Tool to improve planning for children with special educational needs.

## Housing revenue account

**The Somerset Council Housing Revenue Account is facing significant financial challenges over the medium term. Although the HRA balance is significant with £11.8m forecast as at March 2024, the 30 Year HRA Business Plan forecasts the unsustainable use of HRA balances over the medium term. The Council should ensure that it reviews the HRA business plans inherited from predecessor councils to ensure the HRA is financially sustainable and prudent levels of balances can be maintained.**

Sedgemoor District Council delivered a £1.4m surplus on the HRA for 2022/23. This position was driven by additional rental income and underspends on revenue budgets, which was partly offset by increased inflationary pressures.

The Somerset West and Taunton Council HRA budget was overspent by £0.2m for 2022/23. Within the net position cost pressures relating to depreciation, maintenance and staffing costs were largely offset by decisions to reduce capital debt repayments.

Somerset Council has inherited the year end HRA balances for Sedgemoor District Council (£10.7m) and Somerset West and Taunton Council (£2.9m). The combined balance of £13.6m is in excess of the minimum prudent range set at £3.7m.

The 2023/24 HRA budget amalgamates the business plans from Sedgemoor District Council (Homes in Sedgemoor outsourced model) and Somerset West and Taunton (in-house model). A £1.7m deficit is forecast for 2023/24, with closing balances of £11.8m forecast as at 31 March 2024.

While the level of balances is significant and in excess of the minimum prudent range, the Somerset Council 30 Year HRA Business Plan approved in February 2023, identifies significant pressures within the HRA over the medium term. The government rent cap increase of 7% is significantly less than inflation when the budget was set (CPI was 10.4% in February 2023).

In addition to inflationary pressures and income caps, there are financial challenges within the HRA that relate to: capital financing due to rising interest rates; a shortage of social housing where cost increases impact on scheme viability; the cost of ensuring housing stock complies with decent homes standards; and the cost of decarbonising housing stock.

Due to these financial pressures within the HRA, the 30 Year Business Plan forecasts the HRA balance to decrease below the minimum level in eight years (2029/30) and from 2030/31 negative HRA balances are modelled.

The Council recognises that the HRA plan is not financially sustainable in the medium term. The Council plans to review the legacy Sedgemoor and Somerset West and Taunton Council HRA plans with a view to maximising funding and delivery. This will include reviewing the different operating models, comparing operating costs to identify efficiencies, considering the capital programme, and reviewing depreciation models.

The Council has HRA balances significantly higher than the minimum prudent level, and recognises that the current HRA plan is not financially sustainable in the medium term. Therefore, we have not identified a risk of significant weakness in arrangements at this time. We have raised an improvement recommendation that Somerset Council should continue to review and align where possible the legacy HRAs inherited from predecessor councils to identify efficiencies and address the financial challenges identified.

# Improvement recommendations

## Improvement Recommendation 1

Somerset Council should complete the review of the capital programme and challenge future capital bids in order to manage the capital financing requirement and the risks associated with minimum revenue provision and interest costs. This includes:

- maintaining the capital financing requirement at affordable levels;
- reviewing the current capital programme to identify schemes funded from borrowing that can be removed, delayed or funded from external funding; and
- challenging capital bids that are funded by borrowing if they are not related to invest to save, statutory compliance or other regulatory responsibilities.

## Improvement opportunity identified

The scale of the Council's CFR and the debt associated with it represents a significant financial risk that requires careful management. The risk is further compounded in the current financial climate of high interest rates and due to the significant amount of short-term debt that Somerset Council inherited from predecessor councils.

## Summary findings

Somerset Council forecast a total capital financing requirement of £1.232.4m for 2023/24. This represents the fifth highest CFR for a unitary council in England and compares to an average CFR across all unitary councils of £582.9m. Due to the increased borrowing required to fund the capital programme, which is front loaded in earlier years due to the profile of capital spend, the General Fund minimum revenue provision is forecast to increase from £15.1m in 2022/23 to £24.5m in 2025/26.

## Criteria impacted

 Financial sustainability

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

## Management comments

We accept this recommendation. Officers have already undertaken considerable work in respect of reviewing the current year capital programme and challenging new projects proposed for 2024/25 onwards. New schemes that are not 100% externally funded have been subjected to significant challenge. The review has identified some schemes for consideration by Members to be paused or removed from the programme, especially those that increase the Council's external borrowing. The budget report to Executive in February 2024 will include a revised capital programme and proposed new projects to be approved and included. We will continue to review and challenge as we move forward.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations

## Improvement Recommendation 2

Somerset Council should continue to review and align where possible the legacy Housing Revenue Account (HRA) business plans inherited from predecessor councils to identify efficiencies and address the financial challenges identified to financial sustainability within the HRA.

## Improvement opportunity identified

The Council recognises that the HRA plan is not financially sustainable in the medium term. The Council plans to review the legacy Sedgemoor and Somerset West and Taunton Council HRA plans with a view to maximising funding and delivery. We have therefore raised an improvement recommendation that this work should continue.

## Summary findings

The 2023/24 HRA budget amalgamates the business plans from Sedgemoor District Council (Homes in Sedgemoor outsourced model) and Somerset West and Taunton (in-house model). A £1.7m deficit is forecast for 2023/24, with closing balances of £11.8m as at 31 March 2024. Although these are significantly higher than the minimum prudent level of HRA balances identified as £3.7m, the 30 Year HRA Business Plan approved in February 2023 identifies significant pressures within the HRA over the medium term. The HRA balance is forecast to decrease below the minimum level in eight years (2029/30) and from 2030/31 negative HRA balances are modelled.

## Criteria impacted



Financial sustainability

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

## Management comments

We accept this recommendation. The action needed in this area will form part of the wider Financial Action Plan for the Council, with additional resources allocated to support this area if necessary.

# 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

monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

## Local government reorganisation

Good governance arrangements were established for the LGR programme that allowed for effective monitoring, timely reporting and the identification and management of risk to programme delivery. The predecessor councils in Somerset successfully transitioned to a safe and legal Somerset Council on 1 April 2023.

While the minimum agreed viable finance system was implemented from 1 April 2023, there have been weaknesses in the functionality of the system and associated processes since vesting day relating to budget monitoring, interfaces, cash allocation and invoice payment. This has impacted on the performance of the system, the information available to users and the audit of the financial statements for 2022/23. We have made a key recommendation that Somerset Council should continue to develop the functionality of the Microsoft Dynamics finance system and resolve outstanding processes at pace.

Somerset Council has started to establish the governance arrangements for the wider transformation programme, but there has been limited progress in developing transformation business cases and projects for delivery. LGR savings are being delivered more slowly than envisaged in the business case. We have identified the absence of a Council-wide transformation programme as a significant weakness in the arrangements to deliver financial sustainability.

## Finance system

As part of the transition to Somerset Council a new finance system, Microsoft Dynamics, was implemented from 1 April 2023. Governance arrangements were put in place to manage the implementation, including weekly project team meetings, monthly project steering group meetings, with project delivery scorecards reported to the Programme Board. An external partner, Ernst and Young, supported the implementation and Socitm provided independent assurance on delivery progress.

The minimum agreed viable finance system was implemented from 1 April 2023, which allowed for the payment of invoices, payments to care providers and direct payments, and collection of income. There have, however, been weaknesses in the functionality of the finance system and associated processes since vesting day relating to budget monitoring, interfaces, cash allocation and invoice payment. These weaknesses have impacted the performance of the finance system, the information available to users, and the audit of the financial statements for each of the predecessor councils for 2022/23.

The implementation of the new finance system impacted budget monitoring, with Somerset Council unable to produce system generated budget reports until Month 6 (September) 2023/24. The finance team had to manually compile budget monitoring reports using a risk-based budget monitoring approach. Somerset Council Executive received their first budget monitoring report (Quarter 1 2023/24) on 6 September 2023, while in comparison Somerset County Council received the Month 2 2022/23 budget monitoring report on 11 July 2022.

We are also aware of issues with posting cash file interfaces which has impacted on sundry debt collection and the completeness of information within the finance system.



# Governance (continued)

## Local government reorganisation (continued)

The backlog of unpaid supplier invoices within the finance system increased significantly post vesting day, particularly in relation to unpaid invoices for legacy councils from 2022/23. Local government reorganisation, with the associated finance system coding changes and personnel changes, created particular difficulties in coding and authorising legacy invoices that were not raised through a purchase order.

We recognise that the finance team is now making progress in addressing these issues and is further developing the functionality of the finance system. A Microsoft Dynamics triage meeting has been held three times a week since August 2023 to review operational issues and to focus on system development.

The budget reporting tool, Solver, has been rolled out to finance business partners from 21 July 2023 and work to validate data within the finance system and to develop standardised budget reports is ongoing. Budgets are now loaded into the system and payroll data has been posted since August 2023. Accruals from 2022/23 were due to be reversed in November 2023. These actions should improve the efficiency and accuracy of budget monitoring from Month Seven (October) onwards.

The process for posting cash interfaces into the ledger was revised in August 2023 to ensure more visibility of transactions for users and additional resource have been allocated to clearing the cash posting backlog. The sundry debt recovery process restarted in October 2023 using a phased approach, and all debt types should be under recovery by December 2023.

Additional resources have been put in place to address the invoice backlog and additional training and workshops have been provided for staff involved in the invoice authorisation process. Progress on clearing the backlog is reported to the Dynamics Project Steering Group.

Service Directors are provided with weekly purchase order owners and approvers reports to identify the backlogs in their service areas. The backlog of non-purchase order invoices has decreased from 4,165 requiring action as at 24 May 2023, to 2,357 by 3 November 2023.

Somerset Council is also enforcing a “no order no pay” policy from December 2023 which should reduce the number of invoices that are not accompanied by a purchase order and speed up processing times.

Socitm held a lessons learned workshop in August 2023 to identify learning from the implementation of Microsoft Dynamics that could be taken forward and applied to other system implementations. Areas of success were noted that include delivering a solution on time, clear ownership and good leadership. Areas for improvement were noted in relation to project management, data migration, integrations, testing and communications.

Ultimately the Council plans to implement self-service financial monitoring and reporting for budget holders, with workflow in place to manage the process. Other improvements are planned to the Council’s finance system architecture, including alignment of legacy revenues and benefits systems and consolidation of the bank accounts inherited from predecessor councils.

We judge the weaknesses in the functionality of the finance system experienced after vesting day to be significant as they have impacted on budget monitoring, debt collection, invoice payment, and the accuracy of financial information. The finance system should support timely, efficient and accurate financial processes. This is particularly important due to the financial challenges that Somerset Council is facing and the need for prompt and accurate financial monitoring.

While Somerset County Council led the implementation of the new finance system, all predecessor council partners in Somerset had a role to play in ensuring sufficient resources were allocated to the system project team and in ensuring data was cleansed for migration into Microsoft Dynamics.

We have raised a key recommendation that Somerset Council should continue to develop the functionality of the Microsoft Dynamics finance system and resolve outstanding processes at pace to ensure that the system supports efficient and accurate financial reporting. There should be a focus on:

- continuing to develop financial processes relating to interfaces, invoice payment and data validation to ensure that transactions are promptly and efficiently processed and that the data within the finance system is accurate and complete;
- developing standardised system generated budget monitoring reports for budget holders to ensure that timely and efficient budget monitoring arrangements are in place;

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# Governance (continued)

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## Local government reorganisation (continued)

ensuring that finance system users are adequately trained and understand their roles and responsibilities; and

applying the lessons learned from the implementation of Microsoft Dynamics to future system implementations undertaken as part of the transformation programme.

### Governance arrangements

We identified a risk of significant weakness within the 2022/23 Annual Audit Plans for the County Council and the District Councils that appropriate arrangements were not in place to support a successful transition to a single unitary council from 1 April 2023.

We undertook a detailed review of the governance arrangements in place to support local government reorganisation in Somerset as part of our 2021/22 value for money assessment. We reported that the LGR programme had good governance arrangements in place that allow for effective monitoring, timely reporting and the management of risk to programme delivery. Examples of strong governance arrangement were identified as follows:

Member oversight from all predecessor councils through the Implementation Board;

LGR Joint Scrutiny Committee;

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 Programme Management Office providing resource for project management and monitoring;

arrangements in place to identify, report and mitigate risk through the LGR programme risk register;

change control process to ensure changes to product target dates, scope, cost or benefits are agreed;

independent assurance provided on implementation progress provided by PwC and Socitm.

In response to the risk of significant weakness identified in the 2022/23 Annual Audit Plans, we have updated our assessment of the governance arrangements in place to support local government reorganisation and how successful the transition to Somerset Council has been.

The predecessor councils in Somerset successfully transitioned to a safe and legal Somerset Council on 1 April 2023, which was the primary objective of the LGR programme for vesting day. Governance arrangements continued to operate in the run up to vesting day, with the Somerset County Council Executive receiving implementation plan update reports and the Implementation Board meeting to review programme updates and day-one readiness assessments.

LGR implementation update reports to Somerset County Council in March 2023 provided confidence that the new council would be able to open for business and be able to deliver services on vesting day, and that critical day-one products were delivered or in progress. To ensure a successful transition on 1 April 2023, a Business Readiness Group was established to define what success looked like, including customers being able to contact the Council and access services, staff being able to do their job without disruption, and efficient decision making. The Day-One Readiness Report presented to the Implementation Board on 21 March 2023 provided a green RAG rating for the overall programme with a total of 97.63% of tranche one products and 99.52% of milestones delivered or on track.

Risks continued to be monitored and mitigated with a focus on programme level strategic risks. Risks were reviewed to determine which could be closed, which were transitional risks to carry forward, and which were strategic risks for Somerset Council's risk register. The only red RAG (Red Amber Green) rated risk as at March 2023 related to the five predecessor councils overspending in 2022/23. The outturn position of the predecessor councils is considered in the financial sustainability section of this Auditor's Annual Report.

We have not identified any significant service performance issues on transition to the new Council. The complaints received from members of the public for the period April 2023 to June 2023 mainly relate to business-as-usual activities, with only four complaints out of a total of 532 relating specifically to vesting day issues such as accessing electoral roll information and difficulties using the single council telephone number.

# Governance (continued)

## Local government reorganisation (continued)

As Somerset Council moves from transition into transformation it will need to ensure that the operating model is developed alongside the developing Council Plan, and that strategic aims and objectives are communicated and understood throughout the Council. Processes should be reviewed and aligned across predecessor council services in areas such as performance management and customer engagement. We will review the progress that Somerset Council has made in aligning strategies, processes and systems as part of our 2023/24 value for money audit.

## Transformation programme and LGR savings

An improvement recommendation was raised in the 2021/22 Auditors Annual Reports for the County and District Councils to ensure that adequate resources were allocated to the planning and delivery of transformation, in order to help bridge the significant budget gaps identified over the medium term.

We have identified as part of our review of arrangements in place to ensure financial sustainability that Somerset Council has started to establish the governance arrangements for the wider transformation programme, but that there has been limited progress in developing transformation business cases and projects for delivery. There is currently no Council-wide transformation programme or pipeline of savings that can be built into the MTFP.

LGR related savings are also being delivered more slowly than envisaged in the business case and £1.3m of planned staff savings for 2023/24 are at risk. The Council will need to be clear on the scope and interrelationship of transformational and transitional savings as it undertakes a complex programme of change to balance the financial situation.

We have identified the absence of a Council-wide transformation programme as a significant weakness in the arrangements to deliver financial sustainability and have raised a key recommendation that Somerset Council should now implement the transformation programme at scale and pace in order to address the significant structural budget deficit.



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# Governance (continued)

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## Risk management

**The County Council and each of the District Councils had adequate arrangements in place to identify, mitigate and report on risk and we have found no significant weaknesses in risk management arrangements for 2022/23.**

The County Council and the District Councils each had a risk management strategy or policy in place for 2022/23 that was subject to review, and which set out the roles and responsibilities for risk management. Although arrangements varied between predecessor councils, risks were reported regularly to Members of the respective Audit Committees and /or Executives during 2022/23.

The County Council and District Council risk registers contained most of the elements of best practice that we would expect to see, including controls or mitigating actions, RAG rated risk scores and risk owners. We note that the risk mitigations were not reported to Executive in detail at Somerset West and Taunton Council and that for the County Council and District Councils risk reporting would be strengthened if risks on the strategic risk register were mapped to corporate priorities.

In February 2023, the Somerset County Council Executive approved the Risk Management Strategy and Policy Framework for Somerset Council from 1 April 2023. County Council and District officers worked together to develop the new authority's approach to risk management, including risk scoring, recording, roles and responsibilities. Work was undertaken to review predecessor council risks and develop a strategic risk register for Somerset Council.

We have raised an improvement recommendation that robust risk management reporting arrangements should be implemented for Somerset Council with consideration given to the strengths and weaknesses identified in each of the predecessor council arrangements.

We will review how risk management arrangements have developed and been embedded at Somerset Council as part of our value for money audit 2023/24.

## Internal control

**The County Council and each of the District Councils had an effective internal audit function in place for 2022/23 and there is no evidence of pervasive and significant weaknesses within the councils' control environments. Internal audit provided "Reasonable Assurance" opinions relating to each councils' control environment for 2022/23.**

The South-West Audit Partnership undertook the internal audit function for the County Council and for the District Councils in 2022/23. Annual Audit Plans were developed in consultation with management and approved by the respective Audit Committees. The County Council and District Council Audit Committees each received regular progress reports summarising audits completed against the plan, recommendations raised, and the audit assurance provided.

We note that progress implementing high priority recommendations was only reported to the South Somerset District Council Audit Committee when limited assurance reviews were followed up, as opposed to the routine reporting of the implementation of recommendations. The intention was to implement routine reporting to the Audit Committee using SharePoint and Power BI dashboards, but this was not completed by vesting day. It is considered best practice for Audit Committee to receive regular reports providing assurance on the implementation of recommendations. We have not raised an improvement recommendation as the progress implementing recommendations was reported through the audit follow up review process.

The Audit Plan was substantially delivered for the County Council and each of the District Councils by March 2023 and this work informed the Head of Internal Audit's Annual Opinion. The County Council and the District Councils each received a "Reasonable Assurance" opinion for the overall control environment in 2022/23.

There is no evidence of pervasive and significant weaknesses in the control environments of the County Council or District Councils for 2022/23. This is confirmed through our review of the Annual Governance Statement for each council, with each Statement confirming our view of the controls in place informed by our value for money work.

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# Governance (continued)

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## Monitoring standards

**Adequate arrangements were in place to monitor standards and to prevent and detect fraud and corruption at the County Council and District Councils during 2022/23.**

**Appropriate anti-fraud policies and codes of conduct were in place and all councils continued to monitor the progress made in strengthening arrangements to prevent and detect fraud as a result of the baseline assessments carried out by internal audit. We have made an improvement recommendation that Somerset Council should ensure robust arrangements to prevent and detect fraud and corruption are in place that consider the strengths and weakness of arrangements in predecessor councils.**

**Somerset Council should also ensure that there is sufficient capacity to respond to Ombudsman investigations completely and in a timely manner.**

The County Council and the District Councils each had anti-fraud and corruption policies and whistleblowing policies in place for 2022/23.

The County Council and the District Councils all undertook assessments of the maturity of their arrangements to prevent and detect fraud and corruption during 2020/21, with action plans in place to address weaknesses identified. The County Council and District Councils reported the progress made in improving controls to their Audit Committees during the year.

We note that South Somerset District Council had continued to make progress in addressing the weaknesses in arrangements to prevent and detect fraud and corruption that were identified in response to a whistle blowing allegation received in April 2021. Recognising the public interest in the matter, the Audit Committee received detailed public reports in May 2022 and January 2023 that set out the findings of the investigations carried out, and the progress made implementing the associated action plans. The January 2023 update report confirmed that the majority of recommendations resulting from the whistleblowing investigations had been completed and that there had been a significant change in the culture at the Lufton depot following the appointment of a new Environmental Services Manager.

We have raised an improvement recommendation that robust arrangements for preventing and detecting fraud and corruption should be implemented at Somerset Council with

consideration given to the strengths and weaknesses identified in each of the predecessor council arrangements. This is to ensure that robust policies are in place, staff are provided with adequate training, and that there is a comprehensive annual anti-fraud plan.

The County Council and District Councils also had Member and Officer Codes of Conduct in place and policies for registering interests and gifts and hospitality during 2022/23.

During 2022 all councils in Somerset adopted a revised Member Code of Conduct based on the Local Government Association's Model Code. This ensured that all Members within the county were subject to the same Code during the transition to Somerset Council.

South Somerset District Council had a planning decision quashed following a Judicial Review in October 2022 due to incorrect advice provided to Members in relation to personal interests. The Judicial Review found that while the advice provided by the Monitoring Officer was not correct, this outcome does not adversely reflect on the integrity or professionalism of the Members, and that the advice provided by the Monitoring Officer resulted from an open and honest application of the Code of Conduct. We do not consider that the decision from the Judicial Review represents a significant weakness in arrangements.

The Local Government and Social Care Ombudsman Annual Review Letter 2022/23 for Somerset County Council confirms that 25 complaints were upheld and in all these cases the Council successfully implemented the Ombudsman's recommendations. While the volume and outcome of complaints does not provide evidence of weakness in arrangements, the Ombudsman commented that during the year there were several occasions when investigations were delayed by the Council's failure to respond in a timely way and that a third of Council responses were late. There were also instances of poor-quality and incomplete responses.

We have raised an improvement recommendation that Somerset Council should ensure that there is sufficient capacity in place and staff are suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales.

# Improvement recommendations

## Improvement Recommendation 3

Robust risk management reporting arrangements should be implemented at Somerset Council, including: considering the strengths and weaknesses identified in each of the predecessor councils' risk management arrangements; ensuring that risk registers reported to the Audit Committee include details of actions being taken to mitigate risk; and mapping risks in the strategic risk register to the priorities within the Council Plan.

## Improvement opportunity identified

By considering the strengths and weaknesses identified in the arrangements of predecessor councils, Somerset Council can ensure that robust arrangements are implemented going forward.

## Summary findings

The County Council and District Council risk registers each contained most of the elements of best practice that we would expect to see, including controls or mitigating actions, RAG rated risk scores and risk owners. We note that the risk mitigations were not reported in detail at Somerset West and Taunton Council and that for the County Council and all District Councils risk reporting would be strengthened if risks on the strategic risk register were mapped to corporate priorities.

## Criteria impacted



Governance

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

## Management comments

We have already made good progress to implement this recommendation, with risk management arrangements already being strengthened across the Council. We have recently updated our software which can be accessed and updated by all relevant officers across the Council. Quarterly risk reports are presented to our Audit Committee to provide assurance over governance risk and control arrangements in place. These reports now map strategic risks back to the Council Plan. Risk training has taken place within the Council, and we are continuing to promote engagement in risk across all teams within the Council.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations

## Improvement Recommendation 4

Robust arrangements for preventing and detecting fraud and corruption should be implemented at Somerset Council, including:  
considering the strengths and weaknesses identified in each of the predecessor council arrangements;  
ensuring that robust policies are in place and regularly reviewed;  
providing regular training to staff; and  
approving and reporting progress against an Annual Anti-Fraud Plan.

## Improvement opportunity identified

By considering the strengths and weaknesses identified in the arrangements of predecessor councils, Somerset Council can ensure that robust arrangements are implemented going forward.

## Summary findings

The County Council and District Councils undertook assessments of the maturity of their arrangements to prevent and detect fraud and corruption during 2020/21, with action plans in place to address weaknesses identified. The County Council and District Councils reported the progress made improving controls to their Audit Committees during the year.

## Criteria impacted



Governance

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

## Management comments

We accept this recommendation with work already started in this area. SWAP Internal Audit have already undertaken a fraud risk assessment, and an action plan is being formed. We have removed the old website pages from the legacy Council's and replaced with new up to date information and guidance. Training is going to be carried out across the organisation on preventing and tackling fraud. Audit Committee will be updated on progress made in this area.

# Improvement recommendations

## Improvement Recommendation 5

Somerset Council should ensure that there is sufficient capacity in place and staff are suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales.

## Improvement opportunity identified

The Council should respond in a timely manner to Ombudsman investigations and provide all the information requested in order for investigations to be concluded promptly and for any required remedies or improvements to processes actioned quickly.

## Summary findings

The Local Government and Social Care Ombudsman Annual Review Letter 2022/23 for Somerset County Council confirms that 25 complaints were upheld and in all these cases the Council successfully implemented the Ombudsman's recommendations. While the volume and outcome of complaints does not provide evidence of weakness in arrangements, the Ombudsman commented that during the year there were several occasions when investigations were delayed by the Council's failure to respond in a timely way and that a third of Council responses were late. There were also instances of poor-quality and incomplete responses.

## Criteria impacted



Governance

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

## Management comments

We accept the improvement suggestion and will look to ensure that there is sufficient skilled staff with the capacity to meet and respond to Ombudsman investigations in a timely manner. We will look to monitor progress and performance through the statutory officers board.



# 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.

## Procurement and contract management

We have found no significant weaknesses in the District Councils' procurement or contract management arrangements. There were opportunities to strengthen procurement arrangements at South Somerset District Council and Somerset West and Taunton Council, relating to reporting of waivers and rolling out of training, but these are not considered to be significant weaknesses. We have however identified a significant weakness in arrangements with regard to contract management and procurement at Somerset County Council during 2022/23. Internal audit provided two limited assurance opinions relating to general contract management arrangements and to the procurement and contract management arrangements for the Athena contract. We have raised a key recommendation that robust procurement and contract management arrangements should be implemented at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements.

The County Council and District Councils each had a Procurement Strategy in place during 2022/23, setting out the priorities and processes to follow when undertaking procurement activity to achieve value for money.

Arrangements to report procurement activity varied within each council. Examples of good practice within the District Council arrangements were identified through our work, including Sedgemoor District Council providing procurement plan updates to the Executive as part of the quarterly Corporate Performance Reports. Updates included high value and complex procurements completed and the pipeline for procurement activity to be undertaken. Sedgemoor District Council also reported the number, value and reason for procurement waivers to the Audit Committee.

We note that neither South Somerset District Council nor Somerset West and Taunton Council reported procurement waivers to the Audit Committee during 2022/23. Regular reporting on the volume, value and reason for granting procurement waivers provides an opportunity for Member scrutiny and challenge why approved procurement processes are not being followed. Ensuring sufficient scrutiny of waivers in order to minimise their use provides assurance to Members that value for money is being achieved through procurement activity.

Somerset West and Taunton Council was working to strengthen procurement arrangements following a limited assurance internal audit review in 2020/21. Due to limited resources in the run up to LGR some actions were not progressed, including rolling out procurement training across the Council.

Examples of good practice with regard to contract management arrangements at the District Councils were also identified through our work for 2022/23.

South Somerset District Council had a contract management plan in place with Freedom Leisure who operate various Council-owned leisure facilities. The operator provided quarterly performance monitoring reports using agreed KPIs for review by the contract manager. An annual

# Improving economy, efficiency and effectiveness (continued)

## Procurement and contract management (continued)

performance report was provided for Member scrutiny of performance against the contract but also to enable review of future delivery plans.

Somerset West and Taunton Council held monthly officer contract meetings with their leisure operator, SLM (Everyone Active), in order to review performance. The Community Scrutiny Committee received bi-annual reports from Everyone Active providing performance against a range of contract metrics.

We do not consider that there were any significant weaknesses with regard to the arrangements for procurement and contract management at the District Councils. We consider that an improvement recommendation would have been appropriate in relation to the procurement arrangements for South Somerset District Council and Somerset West and Taunton Council, that robust procurement arrangements should be implemented at Somerset Council.

However, we have identified a significant weakness in arrangements with regard to securing value for money through the contract management and procurement arrangements in place at Somerset County Council during 2022/23. Internal audit provided two limited assurance opinions relating to procurement and contract management.

The limited assurance opinion for contract management at the County Council was reported in January 2023. Based on a survey of contract managers, the review found that the contract register contains outdated information, manager understanding and application of the requirements of contract management varied, and there were gaps in managers understanding of their contracts.

The Athena contract was commissioned by Adult Services in order to create additional bed capacity during the Covid-19 pandemic. Internal audit provided a limited assurance opinion in April 2023 which reflected the manner in which the contract was awarded and managed. Key findings include that the proper procurement process was not followed with responsible officers in the Adults Service not undertaking procurement training and not involving commissioners in the procurement process. Contract oversight was fragmented for this statutory service and invoices were not validated. A contract exit plan was not prepared in accordance with the contracted timescale and expenditure of £1.11m exceeded the contract

value of £0.6m.

We have therefore raised a key recommendation that robust procurement and contract management arrangements should be implemented at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements.

## Performance management

**Adequate arrangements were in place to monitor, manage and report service performance in 2022/23 for the County Council and the District Councils. While the frequency of performance reporting was reduced in 2022/23 due to local government reorganisation, the respective council Executives received detailed performance reports during the year, and we have found no evidence of significant weakness in arrangements.**

The County Council and each of the District Councils had arrangements in place during 2022/23 to provide regular performance monitoring information to their respective Executives. We note that the frequency of formal performance reporting was reduced during 2022/23 due to local government reorganisation, with the final performance reports for 2022/23 relating to Quarter 3 which were submitted to the respective Executives in March 2023. This is not considered a significant weakness in arrangements in the context of local government reorganisation as the predecessor Councils ceased to exist from 1 April 2023.

Corporate dashboards or scorecards were reported through performance monitoring reports, supported by detailed appendices of key performance indicators (KPIs). The information provided for the KPIs included the elements of best practice that we would expect to see. The KPIs were mapped to Council priorities and included RAG rated performance against target, comparative information, responsible officer, and supporting narrative. Where performance was below target, the performance monitoring reports each analyse the cause and set out mitigating actions to improve poor performance.

Adequate arrangements were in place at the County Council and each of the District Councils to manage, monitor and report on performance for 2022/23. We have found no evidence of significant weakness with regard to performance management arrangements.

# Improving economy, efficiency and effectiveness (continued)

## Benchmarking

The District Councils did not have a corporate-wide approach to benchmarking the cost and performance of services in order to identify opportunities for improvement. Somerset County Council and Somerset Council can demonstrate greater use of benchmarking in order to understand cost drivers and identify opportunities for efficiencies. The benchmarking we have carried out using the CFO Insights Tool has not identified any areas of significant weakness with regard to service efficiency for the District Councils. Benchmarking of the County Council's service costs has identified Children's Services as very high unit cost. We have made a key recommendation through our financial sustainability work that Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs within Children's Services.

The District Councils did not undertake a corporate-wide approach to benchmarking in 2022/23 in order to routinely compare financial and service performance with other local authorities and so identify opportunities for improvement.

Somerset County Council and now Somerset Council can demonstrate wider use of the benchmarking of service costs and cost drivers as part of the financial planning process. Recent examples include deep dives carried out by the Financial Focus Group for Adult and Children's Services into cost and activity data, and the use of external specialist partners to identify opportunities for efficiencies.

We have undertaken benchmarking for the District Councils using the CFO Insights tool to identify services which have very high unit costs in comparison to other district councils. The data used was based on the 2022/23 budgeted costs submitted to the government through the annual RA Returns. The areas of high cost and reasons identified across the District Councils were consistent with those identified and reported through our 2021/22 value for money work.

A council's method for apportioning support service recharges to front line services can impact on the relative cost of service in statistical returns. Where the recharge method has not been reviewed regularly or the recharge mechanism does not reflect an accurate

charge this can contribute to very high unit costs and makes benchmarking difficult. The impact of recharges on service costs in statistical returns was noted for South Somerset District Council and Somerset West and Taunton Council.

Other areas of very high District Council unit cost identified through CFO Insights related to corporate priorities where local decisions have driven the allocation of resources to deliver specific outcomes. Examples include regeneration and economic development expenditure, including Sedgemoor District Council costs relating to Hinkley Point, and South Somerset District Council expenditure relating to Yeovil, Wincanton and Chard.

From our work we have not identified any evidence of significant weakness with regard to service efficiency at the District Councils.

The service cost benchmarking we undertook using the CFO Insights tool for Somerset County Council identified children's social care and the cost of looked after children as very high unit cost in comparison to other county councils. Somerset Council recognises the cost pressures within Children's Services, and this is one of the 17 key budget areas under review to reduce the in-year and future budget pressures.

Due to the impact that the financial pressures within Children's Services are having on past and current overspends and on the budget gap for 2024/25, we have identified that they represent a significant risk to the financial sustainability of Somerset Council. We have raised a key recommendation in the financial sustainability section of this report that Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs within Children's Services.

We have raised a further improvement recommendation that robust arrangements should be implemented for benchmarking at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements and a corporate approach to benchmarking should be developed. Somerset Council have subscribed to the CFO Insights tool and should ensure that it fully utilises its benchmarking capabilities.

# Improving economy, efficiency and effectiveness (continued)

## Partnership working

The District Councils and County Council could all demonstrate that effective arrangements were in place during 2022/23 for working with partners to achieve corporate priorities and deliver meaningful actions. Arrangements in place to monitor the performance of partnerships and report back to Members varied depending on the individual partnership arrangement. A Somerset-wide partnership register was compiled during 2022/23 as part of local government workstreams to document the significant partnerships in place across the County.

Examples of significant partnerships operating in Somerset during 2022/23 include:

Health and Wellbeing Board – a statutory body for local authority and health services to work together to produce a Health and Wellbeing Strategy, oversee the local health system, and to promote integrated partnership working to improve population health;

Safer Somerset Partnership – a statutory partnership with the objective of reducing crime and disorder. Local authorities work with partners that include the police, fire and rescue service, health partners and the probation service in order to develop and deliver the Community Safety Partnership Plan;

Heart of the South-West Local Enterprise Partnership – the Board includes local authority, business and education partners with the strategic objective of improving the economy and maximising economic opportunities in the area. Key strategic programmes that the partnership oversees include Clean Growth and Build Back Better;

Connect Somerset - an early help partnership between Councils, NHS bodies, schools, the voluntary sector, and communities to ensure professionals and communities work together to help families and residents and improve their lives. This work is integrated with the Neighbourhoods, Local Community Networks and Primary Care networks;

Somerset Waste Partnership – a partnership of local authorities in Somerset to collect and recycle waste, contributing to net zero carbon and sustainability. Each local authority approves the annual business plan and has Member representation on the Board.

A Somerset-wide partnership register was compiled during 2022/23 to document the significant partnerships in place. The register identifies 378 partnerships, 20 of which are defined as strategic, and provides information relating to the scope and purpose of these partnerships.



# Improvement recommendations

## Improvement Recommendation 6

Robust arrangements should be implemented for benchmarking service cost and performance at Somerset Council, including: considering the strengths and weaknesses identified in each of the predecessor councils' benchmarking arrangements; developing a corporate-wide approach to routinely benchmarking performance; ensuring the data submitted in statistical returns is robust and up to date to allow for meaningful benchmarking; and fully utilising the capabilities of the CFO Insights benchmarking tool.

## Improvement opportunity identified

Benchmarking is an effective tool that enables an organisation to compare and analyse its cost and service performance with peers in order to identify areas for improvement.

## Summary findings

The District Councils did not undertake a corporate-wide approach to benchmarking in 2022/23 in order to routinely compare financial and service performance with other local authorities and so identify opportunities for improvement.

The impact of recharge methodologies that had not been updated or did not reflect true cost was noted for South Somerset District Council and Somerset West and Taunton Council which made benchmarking service cost difficult.

## Criteria impacted



Economy, efficiency and effectiveness

## Auditor judgement

Our work has enabled us to identify a weakness in arrangements which we do not consider to be significant, but have raised a recommendation to support management in making appropriate improvements.

## Management comments

There are examples of good use of benchmarking in some services but we accept this could be improved by having a more consistent approach across the new council. We would look to use this information to help manage services and drive further service savings and improvements going forward.

Progressing the actions management has identified to address the recommendations made will support the Council in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Pension fund arrangements

Somerset County Council is the administering authority for the Somerset Pension Fund. Our review of the arrangements in place for the governance and management of the Pension Fund has not identified any evidence of significant weakness. The Pension Fund has adequate arrangements in place to plan and manage resources, manage risk and monitor performance.

The Pension Board includes employer and Member representatives and meets regularly to ensure the effective governance of the Local Government Pension Scheme (LGPS) and compliance with regulations and legislation.

The Pension Committee is the decision-making body for the Pension Fund, meeting four times during 2022/23. The Pension Committee monitors investment and administration performance, and reviews 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 for the year.

The Funding Strategy Statement identifies how employer's pension liabilities are best met in the future and seeks to ensure the solvency of the Pension Fund. The funding target is to have sufficient assets in the Pension Fund to meet the accrued liabilities for each employer by setting appropriate contribution rates. Valuation assumptions are made when completing the actuarial valuation of the Fund and these are set out in the Funding Strategy.

The Investment Strategy Statement sets out the policy for asset allocation and managing risk and seeks to generate an investment return consistent with the objectives of the Funding Strategy. The Investment Strategy sets out the suitability of particular types of investments, and the balance between different types of assets.

The Fund appoints an external Actuary to provide specialist advice on funding, contribution levels, and carry out Pension Fund valuations. The 2022 actuarial valuation indicates an improvement to the funding level at 95%, compared to 86% in the last formal valuation in 2019.

The Pension Fund adequately monitors and manages risk and makes informed decisions. The Pension Committee receives advice from professional advisers, fund managers and officers as required. The Pension Committee has an independent advisor with portfolio analysis and

management experience and the Somerset County Council S151 Officer is the lead officer for the Pension Fund.

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.

Pension Committee 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 Pension Fund has formally adopted the CIPFA Pensions Finance Knowledge and Skills Framework for Members and officers. The Training Policy contains the annual training commitment for Members in each year of office.

In accordance with government pension investment reform guidance, the Somerset Pension fund is pooling its resources with nine other funds in the South-West to create the Brunel Pension Partnership. Somerset largely completed the transition of assets to Brunel in 2021.

There are additional layers of governance associated with Brunel. These include the Brunel Oversight Board where representatives from each of the client Pension Fund Committees gain assurance over the activities of Brunel. The Client Group supports the Oversight Board, and is made up from pension fund investment officers, finance, and legal representatives from each client Pension Fund. The Client Group provides a forum for discussing technical matters and confirming priorities.



# Follow-up of previous recommendations

## Somerset County Council

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 The Council should continue to develop and implement mitigating actions to address the significant budget deficit forecast for 2022/23.	Improvement	November 2022	The 2022/23 outturn position for Somerset County Council was a £23.4m deficit, reducing the General Fund balance to £3.7m at the year-end. The main drivers for the deficit were Adult Services (£15.4m overspend) and Children's Services (£21.2m overspend) due to increased demand and cost of care.	No.	We have made a key recommendation that Somerset Council should continue to develop and deliver mitigating actions to manage demand and costs in relation to Adult and Children's Services.
2 The Council should review the MRP charge for 2022/23 in order to ensure that it reflects current guidance and provides a prudent provision on an annual basis.	Improvement	November 2022	The MRP charge for Somerset County Council in 2022/23 is £9.0m and has increased from 0.9% of the CFR in 2021/22 to 1.82%. This is closer to the 2% benchmark, based on maximum asset values of 50 years, that we would expect. However, the increase is based on an additional voluntary revenue provision of £3.7m, and in our view the underlying calculation for MRP is not consistent with statutory guidance.	Partially.	Somerset Council will need to ensure that their MRP charge is in line with statutory guidance for 2023/24.
3 Somerset County Council should work with the four district councils to develop a cash flow model for Somerset Council.	Improvement	November 2022	Somerset Council is developing the new unitary cash flow model, using the cash flow forecasts of the predecessor councils as the starting point and refining this data as the new council becomes established.	Yes.	None.
4 As part of the budget process for 2023/24 key budget risks should be addressed.	Improvement	November 2022	Somerset Council set a balanced budget for 2023/24. The commercial investment property portfolio has been reviewed and the Council is in the process of reviewing levels of reserves and the capital programme. However, Somerset Council continues to face significant financial challenges.	Partially.	We have made further key recommendations in response to the financial challenges that Somerset Council faces relating to transformation, reserves, demand led services and commercial property.

# Follow-up of previous recommendations

## Somerset County Council (continued)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5 A risk management policy 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.	Improvement	November 2022	In February 2023 the Somerset County Council Executive approved the Risk Management Strategy and Policy Framework for Somerset Council from 1 April 2023. County Council and District officers worked together to develop the new authority's approach to risk management, including risk scoring, recording, roles and responsibilities. Work was undertaken to review predecessor council risks and develop a strategic risk register for Somerset Council.	In progress.	We have made an improvement recommendation that robust risk management reporting arrangements should be implemented for Somerset Council, including reporting mitigating actions and mapping risks to corporate priorities.
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 are approved.	Improvement	November 2022	Somerset Council has started to establish the governance arrangements for the transformation programme, but there has been limited progress in developing transformation business cases and projects for delivery. There is currently no Council-wide transformation programme or pipeline of savings that can be built into the MTFP.	No.	We have made a key recommendation that Somerset Council should implement the transformation programme at scale and pace in order to address the significant structural budget deficit.
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.	Improvement	November 2022	Internal audit provided two limited assurance opinions relating to general contract management arrangements and to the procurement and contract management of the Athena contract.  We have identified a significant weakness in arrangements for contract management and procurement for 2022/23.  Somerset Council is currently finalising an updated Procurement Strategy for approval.	No.	We have raised a key recommendation that robust procurement and contract management arrangements should be implemented at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements.



# Follow-up of previous recommendations

## Somerset County Council (continued)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8 When contracts are extended the Council should publish the decision in a timely manner through the contracts register.	Improvement	November 2022	<p>Internal audit provided two limited assurance opinions relating to general contract management arrangements and to the procurement and contract management of the Athena contract.</p> <p>We have identified a significant weakness in arrangements for contract management and procurement for 2022/23.</p>	No.	We have raised a key recommendation that robust procurement and contract management arrangements should be implemented at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements.
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.	Improvement	November 2022	<p>Waivers were last reported to the final Governance Board in January 2023. An annual report was produced and would have been presented to the Governance Board in April 2023 but this was cancelled due to local government reorganisation.</p> <p>Monthly waiver reports are now reported to the Somerset Council Statutory Officer Board.</p>	Yes	None.

# Follow-up of previous recommendations

## Sedgemoor District Council

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 The Council should ensure it complies with the CIPFA Treasury Management Code of Practice with regard to reporting and undertaking detailed cash flow monitoring.	Key	February 2023	<p>Sedgemoor District Council approved the Treasury Management Strategy 2022/23 in March 2022, and quarterly Corporate Performance Reports to Executive included updates on treasury performance. Somerset Council considered the Sedgemoor District Council Treasury Outturn Report in October 2023. Therefore, the reporting requirements of the CIPFA Treasury Management Code have been complied with.</p> <p>Sedgemoor District Council continued with its reactive approach to cashflow monitoring for 2022/23, but we have made no further recommendations regarding this as no liquidity issues were noted for the Council during 2022/23.</p>	Yes.	None.
2 The Council and its LGR partners should ensure adequate resources are allocated to the planning and delivery of transformation and that business as usual activities are reviewed as required to create capacity.	Improvement	February 2023	<p>Somerset Council has started to establish the governance arrangements for the transformation programme, but there has been limited progress in developing transformation business cases and projects for delivery. There is currently no Council-wide transformation programme or pipeline of savings that can be built into the MTFP.</p>	No.	We have made a key recommendation that Somerset Council should implement the transformation programme at scale and pace in order to address the significant structural budget deficit.
3 The Council should develop and implement mitigating actions to address the budget pressure forecast for 2022/23.	Improvement	February 2023	<p>Sedgemoor District Council delivered a £1.1m underspend for 2022/23.</p>	Yes.	None.

# Follow-up of previous recommendations

## Sedgemoor District Council (continued)

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4	The Council should disclose in public budget monitoring and outturn reports the net contribution that commercial property makes to the General Fund Budget, after accounting for fees, reserve movements, MRP and interest payable.	Improvement	February 2023	The net contribution that commercial property makes to the General Fund was not reported in budget monitoring or outturn reports. We recognise that the recommendation was only reported to Audit Committee three weeks before vesting day for the new Council.	No.	We have raised a key recommendation that Somerset Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial property portfolio. This includes regular reporting of financial performance to Members.
5	The Council should approve the annual business plans for its subsidiary companies.	Improvement	February 2023	Executive approved the Aspen Housing and Development Ltd Business Plan 2023/24 at their meeting of March 2023.	Yes.	None.
6	As part of the budget process for 2023/24 and through LGR workstreams, Sedgemoor District Council should support Somerset County Council in working to address key budget risks.	Improvement	February 2023	Somerset Council set a balanced budget for 2023/24. The commercial investment property portfolio has been reviewed and the Council is in the process of reviewing levels of reserves and the capital programme. However, Somerset Council continues to face significant financial challenges.	Partially.	We have made further key recommendations in response to the financial challenges that Somerset Council faces relating to transformation, reserves, demand led services and commercial property.

# Follow-up of previous recommendations

## Somerset West and Taunton Council

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 As part of the budget process for 2023/24 and through LGR workstreams, Somerset West and Taunton Council should support Somerset County Council in working to address key budget risks.	Improvement	December 2022	Somerset Council set a balanced budget for 2023/24. The commercial investment property portfolio has been reviewed and the Council is in the process of reviewing levels of reserves and the capital programme. However, Somerset Council continues to face significant financial challenges.	Partially.	We have made further key recommendations in response to the financial challenges that Somerset Council faces relating to transformation, reserves, demand led services and commercial property.
2 The risk register reported to Members through the Corporate Performance Reports should include mitigating actions, gross and residual risk scores, and risks should be mapped to corporate objectives.	Improvement	December 2022	The risk register reported to Members did not include detail of mitigating actions for 2022/23 and risks were not mapped to corporate priorities.	No.	We have made an improvement recommendation that robust risk management reporting arrangements should be implemented for Somerset Council, including reporting mitigating actions and mapping risks to corporate priorities.
3 The Council and its LGR partners should ensure adequate resources are allocated to the planning and delivery of transformation and that business as usual activities are reviewed as required to create capacity.	Improvement	December 2022	Somerset Council has started to establish the governance arrangements for the transformation programme, but there has been limited progress in developing transformation business cases and projects for delivery. There is currently no Council-wide transformation programme or pipeline of savings that can be built into the MTFP.	No.	We have made a key recommendation that Somerset Council should implement the transformation programme at scale and pace in order to address the significant structural budget deficit.

# Follow-up of previous recommendations

## Somerset West and Taunton Council (continued)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
4 The Council should ensure that its strategic partners are recorded in a register that identifies the corporate priorities that they contribute to and the risks associated with the partnership.	Improvement	December 2022	A Somerset-wide partnership register was compiled during 2022/23 to document the significant partnerships in place. The register identifies 378 partnerships, 20 of which are defined as strategic, and provides information relating to the scope and purpose of these partnerships.	Yes.	None.
5 The Council should highlight to the LGR Programme previous internal audit recommendations relating to procurement.	Improvement	December 2022	<p>Somerset West and Taunton was working to strengthen procurement arrangements following a limited assurance internal audit review in 2020/21. Due to limited resources in the run up to LGR some actions were not progressed, including rolling out procurement training across the Council.</p> <p>Somerset Council is currently finalising an updated Procurement Strategy for approval.</p>	In progress.	We have raised a key recommendation that robust procurement and contract management arrangements should be implemented at Somerset Council. Consideration should be given to the strengths and weaknesses identified in each of the predecessor council's arrangements.

# Follow-up of previous recommendations

## South Somerset District Council

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1 Risks within the risk register reported to the Audit Committee should be mapped to corporate objectives.	Improvement	February 2023	The risk register reported to Members did not include risks that were mapped to corporate priorities.	No.	We have made an improvement recommendation that robust risk management reporting arrangements should be implemented for Somerset Council, including mapping risks to corporate priorities.
2 The Council should ensure that it complies with the requirements of the Local Audit and Accountability Act.	Improvement	February 2023	The Council responded to the queries raised by members of the public under the Audit and Accountability Act and procedures were put in place so that requests were properly considered.	Yes.	None.
3 The Council should work with its LGR partners to ensure adequate resources are allocated to the planning and delivery of transformation and that business as usual activities are reviewed as required to create capacity.	Improvement	February 2023	Somerset Council has started to establish the governance arrangements for the transformation programme, but there has been limited progress in developing transformation business cases and projects for delivery. There is currently no Council-wide transformation programme or pipeline of savings that can be built into the MTFP.	No.	We have made a key recommendation that Somerset Council should implement the transformation programme at scale and pace in order to address the significant structural budget deficit.
4 The Council should continue to identify mitigating actions to manage the forecast overspend for 2022/23 and deliver a balanced budget.	Improvement	February 2023	South Somerset District Council delivered a £0.7m underspend for 2022/23.	Yes.	None.

# Follow-up of previous recommendations

## South Somerset District Council (continued)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5 The Council's budget setting and outturn reports should provide public information on the gross and net contribution that commercial property makes to the General Fund.	Improvement	February 2023	This information continued to be provided through the exempt Commercial Investment Asset Update Reports to Executive during 2022/23. We recognise that the recommendation was only reported to Audit Committee a week before vesting day for the new Council.	No.	We have raised a key recommendation that Somerset Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial property portfolio. This includes regular reporting of financial performance to Members.
6 The Council should seek to further strengthen governance arrangements for SSDC Opium Power Ltd.	Improvement	February 2023	It is noted that Somerset Council has approved the disposal of the commercial investment property portfolio.	N/A.	We have raised a key recommendation that Somerset Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial property portfolio.
7 As part of the budget process for 2023/24 and through LGR workstreams, South Somerset District Council should continue to support Somerset County Council in working to address key budget risks.	Improvement	February 2023	Somerset Council set a balanced budget for 2023/24. The commercial investment property portfolio has been reviewed and the Council is in the process of reviewing levels of reserves and the capital programme. However, Somerset Council continues to face significant financial challenges.	Partially.	We have made further key recommendations in response to the financial challenges that Somerset Council faces relating to transformation, reserves, demand led services and commercial property.

# Follow-up of previous recommendations

## South Somerset District Council (continued)

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8 The Council should ensure that recharges from support services to front line services are made using an appropriate basis for apportionment when compiling statistical returns.	Improvement	February 2023	This recommendation was not implemented. Due to local government reorganisation South Somerset District Council did not submit any further RA Returns to the government after the recommendation was made.	No.	We have raised an improvement recommendation that robust arrangements should be implemented for benchmarking service cost and performance at Somerset Council. This includes ensuring the data submitted in statistical returns is robust and up to date to allow for meaningful benchmarking.



# Opinion on the financial statements



## Grant Thornton provides an independent opinion on whether the Council's financial statements:

give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and

have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23

have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We will conduct our audit in accordance with:

International Standards on Auditing (UK)

the Code of Audit Practice (2020) published by the National Audit Office, and

applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

## Audit opinion on the financial statements

We have not yet completed the 2022/23 financial statement audits for Somerset County Council, Sedgemoor District Council, Somerset West and Taunton Council, or South Somerset District Council.

Once these audits are completed this Auditor's Annual Report will be updated for any significant findings and issued as a final version.



# 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) 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:

## 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(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No.	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's 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'.	Yes.	Pages 14 – 25
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 46 - 47 Pages 54 - 56 Page 61

