
Annual Report of the Executive Lead Member for Resources and Performance 1st April 2023 to 31st March 2024

Lead Member: Councillor Liz Leyshon

Lead Officers:

Jason Vaughan – Executive Director for Resources and Corporate Services

Sara Cretney – Service Director for Strategy and Performance

Scott Wooldridge – Interim Head of Governance and Democratic Services

Author: Councillor Liz Leyshon, Lead Member for Resources and Performance

Contact Details: liz.leyshon@somerset.gov.uk

1. Summary Financial Year 2023 - 2024

- 1.1** This report highlights the key activities, achievements and very significant challenges of the past year within my areas of responsibility, Resources and Performance.

A year ago, in my first annual report as Lead Member, I wrote that the need to explore fully the savings from Local Government Reorganisation at an early stage in the life of the new Council would make the following years more challenging. That has certainly been proven, and more.

As we all know, the Council has been dealing with the effects of inflation, increasing interest rates, the cost-of-living crisis and increasing demand, leading to significant overspends in both Adults and Children's Services and drawing on General Fund reserves.

That challenging situation has continued throughout 2023/24, where we have seen inflation reduce as a percentage figure but still impact on the fees that we pay to providers of care, and our own costs such as energy and pay award.

Throughout the 2023/24 financial year the projected overspend has reduced as actions have been taken across the whole Council with the draft outturn figure showing a small underspend for the year. The full Outturn papers, including the HRA and Capital, are expected for Executive meeting in August.

The long-term situation in Somerset with an ageing demographic, increasing need for care and historically low Council Tax rate and base has shown that the previous administration's intent to move to one Council was financially understandable and the associated savings very much needed, but the timing was certainly extremely challenging.

It should also be noted that the new Government will certainly have a major task ahead in dealing with demand for, and cost of, social care. Council Tax is the primary funding source yet where income from Council Tax is lower, need is generally higher. It is clear that a property tax from the early 1990s is inappropriate as a form of taxation to fund social care for people of all ages, particularly with an ageing population and post-Covid 19.

2. Key Activities and Achievements

2.1 2023/24 Revenue Budget

The new Somerset Council came into being on 1st April 2023 immediately following and during:

- Increased demand for support and care services post Covid-19 lock downs.
- End of Covid grants which had helped mask the growing gap between income and expenditure.
- War in Ukraine leading to significant increases in energy costs.
- Crashing of the economy leading to increased interest rates and cost of borrowing.
- Providers affected by the failure of Cost of Care exercise, opening the book and creating higher fees across the county.
- A particularly 'hot' labour market for many reasons including Brexit.

During the summer of 2023, we fully recognised the necessity for, and then the impact of, the full re-base of the Adults' budget, the first for many years.

Having expected a budget gap of £42million, the increase to a £100million gap was far too great for any previously known mitigations and led directly to the appropriate actions. These have included:

- Update of the financial forecast resulting in the Executive declaration of a Financial Emergency in November 2023.
- Establishment of five internal control boards to reduce spend in-year.
- A second review of all Reserves from the predecessor Councils, to ensure adequacy of General Fund reserves and avoid a Section 114 notice.
- A decision to sell the commercial investments from the four former District Councils. This decision followed Government guidance that such action was necessary to gain Exceptional Financial Support from Government in setting the following year's budget (2024/25).

- A request to Government (DLUHC and Treasury) for permission to raise Council Tax for Somerset by more than the referendum limit of 5%. This request was refused although councils declaring a s114 did exceed the referendum limit without need for a referendum.
- A request to Government for a Capitalisation Direction

2.2 Relevant Reports

External Auditors Grant Thornton published their Interim Auditors Annual Report in respect of four of the five predecessor councils (Ernst and Young was external auditor for Mendip District Council). Key recommendations were presented and Somerset Council management responses were published. Progress continues to be monitored.

Somerset Council commissioned a Balance Sheet Review by an external consultant to establish the financial situation at Vesting, drawing together the balance sheet situation of each of the five predecessor councils.

Government actions have reflected the similar situation at other upper tier councils across the country including a report from the Levelling Up, Housing and Communities Committee on 'Financial Distress in Local Authorities'. A summary of the report can be found here:

<https://publications.parliament.uk/pa/cm5804/cmselect/cmcomloc/56/summary.html>

Further detail of actions taken, and risks identified, can be found in the S151 officer's S25 report to Full Council in February 2024 as part of budget setting for 2024/25:

<https://democracy.somerset.gov.uk/documents/s25559/Section%2025%20Report%20from%20the%20S151%20Officer.pdf>

2.3 Exceptional Financial Support

Our request to Government for Exceptional Financial Support, in particular a Capitalisation Direction, was agreed in principle before the budget setting Full Council. Communications are ongoing in advance of the outturn figure for 2023/24 and final confirmation is expected after the General Election.

The Capitalisation Direction is to be funded by sale of assets, both Council land and property and also commercial investments as agreed by the Property and Investments Executive Sub Committee. This avoids the need to borrow from the Public Works Loan Board, with a premium on interest rate.

The budget agreed by Full Council in February 2024 included a Capital Receipts Flexibility policy, giving a fall-back position on the Capitalisation Direction.

2.4 Improvement and Transformation

Work commenced to reduce the size of the Council before the end of the 23/24 financial year. This work is continuing in the current 24/25 year and is essential to achieve a viable Council for Somerset and then to create a stable Council that will be an attractive place to work, and which will deliver services for local people in a way that is affordable, effective and efficient.

Somerset Council's situation will continue to bring challenge. Our responsibility is to maximise every opportunity so that the economy, including the Council Tax base, grows and we continue to be able to support those most in need of care.

2.5 2023/24 Capital Programme

A reduced Capital Programme was agreed that included projects under the following headings:

- Fully funded schemes
- Schemes that had health and safety considerations
- Schemes with highest priority

Whilst the financial situation remains particularly challenging for capital projects, the budgeting process for 2024/25 was improved by the ability to consult with one team of officers rather than the previous five separate teams.

Inflation continues to impact on prices for construction at all scales. However the industry has 'settled' to such a degree that multiple tenders were received for many projects eg in Town Deals and that has brought greater stability. We must recognise that the need for de-scoping, value engineering and careful monitoring has continued to create staffing pressures for the Council.

2.6 Revenues and Benefits

Somerset Council continues to operate four separate systems for Revenues and Benefits. One of the current major pieces of work is the tender for one system/supplier, with a phased approach to moving all accounts to one system. This is an extremely demanding piece of work that has to function correctly from day one as it impacts on most residents and businesses in Somerset.

2.7 Reserves

The level of reserves, both General Fund and Earmarked, has never been more important. In order to maintain the level of GF reserves at minimum £30million, every effort must be made to keep any in year overspends down, and find alternatives where savings are not possible. It should

always be noted that many of the earmarked reserves are held for other organisations and so are clearly unusable. The deficit on the High Needs Block of the Dedicated Schools Grant continues to be of great concern, as it is in many of the upper tier authorities in England. While plans are in place to reduce the deficit on a year-by-year basis, we have gone into a General Election without wider acknowledgement of the importance of the Statutory Override and what it would mean if that ends in 2026 as currently planned.

2.8 Housing Revenue Account

The 30 year Business Plan is part of the requirement of a HRA, and the work through the first year of Somerset Council has produced a greatly improved projection which is to be applauded. The HRA will be an important part of the Outturn Report at Executive in August.

2.9 New Finance System

While achieving a 'safe and legal' Somerset Council at Vesting, and the one ledger as required, the first year of Microsoft Dynamics (MSD) has been very challenging for those working in finance and those in services who need to constantly monitor their budgets.

Solver has been used for budget monitoring, with some issues on services' monitoring continuing through the financial year. As we move through the second year of Somerset Council, and more of the one financial system is implemented eg payroll, the better we will be able to monitor fully every part of the Council's budget and the more we will benefit from being a fully Microsoft organisation.

The experience of other Councils in England shows the need to 'adopt not adapt' software, with the implementation of MSD at Somerset Council having been achieved within budget.

2.10 Internal Audit

Throughout this financial year the Chief Internal Auditor (CIA) role has again been held by the South West Audit Partnership (SWAP) on behalf of the Council. Internal Audit will continue to be a hugely important 'pillar' in our plans for better Performance, Risk and Budget monitoring, via the PRB Board and through to Scrutiny, Audit and Executive.

2.11 External Audit

The completion of the Statement of Accounts for 2023/24 will be an

immense challenge for the finance team and also for External Auditors. Grant Thornton has acknowledged that the first year of a new Unitary council is always a challenge – and we have the additional factors of financial emergency and new finance system.

We understood that we would not meet the 31st May deadline for publication of 2023/24 accounts, we have 30th September as our own deadline, with Grant Thornton also committed to that timeframe.

The workload has also been exceptional for our own Audit Committee, with ten sets of accounts being considered during the first year (with SSDC 2022/23 accounts still to be signed off in August).

The Audit Committee Chair's annual report gives full detail of the exceptional workload and outcomes and his report will be presented to the next Full Council meeting in July.

2.12 Thanks

I wish to extend my thanks to all the Finance team, led by Jason Vaughan and Nicola Hix. The financial year 2023/24 has been a huge challenge to all our officers and those who moved straight from the work leading to Vesting Day through to the work on Improvement and Transformation deserve both our thanks and our admiration for their resilience and commitment.

3. Performance

3.1 Performance and Risk Management

To strengthen our assurance and oversight of risk and performance management, a Performance, Risk and Budget Board has been set up. The Board is made up of the Chief Executive and Executive Leadership Team, the Service Directors for Strategy and Performance and for Finance and Procurement as well as the Leader of the Council, Deputy Leader of the Council and Lead Member Resources and Performance, and the Lead Member for Transformation and Human Resources. The Board will undertake regular reviews of risk and performance and hold challenge sessions with individual services where appropriate and I am very pleased to have been appointed as the Chair of these meetings. The actions taken to improve performance and to mitigate risk are absolutely central to the future of this Council.

Officers have commenced the work on creating new Performance Management and Risk Management Frameworks for Somerset Council, which are scheduled for approval by Executive in August, alongside a revised suite of corporate performance indicators and an updated Strategic Risk Register.

Corporate performance indicators have been migrated to a new corporate system, (Ideagen, formerly Pentana) and work has commenced to migrate risk management to the same system in order to improve alignment

between performance and risk management, enable more efficient monitoring and reporting and save cost.

My thanks go to the officers working on Strategy and Performance, including Risk, led by Sara Cretney.

4. Internal, Outside Bodies, External Partnerships

4.1 Review of all Outside Bodies

Ahead of the Council's first Annual General Meeting in May 2023, I led on the review of the various outside bodies, partnership panels and internal groups. These include national, regional, countywide, and local bodies and partnerships. In some cases, these are strategic organisations where Members can shape and influence better outcomes for Somerset's communities and policy affecting Somerset. In others, the role of the appointed Member is important in promoting the relationship with the Council to secure better outcomes for Somerset and its communities.

The review started with approximately 250 organisations from across the five former councils. Democratic Services and I worked to amalgamate, confirm or remove Bodies as necessary. This led to a reduction of nearly 100 appointments which has delivered efficiencies and some savings during 2023/24.

Further work will continue throughout 2024/25 as part of Organisational Transformation as we receive confirmation of any changes to responsibilities and gain better understanding of where local representation might be more relevant through devolution and partnership with parish, town and city councils.

My thanks go to Democratic Services, led by Scott Wooldridge, for their work on this complex task and to all the elected Members who are representing Somerset Council.