Somerset Council

Interim Auditor's Annual Report for the year ended 31 March 2024

January 2025

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.

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.

Introduction

Purpose of the Auditor's Annual Report

This report brings together a summary of all the work we have undertaken for Somerset Council (the Council) during 2023/24 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements.

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of 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.

Responsibilities of the appointed auditor

Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

- give a true and fair view of the financial position of the Council as at 31 March 2024 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 2023/24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

Value for money

We report our judgements on whether the Council has proper arrangements in place regarding arrangements under the three specified criteria:

- financial sustainability
- governance
- Improving economy, efficiency and effectiveness

The Value for Money auditor responsibilities are set out in Appendix B.

Auditor powers

Auditors of a local authority have a duty to consider whether there are any issues arising during their work that require the use of a range of auditor's powers.

These powers are set out on page 16 with a commentary on whether any of these powers have been used during this audit period.

Executive summary

Executive summary

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The NAO has consulted and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditors Annual Report ('the Report') with those charged with governance by a nationally set deadline each year (30 November) and for the audited body to publish the Report thereafter. This new requirement will be introduced from November 2025. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible, sharing this report well in advance of the statutory deadline. Our summary findings are set out below. Our recommendations and management responses are summarised in the section starting on page 47.

Financial sustainability

The Council is facing significant budget pressures that put the financial sustainability of the Council and future service delivery at risk. A budget gap of £103.9m is identified for 2025/26 which rises to £198.5m by 2028/29, and budget gaps of this scale will not be resolved through normal budget processes. Much of the financial pressure within the revenue budget is driven by increases in costs and demand in social care services, including the cost of residential placements in Adult Services and increasing numbers of children in care and associated placement costs for Children's Services.

Due to the scale of financial challenges that the Council is facing we have raised two statutory recommendations and three key recommendations in order to strengthen financial planning arrangements. A statutory recommendation under Schedule 7 of the Local Audit and Accountability Act 2014 requires the Council to discuss and respond publicly to the report.

The Council recognises the financial challenges that it faces, declaring a financial emergency in November 2023 and engaging early with the Department for Levelling Up, Housing and Communities in September 2023 to seek additional financial support in order to avoid issuing a S114 Notice. The actions the Council took in 2023/24 mitigated a £28.6m overspend forecast at Month 3 to a £1.6m underspend at the year end.

While the Council had arrangements in place during 2023/24 to regularly update and report on the scale of the financial challenge, it has not moved quickly enough to develop a pipeline of savings plans and other mitigations to fully address these financial challenges. While a Financial Strategy has been developed to deliver savings over the medium term and the transformation programme has been brought forward, the Council had to rely on £81.4m of one-off resources to balance the 2024/25 budget, including £36.8m of reserves and £36.9m in government support. Reliance of this scale on one-off resources represents a significant weakness in arrangements to ensure financial sustainability as reserves are eroded and no longer available to provide financial resilience and one-off measures impact on the budget gap in future years.

The April 2024 Medium-Term Financial Strategy provides a financial strategy to produce a range of savings from £47m to £116m but there are significant risks in delivering the scale of savings required and if the budget gap for 2025/26 is not fully bridged through recurring savings, there is a risk further reserve contributions or urgent cuts to services will be required.

Due to the scale of financial challenges that the Council faces, **we have raised a statutory recommendation that the Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level.**

There has been a significant delay in the Council producing its draft financial statement for 2023/24 due to the complexities of a new financial ledger and the bringing together of predecessor opening balances.

The draft accounts were expected to be published by 31 October 2024. However, as at 2 January 2025, the draft accounts have yet to be published. The backstop date of 28 February 2025 may impact the delivery of the audit and may result in the all work not being able to be concluded. We will keep the Audit Committee closely appraised of progress.

Executive summary (continued)

Financial sustainability (continued)

During 2023/24 the Council did not have a Council-wide transformation programme in place or a pipeline of savings to address future year budget gaps. The Council has brought forward the planned transformation programme to start delivering savings in 2024/25, but sufficient progress was not made to include transformational savings in the 2024/25 budget. The Financial Strategy approved in April 2024 included £30-£40m of savings relating to the workforce programme but did not include any further savings relating to the transformation programme.

Governance arrangements are in place to provide oversight of the transformation programme, including a Programme Management Office, Programme Steering Group, Design Authority and Transformation Board. However, as a new authority, the Council does not have a costed transformation business case that identifies the cost and sources of funding for implementing enabling projects relating to ICT, data and process improvement that will allow the Council to transform and contribute to delivering their ambitious savings targets. We understand that the Council plans to deliver this business case during 2024/25. **We have raised a statutory recommendation that the Council should develop the overarching transformation business case and identify the funding required to deliver transformation.**

The Council has embarked on implementing an ambitious workforce reduction programme at pace during 2024/25 in order to deliver £30-£40m of savings through reducing the workforce by 26% full time equivalents to help balance the budget gap in 2025/26. In order to secure rapid workforce savings, the Council is delivering the workforce reduction programme before the development of the detailed transformation programme business case and before key enabler projects, relating to ICT, data and process improvement, have been implemented. While recognising the need for urgency, the implementation of the staff reduction programme before the transformation programme has been developed presents a significant risk that reductions in staff and the new structures being developed will impact on the Council's capacity to deliver services before they are effectively transformed. Whilst recognising the need to act at pace to address the underlying financial challenges faced by the Council, **we have raised a key recommendation that the Council should mitigate the risk of implementing the organisational restructure before the development of the wider transformation business case.**

Mitigating actions include continued review and correlation of new service design blueprints to the new target operating model, maintaining service performance during transformation and identifying any adverse performance caused by capacity issues, and continuing to support staff.

We identified a significant weakness in the Auditor's Annual Report 2022/23 relating to developing mitigating actions to manage demand and cost in Adult and Children's Services and this weakness has carried through into 2023/24 following the creation of the new single unitary Council. For 2023/24 we undertook additional focused value for money work to consider the Council's response to this risk and to gain further understanding of the work of the social care directorates to address their respective financial challenges.

In regard to Adult Social Care, we note that significant progress has been made, however, we will need to see the improvements fully embed and the crystallisation of the financial benefits from transformation before we will be able to lift the current significant weakness. In regard to Children's services, we note that whilst some progress has been made, there remain significant challenges in delivering to budget and, in particular, the accuracy of budget assumptions and delivery of transformation savings in line with the plan. Whilst we have not identified any further significant weaknesses in arrangements in respect of social care, due to the significance of the challenge facing Children's services, we have raised a further key recommendation.

We have raised a key recommendation that Children's services should accelerate its response to the 2025/26 budget setting process and focus on the timing and valuation of savings schemes, greater use of scenario planning, developing a clear strategy for exploring transformation opportunities, and using the new transformation board framework and Scrutiny Committee to provide robust challenge to assumptions.

Executive summary (continued)

Financial sustainability (continued)

We have also identified four additional improvement recommendations where the Council could further strengthen arrangements in this area. We will review progress again as part of our 2024/25 value for money work.

The Council is now actively disposing of commercial properties in accordance with the approved Investment Property Disposal Strategy with oversight provided by the Property and Investments Executive Sub Committee. Portfolio financial performance is reported at a very high level to the Sub Committee, comprising of total contracted annual income, voids and rent arrears with no targets or analysis by individual asset. The capacity for detailed reporting is limited by the small size of the commercial property team, the reliance on spreadsheets rather than automated systems, and the focus of resources on disposing of commercial property. **We have raised a key recommendation that the Council should strengthen financial performance reporting for the commercial investment property portfolio.**

The Council overspent on its Dedicated Schools Grant (DSG) allocation by £14.2m in 2023/24, driven by a £15.1m overspend on the high needs block, and resulting in a cumulative DSG deficit of £36.2m at 31 March 2024. The Council participates in the DfE Delivering Better Value Programme and has worked with Newton Europe and CIPFA to develop improved understanding of demand modelling and financial trajectories for high needs and identify opportunities for efficiencies. While the annual DSG deficit is forecast to reduce over the medium term as the deficit management plan is implemented, the cumulative deficit continues to increase and is forecast to reach £72.3m when the statutory override ends in March 2026, exceeding the level of available reserves to fund the balance. Therefore, the DSG deficit continues to represent a significant risk to the financial sustainability of the Council. **We have raised a key recommendation that the Council should continue to develop and implement mitigating actions to reduce the DSG deficit.**

Governance

The Council has an effective internal audit function and Audit Committee in place, and arrangements are adequate to ensure informed decision making and effective scrutiny. However, we have concluded that there are significant weaknesses within the Council's arrangements to implement robust and effective internal controls.

The Head of Internal Audit Opinion for 2023/24 was one of limited assurance, indicating that the control environment is not operating effectively. There were 15 limited and no assurance internal audit opinions out of a total of 22 opinion audits provided in 2023/24 (68%). Limited assurance opinions were provided for high impact areas such as Financial Control, Children Looked After Placements and Health and Safety Culture. Internal audit also provided limited assurance to the Whistleblowing Policy and Awareness review, and we note that there was no dedicated anti-fraud plan for 2023/24. Internal audit recommendations are not implemented in a timely manner in accordance with agreed timescales. Internal audit raised 149 recommendations in 2023/24, with 77 recommendations completed in year but only 7 recommendations completed within the target date.

We have raised a key recommendation that the Council should embed a sound system of internal control across the organisation and ensure that managers are accountable for maintaining internal control.

In order to comply with the Local Audit and Accountability Act 2014 the draft financial statements 2023/24 should have been published by 31 May 2024 with the public inspection period commencing no later than 3 June 2024. However, the Council has been unable to commence the public inspection as they have yet to publish the draft financial statements. The draft accounts were expected to be published by 31 October 2024. However, as at 2 January 2025, the draft accounts have yet to be published. The delays are due to the impact of the local government reorganisation, legacy Council audits and the implementation of the new finance system from April 2023.

Executive summary (continued)

Governance (continued)

We have raised a key recommendation that the Council review their close down processes to ensure that the financial statements are published in line with the statutory deadline for 2024-25 and beyond to enable timely inspection of the accounting records by local residents and audit work to be completed and concluded within the agreed timescales.

We noted in the Auditors Annual Report 2022/23 which covered the four of the five predecessor councils including Somerset County Council, that there were significant weaknesses with regard to the implementation of the new Microsoft Dynamics finance system that impacted on efficient and accurate financial reporting during 2023/24. System developments and training have continued since the go live date and the Council now considers the system fully functional other than the fixed assets module planned for development in due course. There are future developments planned including: continued revenue budget alignment and validation; loading capital budgets into the system; and Power BI developments to allow budget holders to self-service. We note that the Council has not undertaken a benefits realisation review to ensure that the expected benefits of the system are being delivered and to inform future developments.

However, ongoing issues with the finance system are significant contributary factors to the Council not meeting the statutory deadline for the production of the 2023/24 financial statements by the end of May 2024.

We have raised a key recommendation that the Council should continue to develop the finance system to ensure it supports accurate and efficient financial reporting and ensure that it monitors and reports on business case benefit realisation with regard to integration, productivity and data-based decision making.

We raised an improvement recommendation in the Auditor's Annual Report 2022/23 that there should be sufficient capacity in place, with staff suitably trained, in order to respond to Ombudsman investigations completely and within agreed timescales.

However, in their Annual Review letter for 2023/24, the Ombudsman expresses their disappointment that in 6 out of 19 cases (32%) the Council did not implement recommendations within the agreed timescales. There were also delays in the Council responding to Ombudsman investigation enquiries. In addition, the Council is not meeting its target to provide a substantive response to Code of Conduct complaints within 20 days.

Due to the improvement recommendation raised in 2022/23 and the continued weakness in arrangements in these areas, **we have raised a key recommendation that the Council should review its procedures for coordinating with the Ombudsman and ensure compliance with the requirements outlined in the Complaint Handling Code.**

The Council has continued to develop and embed risk management arrangements during 2023/24. The Audit Committee received the strategic risk register report four times during 2023/24 and the register captures the elements of best practice we would expect. Risk management updates have also been provided to the Audit Committee and Executive, setting out the workplan to further develop risk management arrangements. The Strategic Risk Report presented to the Audit Committee in May 2024 confirms the further work being undertaken to strengthen risk management, such as the review and refresh of strategic risks by the Performance, Risk and Budget Board, presentation of deep dive risk reports to the Audit Committee, and management of risk and performance through a single system. We note that internal audit reviews into Health and Safety Culture and Housing Landlord Health and Safety were provided limited assurance opinions in 2023/24.

We have raised an improvement recommendation that the Council should continue to embed risk management throughout the organisation.

Executive summary (continued)

Governance (continued)

The Council has restructured the Executive Leadership Team, and as a result S151 Officer, will cease to be an Executive Director and will become a Service Director from April 2025. The Monitoring Officer role will transfer from a Service Director to a Head of Service post as a result of the restructure. The S151 Officer and Monitoring Officer will not sit on Executive Leadership Team, but we understand that arrangements to ensure they can fulfil their roles include a "dotted line" between theses statutory officers and the Chief Executive, and the Statutory Officer Board will continue to meet regularly.

The Code of Practice on Good Governance for Local Authority Statutory Officers, published by CIPFA, SOLACE and LLG in June 2024 sets out that the Chief Finance officer and Monitoring Officer should be full and active members of the authority's most senior leadership team and have a clear and direct relationship to the Head of Paid Service.

We have raised an improvement recommendation that the Council should ensure that the S151 Officer and Monitoring Officer retain sufficient status within the organisation and appropriate mechanisms should be maintained to ensure the three statutory officers can properly advise strategic decision making.

Improving economy, efficiency and effectiveness

We raised a key recommendation in the Auditor's Annual Report 2022/23 that robust procurement and contract management arrangements should be implemented at Somerset Council. Significant weaknesses remained during 2023/24 with regard to the processes for procurement and contract management. Progress was hampered by the organisational restructure, but the Council did make progress in some areas including developing the single contract register and providing procurement training to Members and officers.

Weaknesses include the delay in implementing recommendations from the DLUHC pilots aimed at improving contract management that related to appointing a senior responsible officer and implementing a governance structure. Evidence of weaknesses in arrangements is provided through the limited assurance internal audit opinion for the Children Looked After Placements Contract and Procurement audit in November 2023. This service area has high organisational impact for strategic risks relating to sustainable financial planning and budget overspends. Key findings included the absence of a tender process, weaknesses in contract monitoring, and purchase orders not being raised. In addition, the Audit Committee were not provided with waiver reports to allow for scrutiny and challenge when procurement did not follow approved processes, and we note the Procurement Policy is out of date.

We have raised a key recommendation that robust procurement and contract management processes should be embedded across the organisation.

Corporate performance reporting was presented quarterly to the Executive during 2023/24, with a focus on operational indicators as part of the interim approach agreed by the Executive for 2023/24, pending the implementation of a new corporate performance framework. The Council is continuously improving corporate performance reporting with the introduction of the Core Performance Framework for 2024/25. Corporate performance reports will be based around three lenses (strategic, organisational health, service) in order to provide a rounded view of organisational performance rather than the interim suite of corporate indicators that were approved for vesting day. Supporting the framework is the establishment of the newly created Performance, Risk and Budget Board.

We have raised an improvement recommendation that the Council should continue to embed and develop strategic and operational performance reporting.

Executive summary (continued)

Improving economy, efficiency and effectiveness (continued)

The last Ofsted inspection of the Council's Children's Services was in 2022 and resulted in a "good" rating from the regulator. The Council can demonstrate that it implements improvements as a result of other targeted Ofsted inspections and that sufficient progress is made and monitored. The targeted inspection of the implementation of SEND reforms by Ofsted and the Care Quality Commission in 2020 identified 9 significant weaknesses. The Council developed improvement plans with oversight of progress provided by the SEND Partnership Board. The required written statement of actions has now been closed and learning applied to the SEND Strategy 2023-26.

The Council can demonstrate that it works in partnership to deliver strategic priorities and arrangements for partnership working are adequate. Partnership working is evident in the Council's work with Homes2Inspire which aims to open Council-owned children's care homes and reduce reliance on private providers. The Council has also signed a Memorandum of Understanding with health and voluntary sector partners demonstrating a commitment to work more closely and establish a framework to improve collective performance. The transformation programme includes the Partnerships, Devolution, and Localities Programme with objectives to streamline how the Council works with partners, prioritise devolution for local services and savings, and review the Council's engagement with localities.

Executive summary (continued)

Overall summary of our Value for Money assessment of the Council's arrangements

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. A summary of our judgements are set out in the table below.

Grant Thornton UK LLP was the appointed auditor in 2022/23 for four of the five legacy councils that merged to form Somerset Council. Grant Thornton UK LLP was the appointed auditor for Somerset County Council, Sedgemoor District Council, Somerset West and Taunton Council, and South Somerset District Council. We produced a joint Auditor's Annual Report for 2022/23 that covered the arrangements for these four councils and the resulting recommendations were addressed to the new Somerset Council in January 2024.

Criteria	2022/23 Auditor judgement on arrangements		2023/24 Risk assessment	2023/24 Auditor judgement on arrangements		Direction of travel
Financial sustainability	R	Significant weakness in arrangements identified and five key recommendations made to legacy councils in 2022/23 relating to: demand and cost in Adults and Children's Services; the transformation programme; commercial investment property; reserves; and the DSG deficit.	Risk of significant weakness in arrangements identified due to five key recommendations made to legacy councils in 2022/23.	R	Significant weakness in arrangements identified including the use of one-off resources to balance the budget, the development of recurrent savings plans and the transformation programme. We have raised two statutory recommendations and four key recommendations in order to strengthen financial planning arrangements. We have also raised five improvement recommendations.	↓
Governance	R	Significant weakness in arrangements identified and one key recommendation made to legacy councils in 2022/23 relating to developing the functionality of the Microsoft Dynamics finance system.	Risk of significant weakness in arrangements identified due to one key recommendation made to legacy councils in 2022/23.	R	Significant weakness in arrangements identified including the arrangements to implement robust and effective internal controls, closedown processes, the Microsoft Dynamics finance system and the Council's response to Ombudsman investigations. We have raised four key recommendations and two improvement recommendations.	↔
Improving economy, efficiency and effectiveness	R	Significant weakness in arrangements identified and one key recommendation made to legacy councils in 2022/23 relating to implementing robust procurement and contract management arrangements.	Risk of significant weakness in arrangements identified due to one key recommendation made to legacy councils in 2022/23.	R	Significant weakness in arrangements identified relating to contract management and procurement. We have raised one key recommendation and one improvement recommendation.	↔

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

Opinion on the financial statements and use of **auditor’s powers**

Opinion on the financial statements

Audit opinion on the financial statements

At the time of drafting this Interim Annual Auditors Report (AAR), the Council had yet to publish its financial statements for the year ending 31 March 2024, thereby missing the 31 May 2024 deadline. This has been discussed between the Council and ourselves as the appointed external auditors on a regular basis.

There are a number of contributing factors to this including the complications of bringing together five separate sets of accounts from the predecessor councils, one of which, South Somerset District Council, where revised accounts had to be prepared and submitted for further audit scrutiny on 8 October 2024. In addition, the implementation of the new financial ledger system and issues around its functionality and reporting has meant that the preparation of the accounts has been delayed until the end of October 2024.

This interim AAR will be updated to reflect the findings of our audit by the 28 February 2025.

Grant Thornton provides an independent opinion on whether the Councils financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2024 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 2023/24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted 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.

Findings from the audit of the financial statements

At the time of drafting this Interim Annual Auditors Report (AAR), the Council had yet to publish its financial statements for the year ending 31 March 2024.

The draft accounts were expected to be published by 31 October 2024. However, as at 2 January 2025, the draft accounts have yet to be published. The backstop date of 28 February 2025 may impact the delivery of the audit and may result in the all work not being able to be concluded. We will keep the Audit Committee closely appraised of progress.

Audit Findings Report

We report the detailed findings from our audit in our Audit Findings Report. A final version of our report will be presented to the Council's Audit Committee in February 2025 in advance of the backstop date of 28 February 2025. Requests for this Audit Findings Report should be directed to the Council.

Opinion on the pension fund statements

Audit opinion on the financial statements

At the time of drafting this Interim Annual Auditors Report (AAR), the Council has prepared its draft pension fund financial statements for the year ending 31 March 2024 and our audit work on these financial statements is substantially complete.

Consistency report on the financial statements within the Pension Fund Annual Report

The Pension Fund is required to publish its Annual Report by 1 December 2024. We are required to issue an auditor's 'consistency' report which includes our opinion that the 2023-24 Somerset Pension Fund financial statements within the Pension Fund Annual Report are consistent, in all material aspects, with those within the audited administering authority's Financial Statements.

We received a draft copy of the pension fund's 2023-24 annual report on 17 September 2024. We propose to issue our consistency opinion on the Pension Fund's Annual Report when the audit of the Administering Authority is complete, alongside the final audit opinion.

Grant Thornton provides an independent opinion on whether the Pension Fund's financial statements:

- give a true and fair view of the financial position of the Pension Fund as at 31 March 2024 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 2023/24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted 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 Pension Fund in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

.Findings from the audit of the financial statements

The Pension Fund experienced some delays in the preparation of its financial statements due to its transition to its new financial ledger system. We were provided draft accounts on 11 July 2024, after the national deadline.

Draft financial statements were of a good standard and supported by detailed working papers. The Council were cooperative with our audit enquiries and we received good support from the Council's Funds & Investment Manager throughout the progress of the audit. We did encounter some delays and quality matters in some items selected for sampling, particularly within journals and contributions testing, but engaged regularly with officers to escalate and address these matters at the earliest opportunity.

In response to our significant risk around the valuation of level 3 investments, we identified £1.929m of unadjusted estimation differences in the valuation of the Fund's investments disclosed in the financial statements at 31 March 2024 and the valuation statements received from the third-party investment managers. Management are proposing not to amend the financial statements on the basis that the differences are not material.

A £10.985m misclassification error was identified on the Fund account where the realised loss on an investment holding within the Statement of Accounts was incorrectly processed. The realised loss recorded the sales proceeds as nil where there was no actual sale of units. This incorrectly resulted in a realised loss of £10.985m. Management processed the adjustment to correct this error.

In response to our significant risk around management override of controls, as part of our IT audit work our specialists identified that the new ledger implementation process had resulted in a number of significant control deficiencies. These were set out in an IT Audit Report to Somerset Council's Audit Committee in August 2024. As a result of the significant deficiencies identified, we increased the risk level implicit within our audit testing. The result of this was that an increased number of journals were selected for testing, and we also identified a number of specific journals where we applied a targeted journal testing approach.

Opinion on the pension fund statements

Audit Findings Report

We set out the detailed findings from our audit of Somerset Pension Fund in our Audit Findings Report. Our report is scheduled to be presented to the Pension Fund's Audit Committee on 12 November 2024. Requests for this Audit Findings Report should be directed to the Pension Fund.

Value for money arrangements for the Pension Fund

We have considered the arrangements that the Council has in place, as the administering authority, to secure value for money for the Somerset Pension Fund. We have found that there are adequate arrangements in place to ensure that the Pension Fund makes informed decisions and properly manages risks, uses information about cost and performance, and plans and manages resources to ensure it can continue to deliver services.

Use of auditor's powers

We bring the following matters to your attention:

	2023/24
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make recommendations to the audited body which need to be considered by the body and responded to publicly.	We have made two recommendations under Schedule 7 of the Local Audit and Accountability Act 2014. We have raised statutory recommendations relating to developing detailed savings plans to deliver the savings targets set out in the financial strategy, and developing the overarching transformation business case.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
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.

Value for Money
Commentary on arrangements

The current local government landscape

It is within this context that we set out our commentary on the Council's value for money arrangements in 2023/24 and make recommendations where any significant weaknesses or improvement opportunities in arrangements have been identified.

National context

Local government in England remains a challenged sector. In recent years, generationally significant levels of inflation put pressure on councils' General Fund revenue and capital expenditure. The associated cost of living crisis drove an increase in demand for council services such as social care and homelessness. At the same time, the crisis impacted adversely on key areas of council income that were needed to service the increase in demand, for example fees and charges and the collection rates for council tax, business rates and rents.

For Housing Revenue Accounts, inflation in recent years led to cost increases often outstripping rent rises. In the coming years, new legal duties on landlords are expected to increase costs further, without there necessarily being any additional funding to cover the new costs. At the same time, high construction prices are making it harder for councils to invest in the new accommodation which might have helped make savings in the revenue account, for example on temporary accommodation and homelessness. Housing Revenue Accounts are under further pressure due to regulatory challenges in housing quality in the light of national issues in respect of cladding and damp/mould issues.

In January 2024, the UK government announced an additional £600 million for local government, but the Spring Budget for 2024 brought little in the way of any further support. Rising costs of delivering services, coupled with workforce shortages in key areas, supply chain fragility, and rising interest rates for servicing debt, brought a level of crisis to the local government sector perhaps never experienced before. Current warning signs of difficulty include:

- Seven councils issuing eleven section 114 notices between 2019 and 2023, compared with two councils issuing notices between 2001 and 2018, with an increasing number of other councils publicly warning of a section 114 risk;
- Twenty councils being with government approval for exceptional financial support during 2024/25, totalling approximately £1.5 billion. Only six of these councils had previously issued a section 114 notice.; and
- The Local Government Association warning that councils in England face a funding gap of £4 billion over 2023/24 and 2024/25.

Local government is coming under an increased spotlight in terms of how the sector responds to the financial challenge it faces. Since the start of 2024, the UK government has emphasised the need for increased productivity rather than increased funding. New plans were announced by the Chancellor in March 2024 for public sector productivity to deliver up to £1.8 billion worth of benefits by 2029. Councils have been asked to submit productivity plans, showing how they will improve service performance and reduce wasteful spend.

The general election that took place on 4 July 2024 led to a change in government. Changes to government policy and legislation relating to the sector are still emerging at the time of producing this report.

Local context

Following the Secretary of State's approval for local government reorganisation in Somerset, the new Somerset Council unitary authority was created on 1 April 2023. Somerset Council was created from five legacy councils: Somerset County Council, Mendip District Council, Sedgemoor District Council, Somerset West & Taunton Council, and South Somerset District Council. Under the Structural Changes Order made by the Secretary of State, Somerset County Council was the continuing authority, and was responsible for setting the 2023/24 budget for Somerset Council and ensuring arrangements were in place for a successful transition to the new authority on vesting day.

The Somerset Structural Changes Order approved the May 2022 local elections to appoint 110 councillors to Somerset County Council and from 1 April these 110 councillors were responsible for the services provided by the new unitary authority. The current political make-up of the Council is as follows: Liberal Democrat 61; Conservative Party 33; Labour 5; Green Party 5; Independent 3; No political group 3.

Somerset Council is facing significant financial challenges, driven largely by increasing cost and demand within Children's and Adult services. The Council declared a financial emergency in November 2023, implementing actions to reduce expenditure and in-year budget pressures to avoid issuing a Section 114 Notice. The Council recognises that fundamental change is required to create a financially sustainable Council and is implementing a transformation programme to change the way services are delivered in the future.

Financial sustainability

We considered how the audited body:	Commentary on arrangements	Assessment
ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;	The reliance on £81.4m of one-off resources to balance the 2024/25 budget is a significant weakness in arrangements and presents a significant risk to financial sustainability in 2025/26, where a £103.9m budget gap is forecast. The Council recognises the financial challenges that it faces, declaring a financial emergency in November 2023 and engaging early with the Department for Levelling Up, Housing and Communities in September 2023 to seek additional financial support in order to avoid issuing a S114 Notice. The April 2024 MTFS report provides a financial strategy to produce a range of savings from £47m to £116m. There are significant risks associated with the delivery of the scale of savings required, and if the budget gap for 2025/26 is not fully bridged through recurring savings, there is a risk further reserve contributions or urgent cuts to services will be required. While some elements of the Financial Strategy are based on knowledge of where savings can be made based on current performance, such as treasury management income and base budget reviews, other areas require strategic choices to made on service levels, and others are not in the control of the Council such as lobbying the government for additional council tax flexibilities. While the Council had arrangements in place to regularly update and report on the scale of the financial challenge, it has not moved quickly enough to develop a pipeline of savings plans and other mitigations to fully address these financial challenges. Due to the scale of financial challenges that the Council faces, we have raised a statutory recommendation (SR1) relating to the development of savings plans. As part of our 2023/24 value for money work, we undertook additional risk-based work to review the progress on the delivery of the Adult and Children's Services transformation programmes, to review the modelling used to project demand, and to gain an understanding of the likelihood that transformation would be able to deliver the financial benefits projected in the MTFP. We have concluded that although good progress has been made, the significant weakness in arrangements first raised in 2022/23 remains open, and we have raised a further key recommendation (KR2) relating to financial planning within Children's Services. Executive approved the disposal of the commercial investment portfolio in November 2023 and the Property and Investments Executive Sub Committee was established to oversee the disposal of the portfolio and management of properties. The Council is now actively disposing of commercial properties in accordance with the approved Investment Property Disposal Strategy. Portfolio financial performance is reported at a very high level to the Sub Committee, comprising of total contracted annual income, voids and rent arrears with no targets or analysis by individual asset. The capacity for detailed reporting is limited by the small size of the commercial property team, the reliance on spreadsheets rather than automated systems, and the focus of resources on disposing of commercial property. We have raised a key recommendation (KR3) relating to reporting financial performance for commercial investment property. While the annual DSG deficit is forecast to reduce over the medium term as the deficit management plan is implemented, the cumulative deficit continues to increase and is forecast to reach £72.3m when the statutory override ends in March 2026, exceeding the level of available reserves to fund the balance. Therefore, the DSG deficit continues to represent a significant risk to the financial sustainability of the Council. We have raised a key recommendation (KR4) relating to reducing the DSG deficit.	R

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

Financial sustainability (continued)

We considered how the audited body:	Commentary on arrangements	Assessment
plans to bridge its funding gaps and identifies achievable savings	During 2023/24 the Council did not have a Council-wide transformation programme in place or a pipeline of savings to address future year budget gaps. The Council has brought forward the planned transformation programme to start delivering savings in 2024/25, but sufficient progress was not made to include transformational savings in the 2024/25 budget. The Financial Strategy approved in April 2024 included £40m of savings relating to the workforce programme but did not include any further savings relating to the transformation programme. Governance arrangements are in place to provide overview of the transformation programme, including a Programme Management Office, Programme Steering Group, Design Authority and Transformation Board. To date the Council has not produced a costed transformation business case that identifies the cost and sources of funding for implementing enabling projects relating to ICT, data and process improvement that will allow the Council to transform and deliver their ambitious savings targets. We have raised a statutory recommendation (SR2) relating to the development of the overarching transformation business case. The Council has embarked on implementing an ambitious workforce reduction programme at pace during 2024/25 in order to deliver £49m of savings through reducing the workforce by 26% full time equivalents to help balance the budget gap in 2025/26. In order to secure rapid workforce savings, the Council is delivering the workforce reduction programme before the development of the detailed transformation programme business case and before key enabler projects, relating to ICT, data and process improvement, have been implemented. While recognising the need for urgency, we consider the implementation of the staff reduction programme before the transformation programme presents a significant risk that reductions in staff and the new structures being developed will impact on the Council's capacity to deliver services before they are transformed. We have raised a key recommendation (KR1) relating to mitigating this risk.	R

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

Financial sustainability (continued)

We considered how the audited body:	Commentary on arrangements	Assessment
plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council can demonstrate a coherent link between assumptions within corporate objectives and the 2024/25 budget, financial strategy and medium-term financial plan. The Medium-Term Financial Strategy 2025/26 to 2029/30 confirms the linkage of pressures, growth and savings to the delivery of the Council's key priorities within the Council Plan of: a greener more sustainable Somerset; a healthy and caring Somerset; a flourishing and resilient Somerset; a fairer ambitious Somerset. The Budget Report 2024/25 is supported by a Summary of Cumulative Impacts and Risks of the medium-term financial plan, recognising that all budgetary proposals have impacts and the budget requires significant savings. Consideration of the need to reduce inequalities is cited as integral to the budget reduction process, with the impacts on health and wellbeing highlighted, including the impact on the four priorities of the Somerset Improving Lives Strategy. Capital investment decisions are underpinned by business cases that set out full costs, risks and financial returns and broader economic and social benefits of the proposal. Capital bids are appraised against a set of criteria including comparison of service priorities against affordability of financing costs. The capital budgets for 2023/24 were primarily based on the spending plans of the previous five councils, but expenditure plans have been revised with the objective of reducing pressure on the revenue budget by minimising debt charges and reprofiling capital investment into future years where appropriate. New programme approvals are restricted to health and safety related, legal requirements, Council priorities, invest to save projects or externally funded schemes. As a result of the review of capital spending plans the total 2024/25 - 2026/27 capital programme is £368.0m, a reduction of £82.5m compared to the 2023/24-2025/26 capital programme. The Capital Strategy sets out the major capital projects which contribute to the four priorities in the Council Plan. Although Somerset Council is a new authority which limits the scope for benchmarking, it can demonstrate the use of benchmarking of costs for services not impacted by local government reorganisation (for example Adults and Children's Services) and the use of CFOi and LG Futures benchmarking tools to compare service unit costs. We have not identified any recommendations in this area.	G

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

Financial sustainability (continued)

We considered how the audited body:	Commentary on arrangements	Assessment
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	The Council can demonstrate that financial planning assumptions are consistent with other key strategies. The Medium-Term Financial Strategy (MTFS) 2025/26 to 2029/30 confirms that the Strategy ensures the Revenue, Housing Revenue Account, Capital Strategy and Treasury Management Strategy are appropriately aligned, and our review has found no inconsistencies. The Treasury Management Strategy 2024/25 confirms the borrowing strategy is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of costs and to address the key issue of affordability. Disposal of assets is identified as a key driver of borrowing and so General Fund debt is initially taken out in shorter periods to provide flexibility to pay down borrowing when assets are sold. Interest rates expected to reduce from late 2024 and so the Strategy recognises that it may be more cost effective to use internal resources or borrow short term. Investment balances have reduced during 2023/24 as the Council prioritised minimising debt and it is envisaged that this will continue into 2024/25. The Treasury Management Strategy is therefore aligned to the MTFS in minimising debt and interest costs. The MTFS 2025/26 to 2029/30 identifies a savings requirement of £103.9m for 2025/26 rising to £198.5m by 2028/29. The workforce programme is identified in the MTFS as delivering a reduction in the pay bill of up £40m to help close the 2025/26 budget gap whilst minimising compulsory redundancies and includes voluntary redundancy, recruitment and establishment controls, reduced agency and consultant spend, reduced management costs and removal of vacant posts. Therefore, financial and workforce plans are aligned. The Capital Strategy 2024/25 - 2026/27 confirms capital budgets are put in place to maintain assets which support delivery of Council services. These include £14m to maintain Council property with condition surveys informing the programme of works and £3m corporate ICT to maintain and replace components, consolidate systems and support hybrid working. The Asset Management Plan sets out the strategic objectives for property asset management which include assets should be fit for purpose, safe and compliant. The Financial Strategy has a savings target range of £1m-£3m for asset management through rationalisation of Council offices and aligns to the Asset Management Plan objective that the Council's estate is financially sustainable, efficient and effective. We have not identified any recommendations in this area.	G

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

Financial sustainability (continued)

We considered how the audited body:	Commentary on arrangements	Assessment
identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	The Council has been open and transparent with regard the financial challenges it faces, took robust action to mitigate the forecast overspend in 2023/24, and risks are clearly communicated in financial planning and budget reports. The Council took robust action to mitigate the £28.6m overspend forecast at Month 3 2023/24 resulting in a £1.6m underspend revenue outturn. Interventions included various spend control boards to review and challenge expenditure across key budget areas and the implementation of "No Purchase Order No Pay". The Council has also been open and transparent with engaging with government and external audit regarding financial challenges and requested additional government financial support for 2024/25. This has been reported to Members through the November 2023 Medium Term Financial Plan update to Executive and the Budget Report 2024/25. The Budget Report 2024/25 clearly sets out risks in the Financial and Risk Implications section of the report. There is also a separate appendix to the report setting out the strategic risks associated with the budget proposals. The Council has commissioned a number of external reviews to validate the overall budget and potential savings for 2024/25 including for Adult and Children's Services, the housing revenue account and the balance sheet. However, the 2024/25 budget could only be balanced using £81.4m of one-off resources, including £36.8m from the medium-term financial plan support reserve. There are significant risks within the financial strategy to deliver the scale of savings required and if the full 2025/26 budget gap of £103.9m is not balanced through savings then there is a risk that further contributions from reserves or urgent cuts to services will be required. The General Fund balance was £52.1m as at 31 March 2024, within the prudent range set by the Council of between £30m-£60m. However, due to the use of reserves to support the 2024/25 budget, earmarked reserves are forecast to reduce from £103.9m as at 31 March 2024 to £55.1m as at 31 March 2025. As already highlighted in this Annual Auditor's Report, we have raised a statutory recommendation (SR1) relating to the development of savings plans. This includes identifying additional savings to minimise the use of reserves, ensuring that sufficient levels of reserves are maintained to mitigate the significant levels of financial risk the Council is facing.	R

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

Financial sustainability (continued)

Significant weaknesses identified - financial planning

The Council is facing significant budget pressures that put the financial sustainability of the Council and future service delivery at risk. Large budget gaps are identified for future years, with a £103.9m gap forecast for 2025/26 and these will not be resolved through normal budget processes. The 2024/25 budget could only be balanced through the use of £81.4m of one-off resources which adversely impacts future year budget gaps.

Much of the financial pressure within the revenue budget is driven by increases in costs and demand in social care services, including the cost of residential placements in Adult Services, increasing numbers of children in care and associated placement costs for Children's Services, and the costs of home to school transport. Recognising these budget pressures the budget for Children's Services was increased by £15.9m for 2024/25 and Adult Services by £58m.

The Council recognises the financial challenges it faces and raised the risk of having to issue Section 114 notices for 2024/25 and future years in financial planning reports considered by the Executive during 2023/24. Grant Thornton UK LLP wrote to the Council in October 2023, expressing our concern, as the Council's external auditors, over the Council's financial position, including the level of reserves, ongoing budget pressures, and lack of a Council-wide transformation programme or pipeline of savings.

The Council declared a financial emergency in November 2023 due to the significant financial overspends forecast for 2023/24 and the increasing budget gap identified for 2024/25. Interventions to reduce budget pressures included spend boards that reviewed and challenged spend across key budget areas such as recruitment, procurement, expenditure and Adults and Children's social care.

The Council has also been proactive in seeking additional financial support from the government rather than waiting until a Section 114 notice was required. The Council wrote to the Department for Levelling Up, Housing and Communities in September 2023 outlining significant financial challenges and seeking to work with the Department to avoid having to issue a Section 114 notice.

The Council delivered a £1.6m underspend on the revenue budget for 2023/24, a significant improvement on the £28.6m overspend forecast at Month 3. The improved financial performance was a result of the actions put in place following the declaration of the financial emergency. However, within this net underspend there were significant net overspends for Children's Services (£12.4m) and Adult Services (£17.4m) demonstrating the continued financial pressure within these services.

The 2024/25 residual budget gap of £81.4m could only be balanced through the use of one-off resources, made up from £36.8m reserves, £36.9m government support (capitalisation direction) and £7.7m of collection fund surpluses. The reliance on this magnitude of one-off resources to balance the budget is a significant weakness in arrangements and a significant risk to financial sustainability in 2025/26. The use of one-off resources to fund recurring expenditure, rather than identifying sufficient sustainable savings from the base budget, increases the savings target for the following year. The use of reserves to fund the revenue budget decreases the financial resilience of the Council to fund unforeseen costs or corporate priorities in the future.

Figure 1 summarises the financial planning forecasts of the Council presented through the regular Medium Term Financial Strategy (MTFS) updates to the Executive during 2023/24. It demonstrates the growing budget gap for 2024/25 which was ultimately balanced through one-off resources and the significant budget gaps forecast for 2025/26 onwards, as these one-off resources are removed from the base budget. The Council has a forecast budget gap of £103.9m for 2025/26, rising to £198.5m by 2028/29. Further significant pressures are included within the MTFS for Adults and Children's services which total £39.2m for 2025/26, rising to £48.1m by 2028/29.

Financial sustainability (continued)

Significant weaknesses identified – financial planning (continued)

Figure 1: Somerset Council Cumulative Annual Budget Gap Projections

	Annual Gap 24/25 £m	Annual Gap 25/26 £m	Annual Gap 26/27 £m	Annual Gap 27/28 £m	Annual Gap 28/29 £m
MTFS (July 2023)	41.6	45.5	98.8	-	-
MTFS (Nov 2023)	100.0	142.0	183.0	-	-
Budget Update (Dec 2023)	87.0	114.8	144.2	-	-
MTFS (April 2024)	0	103.9	147.8	169.9	198.5

The April 2024 MTFS report provides a financial strategy to produce a range of savings from £47m to £116m. Upper-range savings include efficiency savings of £26m, service level savings (including workforce) of £48m, income generation savings of £34m plus other efficiencies from alternate service delivery, asset management and financing activities. These ranges of savings are also set out in the Council's Improvement and Transformation Plan submitted to the Ministry of Housing, Communities and Local Government.

There are significant risks associated with the delivery of the scale of savings required, and if the budget gap for 2025/26 is not fully bridged through recurring savings, there is a risk further reserve contributions or urgent cuts to services will be required. While some elements of the Financial Strategy are based on knowledge of where savings can be made based on current performance, such as treasury management income and base budget reviews, other areas require strategic choices to made on service levels, and others are not in the control of the Council such as lobbying the government for additional council tax flexibilities.

The General Fund balance was £52.1m as at 31 March 2024, within the prudent range set by the Council of between £30m-£60m. However, due to the use of reserves to support the 2024/25 budget, earmarked reserves are forecast to reduce from £103.9m as at 31 March 2024 to £55.1m as at 31 March 2025. The Council needs additional savings to minimise the use of reserves, ensuring that sufficient levels of reserves are maintained to mitigate the significant levels of financial risk the Council is facing.

The Council updates its medium-term financial plans regularly and reports budget gaps and the high-level financial strategies identified to mitigate these gaps regularly to Executive. We have not found financial planning assumptions to be unreasonable. The Council developed a high-level financial strategy during 2023/24, identifying 17 key budget areas and a framework for developing options to balance the budget.

However, while the Council had arrangements in place to regularly update and report on the scale of the financial challenge, they did not move quickly enough to develop a pipeline of savings plans and other mitigations to fully address these financial challenges. While it is noted that the 2024/25 budget did include £35.0m of savings proposals, the requirement to use £81.4m of one-off resources to balance 2024/25 and the magnitude of the 2025/26 budget gap reflect the lack of sufficient recurring savings being identified from the financial strategy. We also note that the Council delivered only £32.1m of the £40.9m savings target for 2023/24 (78%) with £8.8m undelivered savings impacting on future year budget gaps.

We have raised a statutory recommendation relating to the development of savings plans.

Statutory Recommendation 1: The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level.

Financial sustainability (continued)

Significant weaknesses identified – transformation programme and workforce reduction programme

During 2023/24 the Council did not have a Council-wide transformation programme in place or pipeline of savings to address future year budget gaps. We raised a key recommendation in the Auditor's Annual Report 2022/23 that the Council should implement the transformation programme at scale and pace in order to address the significant structural budget deficit. We also wrote to the Council in October 2023, expressing our concern over the Council's financial position, including the lack of a Council-wide transformation programme and pipeline of savings.

The Council has brought forward the planned transformation programme to start delivering savings in 2024/25, but sufficient progress was not made to include transformational savings in the 2024/25 budget. The Financial Strategy approved in April 2024 included £30m-£40m of savings relating to the workforce programme but did not include any further savings relating to the transformation programme. The transformation programme is recognised as integral to delivering the scale of future savings required to balance the budget.

Executive agreed a vision for a sustainable Somerset Council and associated organisational design principles in December 2023 to deliver a new, smaller, leaner more productive Council. Executive received the Developing the Approach to Transformation report and High-Level Business Case for Workforce in February 2024. The business case focusses specifically on the Workforce Reduction Programme.

The approach to the transformation programme has been further developed with five component parts identified relating to: New Organisational Design; Workforce Programme; Innovation & Change Programme; Partnerships, Devolution & Localities Programme; Savings Delivery Plan. A Programme Management Office was mobilised in April 2024 to coordinate programme assurance activity and ensure satisfactory progress is made. Arrangements are in place to report progress delivering transformation to the Programme Steering Group, the Design Authority and the Transformation Board. The high-level programme timeline has been further developed with key products and milestones. The high-level Target Operating Model (TOM) was approved by Executive in September 2024, with the accompanying report stating that any service specific or wider organisational impacts on finance and risk as a result of delivering against the TOM will be considered separately as the programme develops through the development of business cases.

The Improvement and Transformation Plan submitted to the Ministry of Housing, Communities and Local Government in August 2024 is a high-level report, summarising the approaches to transformation set out in previous transformation and financial strategy reports. A range of savings is identified that is consistent with the six elements of the financial strategy. However, as a new authority, the Council does not have a costed transformation business case that identifies the cost and sources of funding for implementing enabling projects relating to ICT, data and process improvement that will allow the Council to transform and deliver their ambitious savings targets. We understand that the Council plans to deliver this business case during 2024/25.

We have raised a statutory recommendation relating to the development of the overarching transformation business case.

Statutory Recommendation 2 : The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget.

Financial sustainability (continued)

Significant weaknesses identified – transformation programme and workforce reduction programme (continued)

The Council has embarked on implementing an ambitious workforce reduction programme at pace during 2024/25 in order to deliver savings to help balance the budget gap in 2025/26. Executive approved the Developing the Approach to Transformation report and the High-Level Business Case for Workforce in February 2024. The business case focusses specifically on Workforce Reduction Programme as an early enabler of organisational redesign.

The workforce reduction programme is projected to cost £37m-£40m and deliver annual savings of £30m-£40m from 2025/26 onwards by reducing staff numbers by 26% full time equivalents (FTE). The workforce programme is based on service level blueprints for numbers of FTE based on span and control best practice and structural design principles aimed at reducing duplication and management overhead after bringing together five councils. The restructure of layers 1-3 is complete and the consultation for layers 4-6 launched in September 2024. An accompanying voluntary redundancy scheme has now closed with 195 applicants progressing through the process with annual savings of £7.85m and one-off costs £13m.

In order to secure rapid workforce savings, the Council is delivering the workforce reduction programme before the development of the detailed transformation programme business case and before key enabler projects, relating to ICT, data and process improvement, have been implemented. While recognising the need for urgency, we consider the implementation of the staff reduction programme before the transformation programme has been developed presents a significant risk that reductions in staff and the new structures being developed will impact on the Council's capacity to deliver services before they are effectively transformed.

We have raised a key recommendation that the Council should mitigate this risk.

Key Recommendation 1: The Council should mitigate the risk of implementing the organisational restructure before the development of the wider transformation business case by:
- continued review and correlation of new service design blueprints to the transformation programme and new target operating model;
- maintaining service performance during the restructure and transformation programmes, identifying any adverse performance caused by potential capacity issues and identifying mitigating actions in a timely manner;
- continuing to support staff, ensuring that adequate staff wellbeing mechanisms are in place.

Financial sustainability (continued)

Significant weaknesses identified – Adult and Children's Social Care Budgets

We identified a significant weakness in the Auditor's Annual Report 2022/23 relating to Adult and Children's Services and this weakness has carried through into 2023/24 following the creation of the new single unitary Council. The significant weakness was in regard to the Council's arrangements for developing and delivering mitigating actions to manage demand and costs in relation to Adult and Children's services. Our conclusions in regard to the additional value for money work we have undertaken with regard to social care budgets for 2023/24 are as follows:

Adult Social Care

In 2023/24 Adult Social Care transformation was not able to be enacted as early as had initially been planned which resulted in a significant overspend on budget in year (£17.4m, 9.6% of the budget). In 2024/25 the directorate made the case for a substantial budget investment (£50m) with a commitment to deliver £10m of savings, working in partnership with Newton Europe Ltd. In 2024/25 the Council has been able to demonstrate significant progress in delivering transformation and financial benefit, through working with Newton Europe Ltd. Adult Social Care are currently forecasting a positive outturn of £2.5m under budget for 2024/25 and this is supported by evidence of reductions in expensive residential care packages, homecare and direct payments in favour of cheaper alternative options fulfilling the brief of helping more people to live independently. Overall projections for the delivery of transformation benefits are currently at the upper end of the original projection (£14m) for 2024/25.

Therefore, whilst we need to see evidence that improvements fully embed and that this good performance crystallises before we lift the 2022/23 significant weakness, especially given poor budget performance in 2023/24, there are clear indications that the directorate is on a positive trajectory. We will review this again in our 2024/25 value for money work.

Children's Social Care

The Children's Service reported a significant overspend in 2023/24 (£12.4m, 9.7% of budget), primarily through demand levels above those modelled (due to a relatively small number of high-cost children). The service have their own transformation savings target in the 2024/25 budget of £9.6m. The Month 5 2024/25 budget report is forecasting a further budget overspend of £7.5m in 2024/25 due primarily to the failure to deliver planned transformation savings benefits for 16+ placements, delays to the roll out of Homes and Horizons places and increased demand in excess of what had been built into the budget. The budget assumptions have been undermined by the lack of fostering and specialist care places available to move children out of current higher cost placements into more appropriate care settings. This has been exacerbated by delays to the Homes and Horizons scheme, which was due to provide some of the lower cost placements. In mitigation, the Children's Service face an arguably more challenging provider market which is less localised, and where providers are able to leverage the national shortage of registered places and the shortage of foster carers, to maintain high prices and fend off attempts to use tools such as block contracts to negotiate lower prices. The service also points to a localised issue with local schools, where the exclusion rate is unusually high, which is driving children into social care. We have undertaken benchmarking to validate this position which has confirmed the challenging market that Children's Social Care faces. We conclude that there is potential scope to do more to address the problems faced, accepting that the challenge is not an easy one. However, the significant weakness around the failure to develop and deliver effective mitigating actions remains the case for the Children, Families and Education directorate.

The reporting of forecast outturn in the prior year was highly volatile and was based on the premise that pressures identified within the budget would remain consistent and would not become more acute over the period. During 2023/24 the forecast outturn increased by increments month by month which undermined the Councils visibility of the issue and the ability to plan and take action at a corporate level earlier in the year. We note that this pattern of incremental month by month increases in the forecast deficit appears to be repeating in 2024/25. This approach to forecasting pressures is a significant concern. Discussion with officers within the Children, Families and Education Directorate indicates that there was a general lack of confidence in the ability to deliver the savings benefits presented at the outset. There is a risk that pressure to manage the Council's overall financial position is creating a culture that is not conducive to transparent reporting and open discussion of the challenges at hand.

Financial sustainability (continued)

Significant weaknesses identified – Adult and Children's Social Care Budgets (continued)

In conclusion and based on our areas of focus and evidence considered, the significant weakness identified in 2022/23 remains in place for Children's Services. However, due to the significance of the challenge facing Children's services, in particular, we have raised a further key recommendation relating to financial planning within Children's Services.

We have also identified four additional improvement recommendations where the Council could further strengthen arrangements. The full detail of our additional focused value for money work we have undertaken to review how cost and demand is managed within Adult and Children's Services is reported in Appendix C to this Auditor's Annual Report.

Key Recommendation 2: Childrens services should accelerate its response to the 2025/26 budget setting process and focus on the following areas of improvement:

- **Robust consideration of the timing and valuation of current and new savings schemes, taking into account realistic assumptions around the short-term availability of fostering and specialist care places, including the roll out of Homes for Horizons places.**
- **Greater use of scenario planning and critical path analysis to help develop financial assumptions**
- **Develop a clear strategy for exploring future transformation opportunities, particularly in regard to shaping the provider market and determine what investment may be required to realise this.**
- **Use the new transformation board framework and Scrutiny Committee to provide robust challenge to budget and savings assumptions at an earlier stage.**

Improvement recommendation 1: The Children and Family Services Directorate and finance manager should consider how greater emphasis can be placed on predicting and modelling future demographic trends which may not follow historic patterns into the forecast. This should include population growth and other elements such as the rate of school exclusions.

Improvement recommendation 2: The Children and Family Services Directorate and finance manager should undertake further work to consider the likely phasing of the financial impact of changing the mode of care on a month-by-month basis. This would allow for a staggered approach to placement step-downs, with savings realised at certain points of the year.

Improvement recommendation 3: A model assurance process should be put in place to ensure that the integrity of the forecast model has been maintained, that formulas and macros are working as intended, and that hardcoded figures are not affecting dynamic calculations.

Improvement recommendation 4: The Council should ensure that key knowledge regarding the model architecture and supporting data and processes is properly documented and that ownership of the models is shared to provide resilience.

Financial sustainability (continued)

Significant weakness identified – commercial investment property portfolio

Somerset Council inherited a significant commercial investment property portfolio from predecessor district councils with a purchase price of £289.1m. As part of the financial strategy update in November 2023, Executive approved the disposal of the portfolio in order to reduce financial risk and generate capital receipts, against the background of rising interest rates decreasing the capital value and investment yield of the portfolio. We raised a key recommendation in the Auditor's Annual Report 2022/23 that the Council should ensure that proper governance arrangements are in place to oversee the disposal of the commercial investment property portfolio.

The Council established a Property and Investments Executive Sub-Committee to provide oversight of the governance arrangements for managing and disposing of the commercial investment property portfolio. The Sub-Committee has met regularly since December 2023 to consider the disposal strategy, asset disposal reports and to review the performance of the portfolio. The Investment Property Disposal Strategy was approved in February 2024, setting out the criteria to be used when selecting assets to sell, estimated receipts over three years, and recommended phasing of asset sales.

The sale of the Council's commercial investment property portfolio is progressing. The assets sold to date have generated capital receipts that are lower than the original purchase price and on-costs that predecessor district councils incurred when the assets were acquired. While it is noted that these assets generated income for predecessor councils and Somerset Council up to the point of disposal, the loss incurred when selling the asset demonstrates clearly the financial risk that councils are exposed to when making decisions to invest in commercial investment property.

We note that the reporting of the portfolio's financial performance to the Property and Investments Executive Sub-Committee is limited to three high level indicators for the portfolio as- a-whole, relating to total contracted income, voids and rent arrears. These performance indicators do not include targets or analysis by individual asset. Discussion with officers confirms that resources within the commercial property team are limited and available resources are focused on the disposal of the portfolio. The small size of the team and the manual processes in place using spreadsheets to monitor income, impact on the level of detailed monitoring that be undertaken. There are additional risks relating to enacting rent reviews in a timely manner and reliance on a limited number of officers with knowledge of the portfolio.

We have raised a key recommendation relating to reporting financial performance for commercial investment property.

Key Recommendation 3: The Council should strengthen financial performance reporting for the commercial investment property portfolio to ensure that the Property and Investment Executive Sub-Committee has adequate oversight of the financial performance of individual assets. The Council has committed to the disposal of the commercial investment property portfolio, but in the interim should consider the resources and processes in place to report on and manage the portfolio and whether these are sufficient.

Financial sustainability (continued)

Significant weakness identified – dedicated schools grant (DSG) deficit

The Council overspent on its DSG allocation by £14.2m in 2023/24, driven by a £15.1m overspend on the high needs block, and resulting in a cumulative DSG deficit of £36.2m at 31 March 2024. Initial indications for 2024/25 are that the budgeted £18.9m overspend on the DSG will be exceeded, with a £4.2m overspend forecast at Month 2. Key risks with high needs block are increased demand for education, health and care plans and sufficiency of provision of social, emotional and mental health support.

The Council has several programmes of work aimed at reducing the DSG high needs block deficit. Capital programme schemes are aimed at increasing the provision of places for children with special educational needs and disabilities in special school satellites and mainstream school settings. Successful bids have been made for new special free schools to be delivered by the Department for Education (DfE), with the first expected to open in autumn 2024 and the second in 2027, providing 184 additional places in total. The Council has worked with Impower Consulting to identify further opportunities to improve outcomes and reduce high needs budget pressures, with a focus on early intervention and support through the dedicated advice line for schools and the Somerset Inclusion Tool.

The Council participates in the DfE Delivering Better Value (DBV) Programme aimed at 55 LAs with significant high needs deficits and has worked with Newton Europe and CIPFA to develop improved understanding of demand modelling and financial trajectories for high needs and identify opportunities for efficiencies. The actions identified to reduce the DSG deficit, such as improved readiness for school, trusting relationships, increased capacity and consistency of practice are embedded within the Children's Transformation Programme.

We raised a key recommendation in the Auditor's Annual Report 2022/23 that the Council should develop a robust DSG Deficit Management Plan. The Somerset DSG Deficit Management Plan was updated and shared with CIPFA and the DfE in January 2024 and includes opportunities identified with Impower and the DBV Programme to mitigate the deficit.

The unmitigated cumulative DSG is forecast to reach £80.1m as at 31 March 2026 when the statutory override, that allows the Council to allocate deficit to an unusable reserve, ends. The mitigated cumulative deficit at this point is forecast at £72.3m and is greater than GF balance as at 31 March 2024 of £52.1m. Although the mitigated annual DSG deficit is forecast to reduce from £18.9m in 2024/25 to £4.8m by 2029/30, the cumulative mitigated DSG deficit continues to grow, with the DSG Deficit Management Plan forecasting a £99.9m deficit by 2029/30. Deficits of this magnitude, which are higher than available reserves, create the financial risk that if the statutory override is not extended then the Council may have to issue a Section 114 notice. There is also a risk that the deficits forecast in the DSG Deficit Management Plan may worsen as further work is undertaken to ensure the completeness of data and identify all unmitigated need.

It is also noted that Children's Services are working to better understand business processes and workflows to inform improvements to the management information system in order to better track demand and cost relating to SEND.

While the Council has a DSG Deficit Management Plan in place and is working to reduce the annual deficit, the Council's forecast cumulative DSG deficit is significant and continues to grow. We will continue to monitor the actions that the Council is taking to address the annual and cumulative DSG deficit. At this point, recognising the forecast reduction in the annual DSG deficit, we have raised a key recommendation relating to reducing the DSG deficit.

Key Recommendation 4: The Council should continue to develop and implement mitigating actions to reduce the DSG deficit.

Financial sustainability (continued)

Areas for improvement – Code of Practice for Income Management

The Code of Practice for Income Management refers to Somerset County Council and is dated November 2017. The policy sets out the roles and responsibilities, pricing, payment terms, and processes for raising invoices, credit notes, and managing debts. The Code includes a standard debt management timetable that must be followed for all types of debt unless formal approval has been given by a Financial Manager, as per the Authorisation List, or the Legal Debt Recovery Officer. The Code sets out debt performance monitoring requirements and the reports to be produced.

We have raised an improvement recommendation that the Code of Practice for Income Management should be updated.

Improvement recommendation 5: The Code of Practice for Income Management should be updated to ensure contacts, file references, references to systems, and structures are relevant and up to date for the new authority and so properly supports services in monitoring unrecovered debt.

Governance

We considered how the Audited Body:	Commentary on arrangements	Assessment
monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	While the Council has an effective internal audit function, we have concluded that there are significant weaknesses within the Council's arrangements to implement robust and effective internal controls. The Head of Internal Audit Opinion for 2023/24 was one of limited assurance, indicating that the control environment is not operating effectively. There were 15 limited and no assurance internal audit opinions out of a total of 22 opinion audits provided in 2023/24 (68%). Limited assurance opinions were provided for high impact areas such as Financial Control, Children Looked After Placements and Health and Safety Culture. Internal audit also provided limited assurance to the Whistleblowing Policy and Awareness review, and we note that there was no dedicated anti-fraud plan for 2023/24. Internal audit recommendations are not implemented in a timely manner in accordance with agreed timescales. Internal audit raised 149 recommendations in 2023/24, with 77 recommendations completed in year but only 7 recommendations completed within the target date. The average length of time a Priority 1 recommendation is overdue before completion is 305 days. The Grant Thornton Audit Findings Report 2023/24 for the design and implementation of IT general controls provided an overall red RAG rating for the SAP, Microsoft Dynamics, Sedgemoor, Northgate and Civica systems. We have raised a key recommendation (KR5) that the Council should embed a sound system of internal control. The Council has continued to develop and embed risk management arrangements during 2023/24. The Risk Management Strategy and Policy Framework was approved by Somerset County Council in January 2023 in advance of vesting day for Somerset Council. Risk management updates have subsequently been provided to the Somerset Council Audit Committee and Executive, setting out the workplan to further develop risk management arrangements. The Audit Committee received the strategic risk register report four times during 2023/24, and the register captures the elements of best practice we would expect. The Strategic Risk Report presented to the Audit Committee in May 2024 confirms the further work being undertaken to strengthen risk management, such as the further review and refresh of strategic risks by the Performance, Risk and Budget Board, presentation of deep dive risk reports to the Audit Committee, and management of risk and performance through a single system. We note that internal audit reviews into Health and Safety Culture and Housing Landlord Health and Safety were provided limited assurance opinions in 2023/24. We have raised an improvement recommendation (IR6) relating to continuing to embed risk management.	R

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

Governance (continued)

We considered how the Audited Body:	Commentary on arrangements	Assessment
approaches and carries out its annual budget setting process	There is an adequate budget setting process in place that includes review of the base budget and financial pressures identified in year. Key areas such as Adults and Children's Services are subject to demand modelling and assumptions are reviewed by external experts. Budget pressures and savings proposals are subject to challenge and review by Executive and Service Directors as well as Members. The MTFP Board oversees the budget process and the actions taken in response to the declaration of a financial emergency. The establishment of workstreams and various spend control boards in response to the financial emergency provides assurance over understanding, grip and control of budgets. Internal audit undertook a Budget Planning and Assumptions review, reporting reasonable assurance in July 2024 based on 2024/25 arrangements. Internal audit recognised that for 2024/25 there was a significant governance structure in place to support budget setting and this was overseen by the Programme Management Office. The Council has developed a new approach to budget setting for 2024/25, and as this is a new process and organisation some elements will further develop over time. We have not identified any recommendations in this area. The Council has updated the Housing Revenue Account (HRA) business plan which has resulted in an improved financial position and significant unallocated reserves above the minimum balance. The projected HRA unearmarked reserve balance as at 31 March 2025 is £13.1m against the £3.7m recommended minimum balance. HRA balances are not forecast to reduce to the minimum prudent level until 2048/49. These balances will help mitigate financial risk while the Council prepares for the Housing Revenue Account option appraisal in 18 months-time.	G
ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships	Budget monitoring and outturn reporting to Executive provides a clear understanding of the Council's financial position. Due to the financial challenges the Council faces, it adopted formal monthly budget reporting to Executive. Capital programme, HRA and Treasury Management financial performance is also adequately reported to Members. The Council recognises that financial management style and culture needs strengthening. We have included in the statutory recommendation (SR1) raised in the financial sustainability section of this report that the Council should ensure that an appropriate culture of financial accountability is established. In order to comply with the Local Audit and Accountability Act 2014 the draft financial statements 2023/24 should have been published by 31 May 2024 with the public inspection period commencing no later than 3 June 2024. However, the Council has been unable to commence the public inspection as they have yet to publish the draft financial statements. The draft accounts were expected to be published by 31 October 2024. However, as at 2 January 2025, the draft accounts have yet to be published. The delays are due to the impact of the local government reorganisation, legacy Council audits and the implementation of the new finance system from April 2023. We noted in the Auditors Annual Report 2022/23 that there were significant weaknesses with regard to the implementation of the new Microsoft Dynamics finance system that impacted on efficient and accurate financial reporting during 2023/24. System developments and training have continued since go live. There are future developments planned including: continued revenue budget alignment and validation; loading capital budgets into the system; and Power BI developments to allow budget holders self-service. However, ongoing issues with the finance system are significant contributary factors to the Council not meeting the statutory deadline for the production of the 2023/24 financial statements by the end of May 2024. We have raised a key recommendation (KR7) that the Council should continue to develop the finance system.	R

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

Governance (continued)

We considered how the Audited Body:	Commentary on arrangements	Assessment
ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee	The Council has arrangements in place to ensure that appropriate and properly informed decisions are made. The review of Executive papers found that each agenda item is accompanied by a cover report with a recommendation section. Decisions are clearly identified, and the agenda also includes a link to the Executive Forward Plan on the Council's website. Scrutiny arrangements are adequate with five scrutiny committees in place. The Council has undertaken a review of the scrutiny function and agreed recommendations to further strengthen arrangements. The Annual Scrutiny Report demonstrates the range of work undertaken by scrutiny committees and ensures Full Council is informed of this work. Arrangements for an effective Audit Committee are adequate, and include two independent members sitting on the Committee, member training, an Annual Audit Committee Report and assessment of compliance against the CIPFA Position Statement. The Council has restructured the Executive Leadership Team, and as a result S151 Officer, will cease to be an Executive Director and will become a Service Director from April 2025. The Monitoring Officer role will transfer from a Service Director to a Head of Service post as a result of the restructure. The S151 Officer and Monitoring Officer will not sit on Executive Leadership Team, but we understand that arrangements to ensure they can fulfil their roles include a "dotted line" between theses statutory officers and the Chief Executive, and the Statutory Officer Board will continue to meet regularly. We have raised an improvement recommendation (IR7) that the Council should ensure that statutory officers can effectively fulfil their roles, and have sufficient status in the organisation.	A

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

Governance (continued)

We considered how the Audited Body:	Commentary on arrangements	Assessment
monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour and where it procures and commissions services.	The Council has processes in place for Members to report declarations of interest and gifts and hospitality. Member register of interests are published on the Council's website and the Standards Committee receives reports relating to declarations of gifts and hospitality. The Council has followed appropriate processes when agreeing exit packages for senior officers with Full Council provided with detailed reports to authorise these payments. The Council received a report during the year to authorise significant redundancy packages arising from the implementation of the senior leadership structure following consideration by Special Members Panel in accordance with the Constitution. Subsequent reports were received relating to the redundancies arising from other service reviews, and for the redundancies arising from the voluntary redundancy scheme. We raised an improvement recommendation in the Auditor's Annual Report 2022/23 that there should be sufficient capacity in place and staff suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales. However, in their Annual Review letter 2023/24, the Ombudsman expresses their disappointment that in 6 out of 19 cases (32%) the Council did not implement recommendations within the agreed timescales. There were also delays in the Council responding to Ombudsman investigation enquiries. In addition, the Council is not meeting its target to provide a substantive response to Code of Conduct complaints within 20 days. Due to the improvement recommendation raised in 2022/23 and the continued weakness in arrangements in these areas, we have raised a key recommendation (KR8) relating to procedures for coordinating with the Ombudsman and ensuring compliance with Complaint Handling Code.	R

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

Governance (continued)

Significant weakness identified – internal control

The Council's internal audit function is provided by the South-West Audit Partnership (SWAP). The Internal Audit Plan 2023/24 was approved by the Audit Committee in April 2023 based on a risk-based assessment and the identification of key areas for coverage, with a rolling plan approach to allow the Audit Plan to respond to the evolving requirements of the new Council. Regular internal audit progress reports are provided to the Audit Committee and include summaries of opinions provided, outstanding recommendations, and summarise audit findings for limited assurance opinions as well as the results of subsequent follow up audits. The Council has effective internal audit arrangements in place.

The Head of Internal Audit Opinion Report for 2023/24 provided only limited assurance overall, indicating that the control framework is not operating effectively to mitigate key risks. Internal audit provided a total of 22 opinion audits in 2023/24, and of these only 7 were reasonable assurance, with 14 limited assurance and 1 no assurance opinions provided as demonstrated in Figure 2. It is noted that three of the limited assurance opinions were for areas with high corporate impact: Children Looked After Placement Contracts; Financial Controls; Health & Safety Culture. The Head of Internal Audit Opinion Report noted common themes relating to shaping organisational culture, records management and data governance.

Weaknesses have been identified with regard to the timely implementation of internal audit recommendations. Internal audit raised 149 recommendations in 2023/24, with 77 recommendations completed, but only 7 recommendations were completed within the target date. The average length of time that a Priority 1 recommendation is overdue before completion is identified as 305 days. Discussion with officers confirms that due to competing priorities following the creation of the new Council and staff restructures, and temporary roles impacting on accountability, the implementation of internal audit recommendations has not been a priority for managers. The review of Audit Committee Effectiveness included a recommendation that officers should be called to attend Audit Committee where there are overdue internal audit recommendations in their service area.

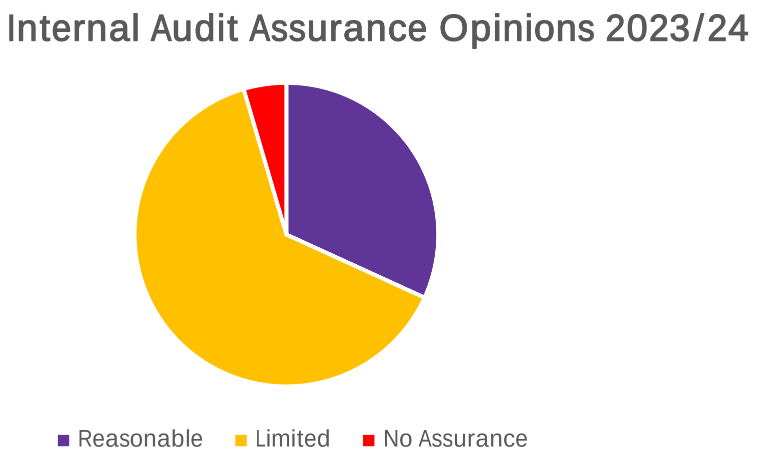
The Council's Anti-Fraud and Corruption and Anti-Bribery Policies were updated and approved by the Audit Committee in April 2023 and the Council has a dedicated website page for reporting fraud and corruption. However, the internal audit Whistleblowing Policy and Awareness review provided only limited assurance, noting limited promotion of the Policy and a lack of mandatory training for officers and Members.

The Council has not produced an annual Whistleblowing Report to update Members on the outcomes of whistleblowing allegations. The Council currently has no dedicated anti-fraud resource, although we understand that a job description has been drafted with a view to recruiting to this role. There was no dedicated anti-fraud plan produced for the Council for 2023/24.

The Fraud Prevention Report presented to the Audit Committee in March 2024 references the work SWAP has undertaken in identifying the main fraud risks for the Council and proposes a fraud prevention plan for 2024/25 to prevent, detect and investigate fraud.

The Grant Thornton Audit Findings Report 2023/24 for the design and implementation of IT general controls provided an overall red RAG rating for the SAP, Microsoft Dynamics, Sedgemoor, Northgate and Civica systems.

Figure 2: Internal Audit Assurance Opinions: Head of Internal Audit Opinion 2023/24



Governance (continued)

Significant weakness identified – internal control (continued)

We recognise that the Council is still maturing and has only been in existence for one year. However, we have concluded that there are significant and pervasive weaknesses within the Council's arrangements to implement robust internal controls. This is evidenced by:

- The limited assurance Head of Internal Audit Opinion for the Council's control environment in 2023/24.
- The large proportion of limited and no assurance internal audit opinions during the year (68%).
- High impact areas relating to Children Looked After Placement Contracts, Financial Controls, and Health & Safety Culture receiving limited internal audit assurance.
- Delays in the timely implementation of internal audit recommendations within agreed timescales.
- Weaknesses with regard to arrangements to prevent and detect fraud and corruption, including awareness of the Whistle Blowing Policy and the absence of a dedicated anti-fraud plan for 2023/24.
- The weaknesses in control identified through the Grant Thornton Audit Findings Report 2023/24 for the design and implementation of IT general controls.

We have raised a key recommendation that the Council should embed a sound system of internal control.

Key Recommendation 5: The Council should embed a sound system of internal control across the organisation. this includes ensuring that:
· robust internal controls are designed and embedded across all service areas and across financial, performance, and risk management systems;
· managers are accountable for maintaining internal control;
· internal audit recommendations are implemented in a timely manner;
· arrangements prevent and detect fraud including whistle blowing arrangements are robust.

Significant weakness identified – close down processes

Under section 26 of the Local Audit and Accountability Act 2014, any electors interested have a right each to inspect the accounting records for the financial year to which the audit relates and all books, deeds, contracts, bills, vouchers, receipts and other documents relating to those records. Regulations 14 and 15 of the Accounts and Audit Regulations 2015 (as amended) require that this right (and associated rights) are exercisable over a single period of 30 working days and should include the first 10 working days of June. For the 2023-24 financial year, this meant that the draft financial statements should have been published by 31 May 2024 with the public inspection period commencing no later than Monday 3 June 2024.

However, the Council has been unable to commence the public inspection period by this statutory date as they have yet to publish draft financial statements for the period ending 31 March 2024. The cause of the ongoing delays are due to a number of significant challenges arising from the merger of the five predecessor Councils into the new Somerset Council for its first full year of operation and issues following the implementation of the new finance system from 1 April 2023. The draft accounts were expected to be published by 31 October 2024. However, as at 2 January 2025, the draft accounts have yet to be published. We would emphasise that the Council has been actively engaged with us as the external auditors over these delays and the actions being taken to address the issues with regular progress updates on the production of the financial statements and supporting working papers, to the required quality standard, as soon as is possible.

We have raised a key recommendation that the Council review their close down processes.

Key Recommendation 6: The Council review their close down processes to ensure that the financial statements are published in line with the statutory deadline for 2024-25 and beyond to enable timely inspection of the accounting records by local residents and audit work to be completed and concluded within the agreed timescales.

Governance (continued)

Significant weakness identified – Microsoft Dynamics finance system

We noted in the Auditor's Annual Report 2022/23 that there were significant weaknesses with regard to the implementation of the new Microsoft Dynamics finance system that impacted on efficient and accurate financial reporting during 2023/24. We raised a key recommendation in 2022/23 that the Council should continue to develop the functionality of the 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 developing financial processes (interfaces, invoice payment, data validation), developing standardised system generated budget monitoring reports for budget holders, ensuring users are adequately trained, and applying lessons learned to future system implementations.

System developments and training have continued since the go live date and the system is now considered fully functional other than fixed assets planned for development in due course.

There are future developments planned including: continued revenue budget alignment and validation; loading capital budgets into the system; and Power BI developments to allow budget holders to self-service. We note that the Council has not undertaken a benefits realisation review to ensure that the expected benefits of the system are being delivered and to inform future developments.

However, ongoing issues with the Microsoft Dynamics finance system are significant contributary factors to the Council not meeting the statutory deadline for the production of the 2023/24 financial statements by the end of May 2024 and there are indications they will not be ready for the end of September 2024. This is having a significant impact on the audit of the financial statements.

We have raised a key recommendation that the Council should continue to develop the finance system.

Key Recommendation 7: The Council should continue to develop the Microsoft Dynamics finance system to ensure that it supports accurate and efficient financial reporting and continue to validate the data within the system. Now that the system is considered fully functional and as it becomes embedded the Council should ensure that it monitors and reports on business case benefit realisation with regard to integration, productivity and data-based decision making.

Significant weakness identified – culture of financial accountability

The Council recognises that there is work to do to strengthen the culture of financial management, as evidenced by the CIPFA Financial Management Code self-assessment that provided a red RAG rating for the standard that "the financial management style of the authority supports financial sustainability". Discussion with officers identifies the need for financial management training is required for managers to ensure that they have the skills and knowledge to manage the financial resources that they are responsible for. We recognise that the Council is a new organisation, and so culture will take time to embed, and the required structural reorganisation impacts on the speed of progress. However, the declaration of a financial emergency and the reliance on one-off resources to balance the 2024/25 budget indicate that the financial culture requires significant improvement at the Council.

We have included in the statutory recommendation (SR1) raised in the financial sustainability section of this report that the Council should ensure that an appropriate culture of financial accountability is established.

Governance (continued)

Significant weakness identified – responding to Ombudsman investigations and complaints

We raised an improvement recommendation in the Auditor's Annual Report 2022/23 that there should be sufficient capacity in place, with staff suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales.

However, in their Annual Review letter for 2023/24, the Ombudsman expresses their disappointment that in 6 out of 19 cases (32%) the Council did not implement recommendations within the agreed timescales. The Ombudsman highlights that as well as adding to complainant's frustration, delays in implementing service improvements increases the risk that others will be impacted by the same issue. There were also delays in the Council responding to Ombudsman investigation enquiries. On two occasions the Ombudsman had to remind the Council of their powers to issue a witness summons before they received the information requested.

The Code of Conduct Complaints 2023/24 Annual Review reports a total of 88 complaints were received in the year. The Council's target is to acknowledge received complaints within 5 working days and provide a substantive response within 20 working days. While the Council largely met the timescale for acknowledging complaints, it only provided a substantive response within the target date in 58% of cases.

Due to the improvement recommendation raised in 2022/23 and the continued weakness in arrangements in these areas, we have raised a key recommendation relating to procedures for coordinating with the Ombudsman and ensuring compliance with Complaint Handling Code.

Key Recommendation 8: The Council should review its procedures for coordinating with the Ombudsman to ensure timely responses and explore options for minimising delays in meeting agreed recommendations. Furthermore, the Council should ensure compliance with the requirements outlined in the Complaint Handling Code, which establishes a clear process for effectively and fairly responding to complaints.

Governance (continued)

Areas for improvement – risk management

The Council has continued to develop and embed risk management arrangements during 2023/24. The Risk Management Strategy and Policy Framework was approved by Somerset County Council in January 2023 in advance of vesting day for Somerset Council. Risk management updates have subsequently been provided to the Somerset Council Audit Committee and Executive, setting out the workplan to further develop risk management arrangements, demonstrating a proactive approach and commitment to integrate risk management practices across the organisation. The Audit Committee received the strategic risk register report four times during 2023/24. The register captures the elements of best practice we would expect, including description, cause, consequence, inherent and current risk scores, mitigations and risk owners. Risks are also mapped to corporate priorities within the Council Plan.

The Strategic Risk Report presented to the Audit Committee in May 2024 confirms that the Corporate Leadership Team and the Performance, Risk and Budget Board are reviewing and refreshing the strategic risks for the Council which will result in a refreshed suite of strategic risks once agreed. There are plans to further strengthen risk reporting to the Audit Committee through risk deep dive reports from Executive Directors, including how they are mitigating strategic risks. The report sets out the further work being undertaken to strengthen risk management arrangements, including changes to the risk management section of the committee template and a revised risk scoring matrix. In order to closer align risk and performance management the risk management function has moved to the Strategy, Performance and Workforce Directorate and a new system, Ideagen, will be used to manage both performance and risk.

The Health and Safety Culture internal audit review was provided with limited assurance for 2023/24 and noted that the Council does not have an embedded health and safety culture. Health and Safety is rated as high on the strategic risk register. Housing Landlord Health and Safety was also provided a limited assurance opinion by internal audit. No Priority 1 recommendations were made by internal audit but issues were noted with completing actions from fire risk assessments on time and maintaining up to date fire risk assessments.

We have raised an improvement recommendation that the Council should continue to embed risk management.

Improvement recommendation 6: The Council should continue to embed risk management throughout the organisation, ensuring that:
- **there is a robust system for identifying, managing, reviewing and reporting risk throughout the organisation;**
- **risk management is aligned to the new organisational structure and a culture of risk management is embedded;**
- **risk and performance management is aligned through the migration of risk management to the Ideagen system;**
- **robust arrangements are in place to ensure landlord health and safety risks are adequately managed.**

Governance (continued)

Areas for improvement – role of the S151 Officer and Monitoring Officer

The Council has restructured the Executive Leadership Team with the aim of increasing its effectiveness as a more cohesive unit and also to secure savings.

As a result of the restructure the S151 Officer, will cease to be an Executive Director and will become a Service Director from April 2025. The plan to merge this role with the Service Director for Finance and Procurement, with a reduced overall portfolio achieved through removing responsibilities relating to revenues and benefits, assets and ICT.

The Monitoring Officer role will transfer from a Service Director to a Head of Service post as a result of the restructure.

We understand that the S151 Officer and Monitoring Officer will report to the Executive Director of Resources who will sit on the Executive Leadership Team. The S151 Officer and Monitoring Officer will not sit on Executive Leadership Team, but we understand that arrangements to ensure they can fulfil their roles include a "dotted line" between theses statutory officers and the Chief Executive, and the Statutory Officer Board will continue to meet regularly.

The Code of Practice on Good Governance for Local Authority Statutory Officers, published by CIPFA, SOLACE and LLG in June 2024, seeks to ensure that the three most senior statutory officers (Head of Paid Service, Chief Finance Officer, and Monitoring Officer) effectively work together within the "Golden Triangle " to best advise their authority, implement its decisions, and help achieve good outcomes. The Code sets out that the Chief Finance officer and Monitoring Officer should be a full and active member of the authority's most senior leadership team and have a clear and direct relationship to the Head of Paid Service (Chief Executive), normally through line management.

The Council must ensure that the Chief Executive, S151 Officer and Monitoring Officer can work effectively to fulfil their roles once the restructure has been implemented and that statutory officers maintain sufficient status in the organisation. This is particularly important in the context of the significant financial challenges that the Council faces.

We have raised an improvement recommendation that the Council should ensure that statutory officers can effectively fulfil their roles, and have sufficient status in the organisation. We will review how the new arrangements are working in practice as part of the 2024/25 value for money audit.

Improvement recommendation 7: The Council should ensure that the S151 Officer and Monitoring Officer retain sufficient status within the organisation following the restructure of the Executive Leadership Team. Appropriate mechanisms should be maintained to ensure the three statutory officers have open lines of communication, can act as appropriate checks and balances, and properly advise strategic decision making.

Improving economy, efficiency and effectiveness

We considered how the audited body:	Commentary on arrangements	Assessment
uses financial and performance information to assess performance to identify areas for improvement	Corporate performance reporting was presented quarterly to the Executive during 2023/24, with a focus on operational indicators as part of the interim approach agreed by the Executive for 2023/24, pending the implementation of a new corporate performance framework. The Council is continuously improving corporate performance reporting with the introduction of the Core Performance Framework for 2024/25. Corporate performance reports will be based around three lenses (strategic, organisational health, service) in order to provide a rounded view of organisational performance rather than the interim suite of corporate indicators that were approved for vesting day. Underpinning the Framework will be a refreshed and rationalised suite of indicators. Supporting the framework is the establishment of the newly created Performance Risk and Budget Board. The Council has a Digital Strategy, but data quality is dependent on extracting data from different legacy systems. Pending system consolidation, the Council is using different methods to extract performance data such the use of front ends and a single data platform pilot. As a new Council there are challenges to accessing organisational benchmarking data. The Council can demonstrate the benchmarking of costs and performance within Housing, Adults and Children's Services. We have raised an improvement recommendation (IR8) that the Council should continue to develop performance reporting.	A
evaluates the services it provides to assess performance and identify areas for improvement	The last Ofsted inspection of the Council's Children's Services was in 2022 and resulted in a "good" rating from the regulator. The Council can demonstrate that it implements improvements as a result of other targeted Ofsted inspections and that sufficient progress is made and monitored. The targeted inspection of the implementation of SEND reforms by Ofsted and the Care Quality Commission in 2020 identified 9 significant weaknesses. The Council developed improvement plans with oversight of progress provided by the SEND Partnership Board. The required written statement of actions has now been closed and learning applied to the SEND Strategy 2023-26. Ofsted, CQC, HMICFRS, and HMIP undertook a targeted inspection of the Local Safeguarding Partnership and Community Safety Partnership in May 2024. Headline findings were that ineffective partnership working between agencies has led to a failure to identify, understand and respond to the extent of serious youth violence and the criminal exploitation of children in Somerset. A written statement of action is being prepared by the Executive Director of Children's Services, as Chair of the Partnership. We will review progress against the required actions as part of our 2024/25 value for money work.	G

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

Improving economy, efficiency and effectiveness (continued)

We considered how the audited body:	Commentary on arrangements	Assessment
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	The Budget Report for 2024/25 confirms a comprehensive budget consultation process with residents, businesses, and stakeholders. The consultation gathered views on options for a balanced budget. The results indicated a priority on social care, education, transport, and health and wellbeing. Additionally, the Council Plan for 2023-2027 emphasises creating a fairer, greener, more resilient, and flourishing Somerset, with stakeholder engagement showing overwhelming support for these priorities. The transformation programme includes the Partnerships, Devolution, and Localities Programme with objectives to streamline how the Council works with partners, prioritise devolution for local services and savings, and review the Council's engagement with localities. Additionally, a Head of Strategic Partnerships has been appointed to work with the NHS and the voluntary sector. The Council has also initiated a devolution pilot with Bridgwater Town Council and continues to strengthen Local Community Networks. Partnership working is evident in the Council's work with Homes2Inspire which aims to open Council-owned children's care homes and reduce reliance on private providers. The Council has also signed a Memorandum of Understanding with health and voluntary sector partners demonstrating a commitment to work more closely and establish a framework to improve collective performance. The Council can demonstrate that it works in partnership to deliver strategic priorities and arrangements for partnership working are adequate. We have not made any recommendations in this area.	G
commissions or procures services, assessing whether it is realising the expected benefits	We raised a key recommendation in the Auditor's Annual Report 2022/23 that robust procurement and contract management arrangements should be implemented at Somerset Council. Significant weaknesses remained during 2023/24 with regard to the processes for procurement and contract management. Weaknesses include the delay in implementing recommendations from the DLUHC pilots aimed at improving contract management that related to appointing a senior responsible officer and implementing a governance structure. Evidence of weaknesses in arrangements is provided through the limited assurance internal audit opinion for the Children Looked After Placements Contract and Procurement audit in November 2023. The Audit Committee were not provided with waiver reports to allow for scrutiny and challenge when procurement did not follow approved processes to ensure value for money, and we note the Procurement Policy is out of date. We have raised a key recommendation (KR9) that robust procurement and contract management processes should be embedded.	R

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

Improving economy, efficiency and effectiveness (continued)

Significant weakness identified – procurement and contract management

We raised a key recommendation in the Auditor's Annual Report 2022/23 that robust procurement and contract management arrangements should be implemented at Somerset Council. Significant weaknesses remained during 2023/24 with regard to the processes for procurement and contract management. Progress was hampered by the organisational restructure, but the Council did make progress in some areas.

In May 2024 the Audit Committee received an Update on Reviews of Contract Management, updating the Committee on activity since the previous SWAP limited assurance contract management report. Somerset County Council had been part of two DLUHC pilots aimed at continuous improvement in contract management that highlighted the need for improved governance, accountability and consistency across the Council for commissioning and contract management. Implementation of recommendations relating to the appointment of a senior responsible officer and the establishment of a governance structure for contract management have been delayed due to the Council restructures. Implementing recommendations to establish contract management monitoring and reporting is dependent on the restructure of the commercial and procurement team and implementation of new contract management functionality.

Evidence of weaknesses in arrangements is provided through the limited assurance internal audit opinion for the Children Looked After Placements Contract and Procurement audit in November 2023. This service area has high organisational impact for strategic risks relating to sustainable financial planning and budget overspends. Key findings included the absence of a tender process, weaknesses in contract monitoring, and purchase orders not being raised.

While a waiver process is in place, with a waiver register maintained and reported to the Statutory Officers Board during 2023/24, the Audit Committee were not provided with waiver reports to allow for Member scrutiny and challenge where approved procurement processes designed to achieve value for money were not followed.

We also note that while there is a Procurement Strategy in place, this is dated January 2020 - December 2022 and refers to Somerset County Council.

We note that some progress has been made with regard to developing the single contract register which is now in place and under review, having been developed from legacy council contract registers. The contract data has been transferred to the new Proactis contract management system which went live in quarter one 2024/25. The new Contract Management Framework sets out the requirements for the management of contracts, and the supplier resilience checklist is in draft awaiting approval from the senior responsible officer when in post. Procurement training was provided to Members in autumn 2023 and was made available to all contract managers listed in contract register through the Government Commercial College. The procurement pipeline has been reviewed and updated to identify short, medium, long term commissioning intentions.

We have raised a key recommendation that robust procurement and contract management processes should be embedded.

Key Recommendation 9: Robust procurement and contract management processes should be embedded across the organisation. This includes:
- establishing appropriate governance structures such as a senior responsible officer and Commercial Board;
- ensuring consistency of approach through embedding the new Contract Management Framework and ensuring adequate training is provided to officers and Members;
- implementing the recommendations from previous DLUHC and internal audit reviews of procurement and contract management;
- reporting waivers regularly to the Audit Committee to ensure effective oversight and challenge where approved procurement processes are not followed;
- approving a revised Somerset Council Procurement Strategy.

Improving economy, efficiency and effectiveness (continued)

Areas for improvement – performance management

Corporate performance reporting was presented quarterly to the Executive during 2023/24, with a focus on operational indicators as part of the interim approach agreed by the Executive for 2023/24, pending the implementation of a new corporate performance framework. Corporate performance reports provide a summary overview of performance, an outturn table of key performance indicators against target and RAG ratings. We note that the corporate performance report does not include any strategic performance reporting against Council Plan priorities.

The Council is continuously improving corporate performance reporting with the introduction of the Core Performance Framework for 2024/25. Corporate performance reports will be based around three lenses (strategic, organisational health, service) in order to provide a rounded view of organisational performance rather than the interim suite of corporate indicators that were approved for vesting day. Underpinning the Framework will be a refreshed and rationalised suite of indicators. Supporting the framework is the establishment of the newly created Performance Risk and Budget Board, demonstrating that arrangements are in place to ensure performance management is effectively managed, reviewed, and any areas of concern are identified and addressed.

The Council has a Digital Strategy which outlines the organisation's digital aspirations, supported by a set of Digital Principles designed to shape and evaluate work for optimal outcomes for customers and staff. Data quality is currently based on various separate legacy systems, and the consolidation of these systems may take several years. In the meantime, efforts are being made to extract data through different methods, such as using front ends, and a single data platform (Microsoft Fabric) is being piloted. The transition is ongoing, and challenges are being faced in working through the various legacy systems, resulting in separate collation of performance reports during 2023/24 period.

The Council faces challenges in benchmarking its performance due to the lack of organisational data as a new authority. However, some services, such as Housing, Adults, and Children's Services, do carry out benchmarking. The Council can demonstrate the use of nearest neighbour cost benchmarking for trends in expenditure on Adults and Children's social care and benchmarking of Children's Services performance against other authorities in the South-West.

We have raised an improvement recommendation that the Council should continue to develop performance reporting.

Improvement recommendation 8: The Council should continue to embed and develop strategic and operational performance reporting. This should include:
- **reporting on strategic performance against Council Plan priorities in addition to operational performance;**
- **implementing the new Core Performance Framework and embed reporting through the Performance Risk and Budget Board;**
- **refreshing the suite of key performance indicators to ensure that they provide a comprehensive view of service performance;**
- **continuing to enhance data management and data quality processes from legacy and new Council systems ;**
- **embedding service benchmarking against other organisations cost and performance.**

Value for Money Recommendations raised in 2023/24

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
SR1	The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level. To support the development of a sustainable budget the Council should also: • identify additional savings to minimise the use of reserves, ensuring that sufficient levels of reserves are maintained to mitigate the significant levels of financial risk the Council is facing; • ensure all planned savings are delivered, and where they are not that mitigating savings plans put in place; • establish an appropriate culture of financial accountability and ensure managers have sufficient skills to manage the financial resources for which they are responsible.	Statutory	Financial sustainability	The 2024/25 budget could only be balanced through the use of £81.4m of one-off resources which adversely impacts future year budget gaps. The Council has identified a £103.9m budget gap for 2025/26 The April 2024 MTFS report provides a financial strategy to produce a range of but there are significant risks associated with the delivery of the scale of savings required, and if the budget gap for 2025/26 is not fully bridged through recurring savings, there is a risk further reserve contributions or urgent cuts to services will be required.	The Council is facing significant budget pressures that put the financial sustainability of the Council and future service delivery at risk. Large budget gaps are identified for future years, with a £103.9m gap forecast for 2025/26 and these will not be resolved through normal budget processes.	The Council agrees the recommendation to continue to work to set a sustainable budget. Actions to find sustainable ongoing savings is in place and this will need to continue beyond 2025/26 into 2026/27 and 2027/28 in order for the Council to set a budget in a sustainable way. The Council has worked hard during 2024/25 to deliver savings approved in the 2024/25 MTFP. At Month 7, the percentage of savings delivered or on track is 85%, with 15% being rated as amber or red, with the Executive Leadership Team being focused upon securing delivery. At Month 7, the forecast outturn is a reduced drawdown on ear marked reserves of £30.7m against the approved budget, with all directorates being tasked with reducing and controlling expenditure to offset unavoidable pressures in other service areas. The Section 151 Officer chairs a Children's Service Financial Recovery Board in order to focus upon all possible measures to mitigate against the largely unforeseen financial pressures arising primarily from increased demand and complexity of need in children's social care in the post pandemic period. This is a key driver of the service overspend and reflects a wider national trend across many local authorities.

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
SR1	(continued) The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level. To support the development of a sustainable budget the Council should also: • identify additional savings to minimise the use of reserves, ensuring that sufficient levels of reserves are maintained to mitigate the significant levels of financial risk the Council is facing; • ensure all planned savings are delivered, and where they are not that mitigating savings plans put in place; • establish an appropriate culture of financial accountability and ensure managers have sufficient skills to manage the financial resources for which they are responsible.	Statutory	Financial sustainability	The 2024/25 budget could only be balanced through the use of £81.4m of one-off resources which adversely impacts future year budget gaps. The Council has identified a £103.9m budget gap for 2025/26 The April 2024 MTFS report provides a financial strategy to produce a range of but there are significant risks associated with the delivery of the scale of savings required, and if the budget gap for 2025/26 is not fully bridged through recurring savings, there is a risk further reserve contributions or urgent cuts to services will be required.	The Council is facing significant budget pressures that put the financial sustainability of the Council and future service delivery at risk. Large budget gaps are identified for future years, with a £103.9m gap forecast for 2025/26 and these will not be resolved through normal budget processes.	The Council is near the end of its budget setting cycle for 2025/26 and its MTFP for the 5-year period to 2029/30 which is due to be considered and approved by Council before 11 March 2025. There is currently a budget gap for 2025/26 of £65.5m rising to £205.2m by 2029/30 after the consideration of all pressures and robustness assessment of all proposed savings to be included in the budget. The Council is therefore at risk of the Section 151 Officer being required to issue a S114 notice and is in active discussion with MHCLG in relation to an application for Exceptional Financial Support to close this gap in order to avoid this situation occurring. The Council is developing a new Transformation and Savings programmes that will be assured for inclusion into the MTFS in order to meet the forecast budget gap over the period of the MTFS to 2029/30. This is in addition to ensuring the deliverability of the of all approved savings already in the 2024/25 approved MTFS and those new proposals for the 2025/26 Budget. The Council will provide a programme of appropriate training in financial governance (including financial and contract procedure rules) and budget management responsibilities including provision of self-service tools to all budget holders.

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
SR1	(continued) The Council should develop detailed savings plans at pace to deliver the savings targets set out in the MTFS in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level. To support the development of a sustainable budget the Council should also: • identify additional savings to minimise the use of reserves, ensuring that sufficient levels of reserves are maintained to mitigate the significant levels of financial risk the Council is facing; • ensure all planned savings are delivered, and where they are not that mitigating savings plans put in place; • establish an appropriate culture of financial accountability and ensure managers have sufficient skills to manage the financial resources for which they are responsible.	Statutory	Financial sustainability	The 2024/25 budget could only be balanced through the use of £81.4m of one-off resources which adversely impacts future year budget gaps. The Council has identified a £103.9m budget gap for 2025/26 The April 2024 MTFS report provides a financial strategy to produce a range of but there are significant risks associated with the delivery of the scale of savings required, and if the budget gap for 2025/26 is not fully bridged through recurring savings, there is a risk further reserve contributions or urgent cuts to services will be required.	The Council is facing significant budget pressures that put the financial sustainability of the Council and future service delivery at risk. Large budget gaps are identified for future years, with a £103.9m gap forecast for 2025/26 and these will not be resolved through normal budget processes.	**Actions:** ELT to formulate a transformation and savings programme that is aligned to meet the budget gap forecast over the period of the MTFS 2026/27 to 2029/30. Subject to the outcome of the EFS application and achieving a balanced budget for 2025/26 a S114 notice will be avoided. Robust budgetary control, forecasting and reporting measures will continue to be exercised, including as a minimum, monthly member led budget challenge meetings to ensure proactive management of overall expenditure within the Council's approved budget. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Executive Leadership Team - Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** 28/02/2025

* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
SR2	The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget.	Statutory	Financial sustainability	During 2023/24 the Council did not have a Council-wide transformation programme in place or pipeline of savings to address future year budget gaps. The Financial Strategy approved in April 2024 included £30m-£40m of savings relating to the workforce programme but did not include any further savings relating to the transformation programme. To date the Council has not produced a costed transformation business case that identifies the cost and sources of funding for implementing enabling projects relating to ICT, data and process improvement.	While the Council has acted with necessary urgency in implementing the workforce reduction programme during 2024/25 in order to generate savings for 2025/26, it has not yet developed the full costed and funded transformation business case that will support the transformation of services, support service delivery with a reduced workforce, and which will release further savings to balance the budget.	The Council agrees the recommendation to develop an overarching business case and detailed business cases in relation to savings targets required to balance the 2025/26 budget and over the MTFS period. Where business cases have already been assured for inclusion of a saving in the proposed budget for 2025/26, they have been produced by services then reviewed and challenged by the Finance team and the Section 151 Officer and their deputy Section 151 Officer for approval and inclusion in the proposed budget. Where further work is required in order to assure the robustness of transformation and savings projects, a timetable will be produced for the production of business cases to be assured and progressed during the 2025/26 financial year for inclusion in the MTFS and implementation at the earliest opportunity subject to appropriate governance including consultation. The Council has reviewed its Flexible Use of Capital Receipts (FUOCR) Policy which will be approved at budget setting for 2025/26 in terms of the quantified use of FUOCR during 2025/26 and indicative sums for 2026/27 to 2029/30. FUOCR will be the primary source of funding for transformation purposes.

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
SR2	(continued) The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget.	Statutory	Financial sustainability	During 2023/24 the Council did not have a Council-wide transformation programme in place or pipeline of savings to address future year budget gaps. The Financial Strategy approved in April 2024 included £30m-£40m of savings relating to the workforce programme but did not include any further savings relating to the transformation programme. To date the Council has not produced a costed transformation business case that identifies the cost and sources of funding for implementing enabling projects relating to ICT, data and process improvement.	While the Council has acted with necessary urgency in implementing the workforce reduction programme during 2024/25 in order to generate savings for 2025/26, it has not yet developed the full costed and funded transformation business case that will support the transformation of services, support service delivery with a reduced workforce, and which will release further savings to balance the budget.	Grant Thornton comment that during 2023/24 the Council did not have a Council-wide transformation programme in place or a pipeline of savings to address future year budget gaps. Prior to vesting day, the Council had identified a series of savings including £18.5m associated with the LGR Business Case delivered through the transition and restructuring of a number services. This has been previously reported on by GT. In December 2023, in light of the changed financial circumstances the Council recognised that the approach to transition and transformation was not sufficient to address the financial emergency, the longer-term budget deficit and the need for an overall approach to transformation for the years 25/26 and beyond. The Council has been clear that its initial focus will be to deliver the workforce element of the programme in 25/26. We do not believe that the context has been fully considered in this report. The auditor's report does not appear to take into account the following reports - Financial Strategy Update - Nov 23 and Developing the Approach to Transformation.pdf .

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
SR2	(continued) The Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. This should be undertaken at pace in order to deliver the savings required to balance the 2025/26 budget.	Statutory	Financial sustainability	During 2023/24 the Council did not have a Council-wide transformation programme in place or pipeline of savings to address future year budget gaps. The Financial Strategy approved in April 2024 included £30m-£40m of savings relating to the workforce programme but did not include any further savings relating to the transformation programme. To date the Council has not produced a costed transformation business case that identifies the cost and sources of funding for implementing enabling projects relating to ICT, data and process improvement.	While the Council has acted with necessary urgency in implementing the workforce reduction programme during 2024/25 in order to generate savings for 2025/26, it has not yet developed the full costed and funded transformation business case that will support the transformation of services, support service delivery with a reduced workforce, and which will release further savings to balance the budget.	**Actions:** The Council is committed to developing a clear and robust transformation plan that delivers savings beyond 2025/26 but also identifies the activities, actions, and initiatives necessary to achieve savings in future years. To achieve this, the Council will create an overarching transformation business case, along with detailed business cases for individual workstreams. These will drive service transformation and contribute to meeting the Council's ambitious savings targets. The Council is to deliver the Workforce transformation for 31 March 2025. Additionally, the Council has identified the funding required to support the transformation and the new target operating model as part of the Flexible Use of Capital Receipts Strategy. A comprehensive funding plan will be developed to ensure these needs are met. This entire process will be undertaken with urgency to ensure the necessary savings are realised to balance the budget in the medium term. **Responsible Officer:** Sara Cretney, Service Director for Strategy & Performance **Executive Lead:** Alyn Jones, Executive Director for Resources, Strategy & Transformation **Due Date:** 30/06/25

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR1	The Council should mitigate the risk of implementing the organisational restructure before the development of the wider transformation business case by: • continued review and correlation of new service design blueprints to the transformation programme and new target operating model; • maintaining service performance during the restructure and transformation programmes, identifying any adverse performance caused by potential capacity issues and identifying mitigating actions in a timely manner; • continuing to support staff, ensuring that adequate staff wellbeing mechanisms are in place.	Key	Financial sustainability	The Council has embarked on implementing an ambitious workforce reduction programme at pace during 2024/25 in order to deliver savings to help balance the budget gap in 2025/26. The workforce reduction programme is projected to deliver annual savings of £30m-£40m from 2025/26 onwards by reducing staff numbers by 26% full time equivalents In order to secure rapid workforce savings, the Council is delivering the workforce reduction programme before the development of the detailed transformation programme business case and before key enabler projects, relating to ICT, data and process improvement, have been implemented.	While recognising the need for urgency, we consider the implementation of the staff reduction programme before the transformation programme presents a significant risk that reductions in staff and the new structures being developed will impact on the Council's capacity to deliver services before they are transformed.	As part of its transformation plan, the Council will address the key areas identified in the actions to mitigate the risk of implementing the organisational restructure. The Council is to deliver the Workforce transformation for 31 March 2025. **Actions:** As part of its transformation plan, the Council will address the following key areas to mitigate the risk of implementing the organisational restructure before the development of the wider transformation business case: • Continued review and correlation of new service design blueprints to the transformation programme and new target operating model. This will support the delivery of the three-year People Strategy and will be managed and controlled through an upgraded HR payroll system which will maintain the integrity of the Council's operating model and service structures.

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR1	(continued) The Council should mitigate the risk of implementing the organisational restructure before the development of the wider transformation business case by: • continued review and correlation of new service design blueprints to the transformation programme and new target operating model; • maintaining service performance during the restructure and transformation programmes, identifying any adverse performance caused by potential capacity issues and identifying mitigating actions in a timely manner; • continuing to support staff, ensuring that adequate staff wellbeing mechanisms are in place.	Key	Financial sustainability	The Council has embarked on implementing an ambitious workforce reduction programme at pace during 2024/25 in order to deliver savings to help balance the budget gap in 2025/26. The workforce reduction programme is projected to deliver annual savings of £30m-£40m from 2025/26 onwards by reducing staff numbers by 26% full time equivalents In order to secure rapid workforce savings, the Council is delivering the workforce reduction programme before the development of the detailed transformation programme business case and before key enabler projects, relating to ICT, data and process improvement, have been implemented.	While recognising the need for urgency, we consider the implementation of the staff reduction programme before the transformation programme presents a significant risk that reductions in staff and the new structures being developed will impact on the Council's capacity to deliver services before they are transformed.	• Reviewing service performance during the restructure and transformation programmes to identify any adverse performance caused by potential capacity issues and implementing mitigating actions in a timely manner. This will include new KPIs to manage performance and improve productivity. • Ensuring adequate staff support and wellbeing mechanisms are in place to support staff throughout the transformation process. This will include staff development programmes to develop the required skills and capability for the future. This will be achieved through implementing the Supporting People Through Change workstream. By focusing on these areas, the Council aims to ensure a smooth and effective transformation while maintaining high service standards and supporting its staff. **Responsible Officers:** Sara Cretney, Service Director for Strategy & Performance; and Dawn Bettridge, Interim Service Director for Workforce **Executive Lead:** Alyn Jones, Executive Director for Resources, Strategy & Transformation **Due Date:** 31/07/25

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR2	Children's Services should accelerate its response to the 2025/26 budget setting process and focus on the following areas of improvement: • Robust consideration of the timing and valuation of current and new savings schemes, taking into account realistic assumptions around the short-term availability of fostering and specialist care places, including the roll out of Homes for Horizons places; • Greater use of scenario planning and critical path analysis to help develop financial assumptions; • Develop a clear strategy for exploring future transformation opportunities, particularly in regard to shaping the provider market and determine what investment may be required to realise this; • Use the new transformation board framework and Scrutiny Committee to provide robust challenge to budget and savings assumptions at an earlier stage.	Key	Financial sustainability	The Children's Service reported a significant overspend in 2023/24 (£12.3m, 9.7% of budget), primarily through demand levels above those modelled. The transformation savings target in the 2024/25 budget of £9.6m is under delivering and some of the core budget assumptions used in budget setting have been undermined due to the lack of fostering and specialist care places available on block contracts. The most recent Month 5 budget report is forecasting a further budget overspend of £7.5m in 2024/25 due primarily to the failure to deliver planned transformation savings benefits and increased.	The significant weakness we identified in the Auditor's Annual Report 2022/23 around the failure to develop and deliver effective mitigating actions to manage cost and demand remains the case for Children's Services. Due to the significance of the challenge facing Children's Services in particular, we have raised a further key recommendation to enable the Council to better address the challenges regarding budget overspends in Children's Services.	The Council agrees the recommendation and as such a Children's Finance Recovery Board has been in place since June 2024 to highlight and attempt to mitigate current Children's Services financial issues, high-risk areas and MTFP savings which are at risk or unachievable. Where there are overspends or unachievable savings, realistic plans about what is achievable in year are agreed. This is particularly relevant to the ongoing issue of lack of long-term foster homes internally and in the external market. Business cases for the forward year, to partially mitigate this issue, are in development, alongside a recognition that more children are likely to need residential care. Scenario planning has identified the higher costs of more children needing residential care as reflected in the 2025/26 budget, to a level that is reliant on the further Homes and Horizons roll out being timely and current demographic pressures remaining largely unchanged. Areas being explored are as follows: • Fostering Improvement • Permanence and Reunification • Capital Investment • Locality working (prevention) - as pare of DFE reforms programme • De-risking the market

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
	(continued)					
KR2	Children's Services should accelerate its response to the 2025/26 budget setting process and focus on the following areas of improvement: • Robust consideration of the timing and valuation of current and new savings schemes, taking into account realistic assumptions around the short-term availability of fostering and specialist care places, including the roll out of Homes for Horizons places; • Greater use of scenario planning and critical path analysis to help develop financial assumptions; • Develop a clear strategy for exploring future transformation opportunities, particularly in regard to shaping the provider market and determine what investment may be required to realise this; • Use the new transformation board framework and Scrutiny Committee to provide robust challenge to budget and savings assumptions at an earlier stage.	Key	Financial sustainability	The Children's Service reported a significant overspend in 2023/24 (£12.3m, 9.7% of budget), primarily through demand levels above those modelled. The transformation savings target in the 2024/25 budget of £9.6m is under delivering and some of the core budget assumptions used in budget setting have been undermined due to the lack of fostering and specialist care places available on block contracts. The most recent Month 5 budget report is forecasting a further budget overspend of £7.5m in 2024/25 due primarily to the failure to deliver planned transformation savings benefits and increased.	The significant weakness we identified in the Auditor's Annual Report 2022/23 around the failure to develop and deliver effective mitigating actions to manage cost and demand remains the case for Children's Services. Due to the significance of the challenge facing Children's Services in particular, we have raised a further key recommendation to enable the Council to better address the challenges regarding budget overspends in Children's Services.	Progress on delivering savings initiatives and mitigating actions in terms of reducing financial pressures, will be monitored through the Children's Directorate Management Team meetings, Children's Service Finance Recovery Board, Executive and Scrutiny **Actions:** Initiatives to be developed and implemented to deliver Financial savings and mitigations. Finance to provide support and challenge throughout the year. **Responsible Officer:** Claire Winter, Executive Director for Children, Families and Education **Executive Lead:** Claire Winter, Executive Director for Children, Families and Education **Due Date:** 30/04/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR3	The Council should strengthen financial performance reporting for the commercial investment property portfolio to ensure that the Property and Investment Executive Sub-Committee has adequate oversight of the financial performance of individual assets. The Council has committed to the disposal of the commercial investment property portfolio, but in the interim should consider the resources and processes in place to report on and manage the portfolio and whether these are sufficient.	Key	Financial sustainability	Review of the information provided to the Property and Investments Executive Sub Committee confirms that financial performance is reported at a very high level to the Sub Committee, comprising of total contracted annual income, voids and rent arrears with no targets or analysis by individual asset.	The Sub-Committee should receive detailed financial performance indicators measured against target at individual property level to ensure proper oversight and challenge of financial performance. Sufficient resources should be in place in the commercial property team to allow for sufficient monitoring and ensure processes support timely rent reviews, maximising investment income.	The Council agrees the recommendation and has recognised the importance of commercial asset sales in contributing to the overall sustainability of the Council's financial position. A team has been established to focus on the sale of commercial assets along with securing specialist external resource to support marketing and sales process. Furthermore, the Council has had the benefit from an internal audit review that reviewed the disposal process and assess the procedures and controls in place to ensure a smooth swift sale process for the Commercial Investment Portfolio The review highlighted a generally sound system of governance, risk management and control in place. **Actions:** The Council will review and implement a revised reporting and monitoring information to address this recommendation. **Responsible Officer:** Robert Orrett, Head of Commercial Investment **Executive Lead:** Alyn Jones, Executive Director for Resources, Strategy & Transformation **Due Date:** 30/04/25

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR4	The Council should continue to develop and implement mitigating actions to reduce the DSG deficit. This includes: • delivering the DSG Deficit Management Plan and working with the DBV programme; • continuing to refine modelling of demand and cost; • ensuring complete and accurate data is available; • ensuring that management information systems support effective management of demand and costs.	Key	Financial sustainability	The Council overspent on its DSG allocation by £14.2m in 2023/24, resulting in a cumulative DSG deficit of £36.2m at 31 March 2024. The mitigated cumulative DSG is forecast to reach £72.3m as at 31 March 2026 when the statutory override ends and is greater than the General Fund balance of £52.1m as at 31 March 2024.	Although the mitigated annual DSG deficit is forecast to reduce from £18.9m in 2024/25 to £4.8m by 2029/30, the cumulative mitigated DSG deficit continues to grow, and is forecast to reach £99.9m by 2029/30. Deficits of this magnitude, which are higher than available reserves, create the financial risk that if the statutory override is not extended then the Council may have to issue a Section 114 Notice.	The Council agrees the recommendation and will be developing and updating the DSG Deficit Management Plan. The Council has participated in the Delivering Better Value programme. However, this work is complete and has had limited financial impact. The Council is engaged with external consultants PeopleToo in order to explore what further measures can be taken to reduce/ control the high needs cost pressures and create an updated DSG Deficit Management Plan, engaging with schools and other partners as required. Without a Government-led solution to address flaws in the legislation that enable escalating costs, it is difficult to see how a national problem that is significantly increasing financial pressures at an exponential rate locally in Somerset, will be fully resolved. The Council is actively contributing to national lobbying to press for legislative change at the earliest eventuality, through the ADCS Education Policy Committee and the f40 Executive. **Actions:** This is being worked on by Service and Finance to ensure that an updated version is produced. There is a need to recommission the management information systems as they are ineffective and require a new model. **Responsible Officer:** Claire Winter, Executive Director for Children, Families and Education **Executive Lead:** Claire Winter, Executive Director, Children, Families and Education **Due Date:** Develop plan 30/04/2025 Implement mitigating actions during 2025/26

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR5	The council should embed a sound system of internal control across the organisation. this includes ensuring that: • robust internal controls are designed and embedded across all service areas and across financial, performance, and risk management systems; • managers are accountable for maintaining internal control; • internal audit recommendations are implemented in a timely manner; • arrangements prevent and detect fraud including whistle blowing arrangements are robust.	Key	Governance	We have concluded that there are significant weaknesses within the Council's arrangements to implement robust internal controls. This is evidenced by the limited assurance Head of Internal Audit Opinion for 2023/24, the high proportion of limited or no assurance internal audit review opinions, delays to implementing internal audit recommendations, and weaknesses in arrangements to prevent and detect fraud and corruption.	A sound system of internal control ensures that public resources are properly used to support corporate priorities and are properly accounted for, risks are properly managed, and management can be assured that resources are not being misappropriated.	The Council agrees the recommendation and will take action to ensure that the Internal Control environment is improved to be strong and robust and that antifraud and corruption measures are robust. **Actions:** The Council will direct Internal Audit to undertake the assurance reviews to ensure that these are implemented so that there is a strong and robust internal control environment, and that antifraud and corruption measures are robust. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Executive Leadership Team - Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** 30/04/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR6	The Council review their close down processes to ensure that the financial statements are published in line with the statutory deadline for 2024-25 and beyond to enable timely inspection of the accounting records by local residents and audit work to be completed and concluded within the agreed timescales.	Key	Governance	To comply with the Local Audit and Accountability Act 2014 the draft financial statements 2023/24 should have been published by 31 May 2024 with the public inspection period commencing 3 June 2024. The Council has been unable to commence the public inspection as they have yet to publish the draft financial statements, which were expected to be published by 31 October 2024. As at 2 January 2025 the draft accounts are yet to be published.	The financial statements should be published in line with the statutory deadline to enable timely inspection by local residents and audit work to be completed and concluded within the agreed timescales.	The Council agrees the recommendation and will ensure that the 2024/25 Statement of Accounts will be ready by the statutory deadline. It is acknowledged that this first year of the new Council has been challenging with the implementation of a new finance system and closing 11 sets of legacy Council accounts, which has stretched resources. The Council has full audited and unqualified accounts for it's opening 2023/24 accounts. 2023/24 accounts are produced in draft and subject to audit. This year the corporate accounting resource will be fully focussed on 2024/25 Somerset Council only accounts production. This resource consists of permanent, qualified and experienced accountants. Processes and system reports are now in place to aid timely closedown and accounts production. Timetable, resource planning and process documentation reviews, for March through to 30 June 2025, is underway. **Actions:** Review close down processes and consider how lessons learnt from 2023/24 can improve the process and practice. Review resource requirements to ensure sufficient resources are in place to meet the deadline. Document and publish planned activity and timeline to meet statutory deadline for 2024/25 financial statements. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** 28/02/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR7	The Council should continue to develop the Microsoft Dynamics finance system to ensure that it supports accurate and efficient financial reporting and continue to validate the data within the system. Now that the system is considered fully functional and as it becomes embedded the Council should ensure that it monitors and reports on business case benefit realisation with regard to integration, productivity and data-based decision making.	Key	Governance	Ongoing issues with the Microsoft Dynamics finance system are significant contributary factors to the Council not meeting the statutory deadline for the production of the 2023/24 financial statements by the end of May 2024 and there are indications they will not be ready for the end of September 2024. This is having a significant impact on the audit of the financial statements.	The finance system should support accurate and efficient financial reporting in order for the Council to fulfil its statutory duties. It is particularly important to be able to produce timely and reliable financial information during the financial emergency.	The Council agrees the recommendation. The benefits realisation report was presented to Corporate and Resources Scrutiny Committee on 04 January 2024. The report includes a review of deliverables compared to the business case, identifying early benefits experienced and the establishment of a workstream that will continue to monitor and track benefits over time and for future reporting. The options for continuing to develop the MSD finance system are being reviewed. **Actions:** Develop MSD finance system and BI Reporting to deliver Budget Manager self-service and capital budget monitoring. Strengthen the data validations using technology advancements for more efficient validation processes. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** 31/03/2026

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR8	The Council should review its procedures for coordinating with the Ombudsman to ensure timely responses and explore options for minimising delays in meeting agreed recommendations. Furthermore, the Council should ensure compliance with the requirements outlined in the Complaint Handling Code, which establishes a clear process for effectively and fairly responding to complaints.	Key	Governance	We raised an improvement recommendation in the Auditor's Annual Report 2022/23 that there should be sufficient capacity in place and staff suitably trained in order to respond to Ombudsman investigations completely and within agreed timescales. However, in their Annual Review letter 2023/24, the Ombudsman expresses their disappointment that in 6 out of 19 cases (32%) the Council did not implement recommendations within the agreed timescales. There were also delays in the Council responding to Ombudsman investigation enquiries. In addition, the Council is not meeting its target to provide a substantive response to Code of Conduct complaints within 20 days.	The Ombudsman highlights that as well as adding to complainant's frustration, delays in implementing service improvements increases the risk that others will be impacted by the same issue.	The Council agrees the recommendation. **Actions:** The Council will review its procedures for coordinating with the Ombudsman to ensure timely responses and explore options for minimising delays in meeting agreed recommendations. Additionally, the Council will ensure compliance with the requirements outlined in the Complaint Handling Code, establishing a clear process for effectively and fairly responding to complaints. **Responsible Officer:** Alyn Jones, Executive Director for Resources, Strategy & Transformation **Executive Lead:** Alyn Jones, Executive Director for Resources, Strategy & Transformation **Due Date:** 31/05/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
KR9	Robust procurement and contract management processes should be embedded across the organisation. This includes: • establishing appropriate governance structures such as a senior responsible officer and Commercial Board; • ensuring consistency of approach through embedding the new Contract Management Framework and ensuring adequate training is provided to officers and Members; • implementing the recommendations from previous DLUHC and internal audit reviews of procurement and contract management; • reporting waivers regularly to the Audit Committee to ensure effective oversight and challenge where approved procurement processes are not followed; • approving a revised Somerset Council Procurement Strategy.	Key	Improving economy, efficiency and effectiveness	We raised a key recommendation in the Auditor's Annual Report 2022/23 that robust procurement and contract management arrangements should be implemented. Significant weaknesses remained during 2023/24. Weaknesses include the delay in implementing recommendations from the DLUHC pilots aimed at improving contract management that related to appointing a senior responsible officer and implementing a governance structure. Evidence of weaknesses in arrangements is provided through the limited assurance internal audit opinion for the Children Looked After Placements Contract and Procurement audit in November 2023. The Audit Committee were not provided with waiver reports to allow for scrutiny and challenge, and we note the Procurement Policy is out of date.	The Council should ensure that robust contract management and procurement processes are in place end embedded across the organisation to ensure that value for money is achieved from procurement exercises and that the expected benefits are realised from contracts with third parties.	The Council agrees the recommendation. The Contract Management Framework has been drafted and will be moved into implementation. The Procurement Strategy should reflect the National Procurement Policy Statement - this is currently under review, and we are ready to establish our process once the central version is available. Audit committee have received an annual report on waivers and breaches. Quarterly updates are being provided moving forward. **Actions:** Commercial Board to be established. Contract Management Framework to be written and put in place. Contract Management training to be completed across all services to embed compliance with the framework. Annual and Quarterly waiver/breach report to be provided to Audit Committee who will advise any actions to be taken. Procurement Strategy to be written and published - to be based on the National Procurement Policy Statement when re-issued. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** 30/06/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR1	The Children and Family Services Directorate and finance manager should consider how greater emphasis can be placed on predicting and modelling future demographic trends which may not follow historic patterns into the forecast. This should include population growth and other elements such as the rate of school exclusions.	Improvement	Financial sustainability	Currently within the model, demand for key modes of care is projected by taking the previous year's placement activity and applying a percentage uplift. There is a nuance by placement type and the percentage uplift is based on an average rate of change, over and above inflation, for the last 3 years. The subsequent uplift is therefore based on this historic rate of change with CPI then applied for the upcoming year.	Implementing this recommendation would strengthen the modelling and budget forecasts used to set the budget.	The Council agrees the recommendation and will endeavour to move towards a more predictive forecasting model. Based upon the work undertaken by the service to date, which draws upon national research, it is difficult to establish evidence of correlation between social and economic drivers in relation to exclusion and demand for high needs education. We have undertaken some improvement to modelling as part of 2025/26 MTFP process but there is further work to do. We will endeavour to progress the development of more sophisticated modelling through collaboration of Children, Families and Education Service and Finance. **Actions:** This has been introduced as part of budget setting for 2025/26 and will continue throughout the year. **Responsible Officer:** Claire Winter, Executive Director for Children, Families and Education **Executive Lead:** Claire Winter, Executive Director, Children, Families and Education **Due Date:** Progressively improve over the course of 2025/26

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR2	The Children and Family Services Directorate and finance manager should undertake further work to consider the likely phasing of the financial impact of changing the mode of care on a month-by-month basis. This would allow for a staggered approach to placement step-downs, with savings realised at certain points of the year.	Improvement	Financial sustainability	The model assumes a number of placements can be 'stepped-down' from higher cost to lower cost modes of care. However, the functionality of the model means that the majority of placement changes are assumed to take place at the start of the year, with a full year of reduced costs. This is unrealistic and impacts expenditure and savings forecasts.	Implementing this recommendation would strengthen the modelling and budget forecasts used to set the budget.	The Council agrees the recommendation. The 2025/26 model has incorporated a phased approach. **Actions:** This has been introduced as part of monthly budget monitoring in 2024/25 from Quarter 2 on a monthly basis and also as part of budget setting for 2025/26. **Responsible Officer:** Claire Winter, Executive Director for Children, Families and Education **Executive Lead:** Claire Winter, Executive Director, Children, Families and Education **Due Date:** Implemented

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR3	A model assurance process should be put in place to ensure that the integrity of the forecast model has been maintained, that formulas and macros are working as intended, and that hardcoded figures are not affecting dynamic calculations.	Improvement	Financial sustainability	Both Adults and Children's Services use bespoke excel based models to forecast the financial impact of demand for services. While not uncommon, Excel models are vulnerable to error and loss of key knowledge of individuals particularly as they are subject to revision year on year.	Implementing this recommendation will help to mitigate the risk of model errors affecting budget forecasts.	The Council agrees the recommendation. **Actions:** Model validation checks have been conducted to ensure the integrity of the model. The assurance process will continue to ensure the integrity of the model. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** Implemented
IR4	The Council should ensure that key knowledge regarding the model architecture and supporting data and processes is properly documented and that ownership of the models is shared to provide resilience.	Improvement	Financial sustainability	The core financial models used for Adult and Children's Social Care are owned and maintained by individual members of the finance team. This can pose a risk should either of these individuals not be available.	Implementing this recommendation will improve the Council's resilience and business continuity should either of the model owners not be available to process amendments.	The Council agrees the recommendation. **Actions:** The architecture, supporting data and process will be documented and ownership agreed and communicated with key stakeholders. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** 31/03/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR5	The Code of Practice for Income Management should be updated to ensure contacts, file references, references to systems, and structures are relevant and up to date for the new authority and so properly supports services in monitoring unrecovered debt.	Improvement	Financial sustainability	We note that The Code of Practice for Income Management (which Somerset Council is using) refers to Somerset County Council and is dated November 2017.	The policy sets out the roles and responsibilities, pricing, payment terms, processes for raising invoices, credit notes, and managing debts. It should be updated to ensure that it reflects structures, processes and systems in the new Council and so properly supports services in monitoring unrecovered debt.	The Council agrees the recommendation. Internal Audit undertook an Accounts Receivable audit in June 2024. A draft Code of Practice for Income Management has been produced and will be published following final updates in relation to the new structure being incorporated into the draft. **Actions:** Update the Code of Practice for Income Management in line with revised structure. **Responsible Officer:** Nicola Hix, Service Director for Finance & Procurement **Executive Lead:** Maria G Christofi, Chief Finance Officer (Section 151 Officer) **Due Date:** 31/05/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR6	The Council should continue to embed risk management throughout the organisation, ensuring that: • there is a robust system for identifying, managing, reviewing and reporting risk throughout the organisation; • risk management is aligned to the new organisational structure and a culture of risk management is embedded; • risk and performance management is aligned through the migration of risk management to the Ideagen system; • robust arrangements are in place to ensure landlord health and safety risks are adequately managed.	Improvement	Governance	The Council has continued to develop and embed risk management arrangements during 2023/24. There are further plans to strengthen risk management arrangements as set out in the Strategic Risk Report presented to the Audit Committee in May 2024. These include the refresh of strategic risks, improvements to risk reporting, and the management of risk and performance on the Ideagen system.	The Council should ensure that risk management arrangements continue to develop and embed in the new organisation so that the key risks to achieving corporate priorities are identified, mitigated and reported.	The Council agrees the recommendation. Development of the Council risk management approach has been a key focus for the Council over the last year. This will continue. **Actions:** The Council will continue to prioritise embedding risk management throughout the organisation, ensuring that: • A robust system is in place for identifying, managing, reviewing, and reporting risk across the organisation. • Risk management is aligned with the new organisational structure, fostering a culture of risk management. • Risk and performance management are integrated through the migration of risk management to the Ideagen system. • Robust arrangements are established to ensure landlord health and safety risks are adequately managed. **Responsible Officer:** Sara Cretney, Service Director for Strategy & Performance **Executive Lead:** Alyn Jones, Executive Director for Resources, Strategy & Transformation **Due Date:** 30/04/2025

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR7	The Council should ensure that the S151 Officer and Monitoring Officer retain sufficient status within the organisation following the restructure of the Executive Leadership Team. Appropriate mechanisms should be maintained to ensure the three statutory officers have open lines of communication, and can act as appropriate checks and balances and properly advise strategic decision making.	Improvement	Governance	The Council has restructured the Executive Leadership Team, and as a result S151 Officer, will cease to be an Executive Director and will become a Service Director from April 2025. The Monitoring Officer role will transfer from a Service Director to a Head of Service post as a result of the restructure. The S151 Officer and Monitoring Officer will not sit on Executive Leadership Team, but we understand that arrangements to ensure they can fulfil their roles include a "dotted line" between theses statutory officers and the Chief Executive, and the Statutory Officer Board will continue to meet regularly.	The Code of Practice on Good Governance for Local Authority Statutory Officers, published by CIPFA, SOLACE and LLG in June 2024 sets out that the Chief Finance officer and Monitoring Officer should be a full and active member of the authority's most senior leadership team and have a clear and direct relationship to the Head of Paid Service (Chief Executive), normally through line management. We will review how the new arrangements are working in practice as part of the 2024/25 value for money audit.	The Council agrees the recommendation and has assessed the position of these roles in the new Council Management structure. **Actions:** The Chief Finance Officer (Section 151 Officer) has been moved to the Executive Leadership Team and will report into the Chief Executive Officer. The Monitoring Officer will remain at Service Director level as part of the Corporate Leadership Team reporting to the Executive Director for Resources, Strategy & Transformation with also a reporting line into the Chief Executive Officer **Responsible Officer:** Duncan Sharkey, Chief Executive **Executive Lead:** Duncan Sharkey, Chief Executive **Due Date:** Implemented

Recommendations raised in 2023/24

	Recommendation	Type of recommendation *	Criteria impacted	Evidence	Impact or possible future impact	Actions agreed by Management
IR8	The Council should continue to embed and develop strategic and operational performance reporting. This should include: • reporting on strategic performance against Council Plan priorities in addition to operational performance; • implementing the new Core Performance Framework and embed reporting through the Performance Risk and Budget Board; • refreshing the suite of key performance indicators to ensure that they provide a comprehensive view of service performance; • continuing to enhance data management and data quality processes from legacy and new Council systems; • embedding service benchmarking against other organisations' cost and performance.	Improvement	Improving economy, efficiency and effectiveness	Corporate performance reporting was presented quarterly to the Executive during 2023/24, with a focus on operational indicators as part of the interim approach agreed by the Executive for 2023/24, pending the implementation of a new corporate performance framework. We note that the corporate performance report does not include any strategic performance reporting against council plan priorities. The Council has a Digital Strategy supported by a set of Digital Principles. Data quality is currently based on separate systems, and the consolidation of these systems may take several years. In the meantime, efforts are being made to extract data through different methods, such as using front ends, and a single data platform.	The Council is continuously improving corporate performance reporting with the introduction of the Core Performance Framework for 2024/25. Corporate performance reports will be based around three lenses (strategic, organisational health, service) in order to provide a rounded view of organisational performance rather than the interim suite of corporate indicators that were approved for Vesting Day. The Council should ensure that performance reporting supports informed decision making and the allocation of resources to priority areas.	The Council agrees the recommendation. **Actions:** With the continued oversight of the Performance Risk and Budget Board, the Council will continue to embed and develop strategic and operational performance reporting. This will include: • Reporting on strategic performance against Council Plan priorities, in addition to operational performance. • Implementing the new Core Performance Framework and embedding reporting through the Performance Risk and Budget Board. • Refreshing the suite of key performance indicators to ensure they provide a comprehensive view of service performance. • Enhancing data management and data quality processes from both legacy and new Council systems. • Embedding service benchmarking against other organisations' cost and performance. **Responsible Officer:** Sara Cretney, Service Director for Strategy & Performance **Executive Lead:** Alyn Jones, Executive Director for Resources, Strategy & Transformation **Due Date:** 30/04/2025

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:
Value for Money Auditor responsibilities

Value for Money arrangements work

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 audited body'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 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 National Audit Office (NAO) Code of Audit Practice ('the Code'), 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.

2023/24 is the fourth year of the Code, and we undertake and report the work in three phases as set out in the Code.

Phase 1 – Planning and initial risk assessment

As part of our planning we assess our knowledge of the Council's arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period

Information which informs our risk assessment	
Cumulative knowledge and experience of the audited body	Annual Governance Statement and the Head of Internal Audit annual opinion
Interviews and discussions with key stakeholders	The work of inspectorates and other regulatory bodies
Progress with implementing recommendations	Key documents provided by the audited body
Findings from our opinion audit	Our knowledge of the sector as a whole

Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements we will undertake further work to understand whether there are significant weaknesses. We use auditor's professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations. A range of different recommendations can be raised by the Council's auditors as follows:

- **Statutory recommendations – actions which should be taken where significant weaknesses are identified with arrangements. These are made under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 and require discussion at full Council and a public response.**
- **Key recommendations** – actions which should be taken by the Council where significant weaknesses are identified within arrangements.
- **Improvement recommendations** – actions which should improve arrangements in place but are not a result of identifying significant weaknesses in the Council's arrangements.

Appendix C: Deep Dive – **Adult and Children's Services budgets**

Introduction

Purpose of this report

This report supports our VfM findings as set out in our Auditors Annual Report for 2023/24 and should be read alongside this document. The Purpose of this report is to provide additional assurance on the arrangements that underpin the planning and management of budgets for the Council's Adult and Children's Social Care Services. This focuses on the arrangements in place during 2023/24 and looks ahead in the context of the Councils medium term financial challenge.

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of 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.

Our scope

A number of significant VfM risks had arisen in 2022/23, including concerns around the financial position and specifically the impact that the increasing cost of Adults and Children's social care was having on this. For 2023/24 we have noted that these pressures continued but that the Council had taken steps to remedy the situation. In order to explore this issue and determine whether there continues to be a weakness in arrangements we agreed to complete additional risk-based work in order to discharge our duties under the Code of Audit Practice. The findings of this work has been considered as part of our wider review of VfM under the NAO Framework and is reported in full within this AAR.

The areas that we identified where there was a residual risk of significant weakness that required additional risk-based work for both Adults and Children's services. Our work therefore included:

- reviewing of the findings of independent reviewers commissioned by the Council on the arrangements to accurately model social care demand and unit costs;
- reviewing of the implementation of the reviewer's recommendations and related transformation initiatives in place to better understand the robustness of the Councils response to the underlying financial pressures including the realisation of savings;
- considering the impact of transformation on improving service performance (e.g. challenges around capacity and demand);
- reviewing of the key modelling assumptions used to project demand and costs in the medium term and how these are reflected in the budget and medium -term financial plan; and
- Using independent benchmarking and other analysis to provide assurance that the Councils planning assumptions are reasonable.

Appendix C: Deep Dive – **Adult and Children's Services budgets** (continued)

Adult Social Care

Area of review	Commentary on arrangements
Track record of budget and savings delivery and prospects for future financial performance	The outturn for the year 2022/23 for Adults Services was a £15.4m overspend (9.6% of the £160.1m budget) that was mitigated by Covid support funding. The key cost driver behind the overspend was the cost of residential care placements both in terms of rising demand and rising unit costs with varying impact across older adults, mental health and physical disability services. This was despite analysis that showed that the Council's unit costs were in-fact low compared to other comparable councils. The increase in unit costs was linked to the need to ensure market sustainability and that care home closures did not drive further inflation and sufficiency in the context of rising demand for places. The Adult Social Care budget for 2023/24 was £181.3m including an uplift of £21.2m (13%) on the prior year baseline. The budget uplift was informed by the introduction of additional assumptions serving to improve the accuracy of the forecast, specifically the financial performance trends at month 5 were used, rather than month 2, giving a more representative picture. In addition, known placement fee increases were added in and a greater emphasis on known levels of transitions (e.g. from Childrens to Adults services). The budget was also set with the benefit of the diagnostic report produced by transformation partner Newton Europe Ltd. Despite these measures, the outturn for 2023/24 was a further overspend of £17.4m. The underlying overspend of £25m was mitigated down as a result of primarily non-recurrent grant income and funding (e.g. market sustainability funding, workforce grant and additional NHS funding). In response to these significant overspends, the service undertook a comprehensive analysis of the cost drivers behind the overspends as part of the 2024/25 budget setting and MTFP planning process. This amounted to a rebasing of the budget based on the most recent activity data and market trends. This took into consideration the significant increase in residential placement costs over the last three years and financial effect of clearing the backlog of unmet needs in areas such as homecare. These changes were made in the context of needing to re-consider services in a post-COVID-19 care environment and provider market.

Appendix C:
Deep Dive – **Adult and Children's Services budgets** (Adult Social Care continued)

Area of review	Commentary on arrangements
Financial modelling of cost and demand in the context of national and local market conditions	We have considered the demographic pressures affecting Somerset and the impact the local commissioning market has on the forecasting of cost and demand for Adults services. We found that the Councils understanding of the environment and the assumptions used for budget modelling are consistent with our analysis of the market. Somerset is a relatively low spender in the local market and demonstrates a relatively low average unit cost for its services overall and has been increasing at a comparatively low rate compared to its peers, indicating that the Council has been able to exert control over inflation in the provider market. The number of requests for support as a proportion of the population are also relatively low. The Council does have a slightly above average proportion of working age people in long term care but a relatively low proportion of older people in long term care compared to peers. Service directors indicated that the provider market is stable and the Council is able to negotiate from a position of reasonable strength. They did note that there were indications of a constriction of supply of places but that this was not sufficient to cause concern in the medium term. There were some challenges with the discharge of patients from the NHS. The Integrated Care Board (ICB) does facilitate good dialogue, however there is uncertainty about the future NHS funding levels for social care and the better care fund. The directorate has been making good use of Peer forums to help shape its service provision. The modelling assumptions appear to be relatively well reflected in the rebased 2024/25 financial model. This was less apparent in previous years where significant budget overspends were recorded and this is likely to reflect the improvement in budget modelling for the current year.

Appendix C: Deep Dive – Adult and Children's Services budgets (Adult Social Care continued)

Figure 1 illustrates the revenue outturn submitted to the Ministry of Housing, Communities and Local Government. Budgetary data is drawn from publicly available returns. Net expenditure is based on a combination of publicly available returns and budget monitoring reports to ensure an accurate reflection of spend compared to budget. Forecast spend in 2024/25 (dotted line) is based on a projected £3.5m underspend as referenced in committee meeting agenda documents from October 2024.

The line chart illustrates that expenditure has gradually increased in recent years, along with validation of an appropriately set budget, one which has accurately forecast costs over the current financial year.

Fig 2 represents Somerset's unit cost compared to other South-West authorities. Unit costs are derived by taking total expenditure in relation to the 18+ population, normalising spend and allowing for comparison across the region. This shows that Somerset are low spenders within the region.

Fig 3 represents the change in adult social care spend from 2018/19 to 2024/25. Although spend is increasing across the region, the rate of change within Somerset is low compared to other South-West authorities.

Please note that data up to and including 2022/23 reflects Somerset before unitary reorganisation. Conversations with service teams indicate that the approach to service provision and financing has not been affected by the reorganisation, therefore we are reviewing here Somerset's historic spend alongside finances from 2023/24 and 2024/25.

Fig. 1

How does actual spend on services compare to budget?

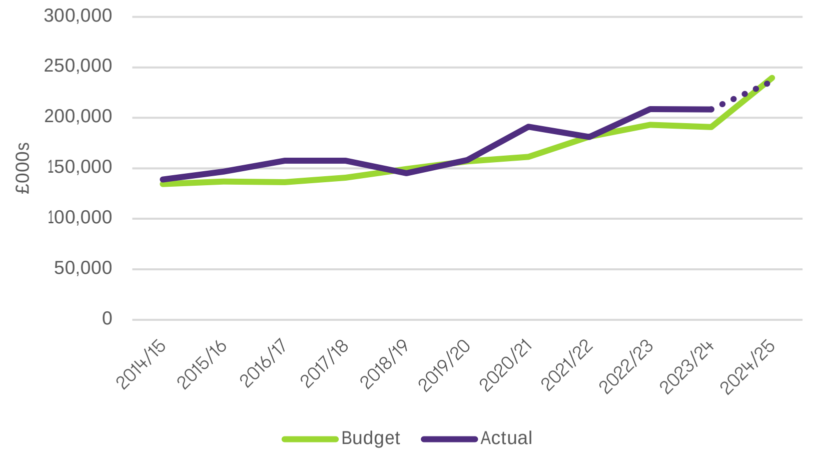
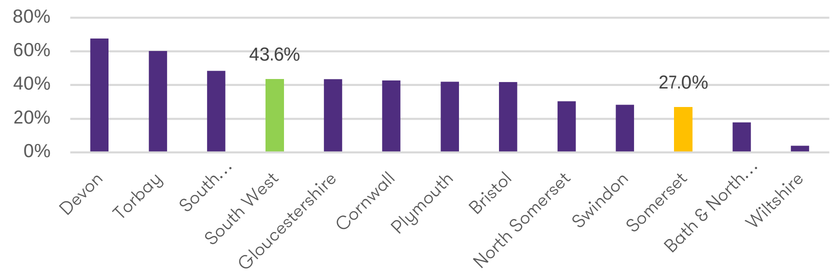


Fig. 2

Adult Social Care – 2023/24 – Unit cost expenditure

Fig. 3

Adult Social Care – 5-year change in expenditure (2018/19–2023/24)



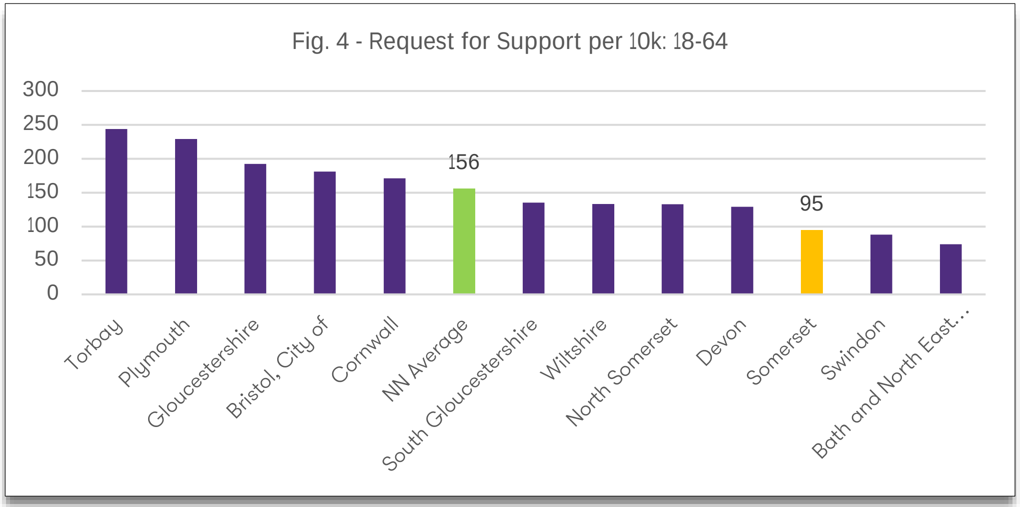
Appendix C: Deep Dive – **Adult and Children's Services budgets** (Adult Social Care continued)

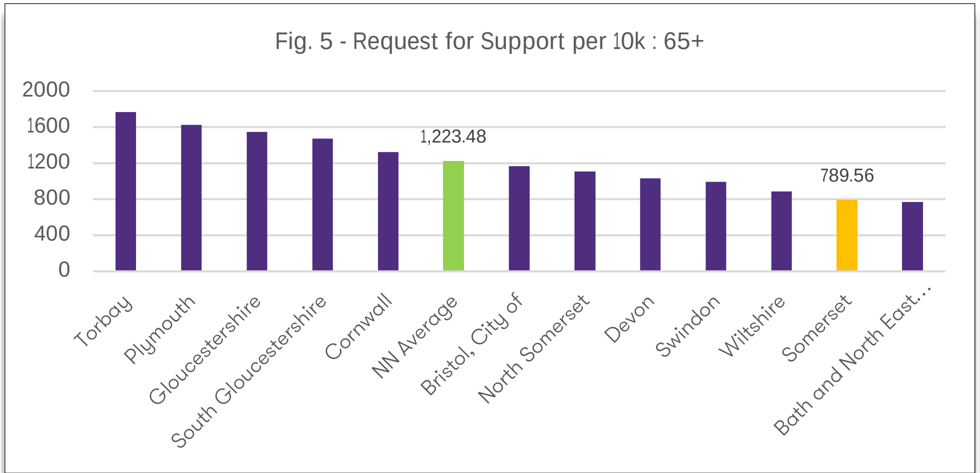
Calculating true demand within adult social care is very hard. There are no data collection requirements that define the number of adults within the care system. A proxy for social care demand is the number of referrals into the council for services, essentially a measure of the number of requests for adult social care support. The data is collected by NHS Digital and is most recently available as of 31 March 2023.

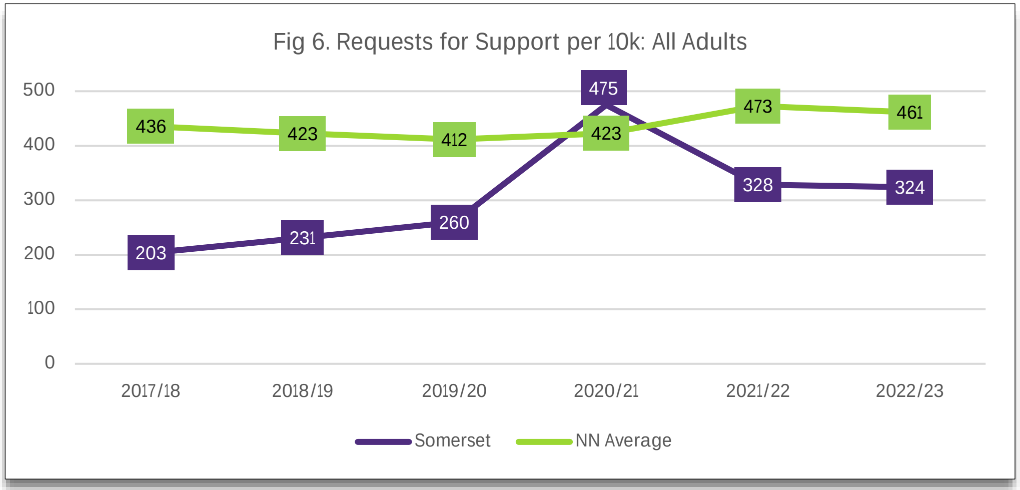
The graph to the right (Fig 4) and immediately below (Fig 5) illustrate requests for support for authorities within the South-West in 2023. The data is normalised in relation to the relevant population to allow for comparison across authorities.

For both younger adults (18-64) and older people (65+), demand for adult social care services within Somerset is comparatively low.

Fig 6 illustrates the number of requests for support for all adults over time. The line chart tells us two things; firstly, apart from the financial year 2020/21 which saw a huge spike in demand, requests for support within Somerset has been consistently lower than that of other South-West authorities. Secondly, whilst demand in the South-West has been relatively stable since 2017/18, demand within Somerset has been steadily rising before levelling out in 2022/23.







Appendix C: Deep Dive – **Adult and Children's Services budgets** (Adult Social Care continued)

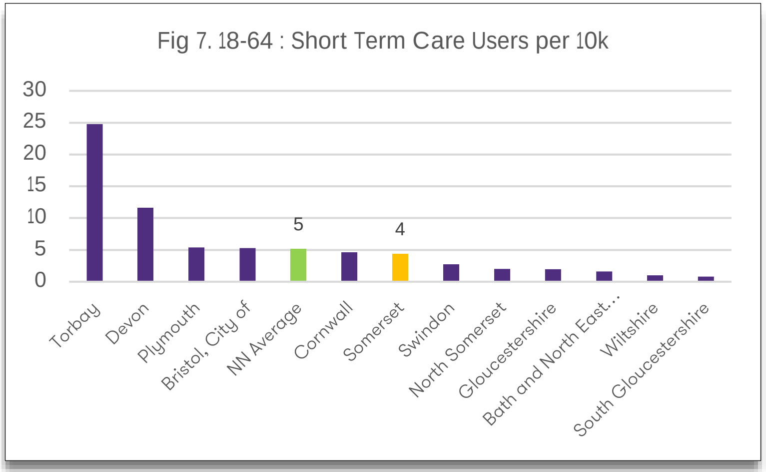
These graphs illustrate the number of people accessing short- and long-term support during the year 2022/23. Of course, there are some limitations to the accuracy of the data; some councils may double-count individuals receiving short-term care followed by long-term care. However, the metrics are useful to understand how demand referenced in the previous slide correspond to service users illustrated here.

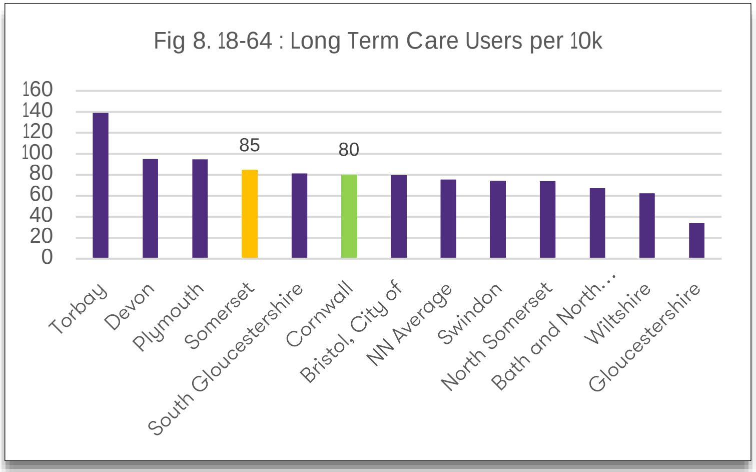
As stated on the previous slide, demand for adult social care services within Somerset has historically been low compared to South-West averages.

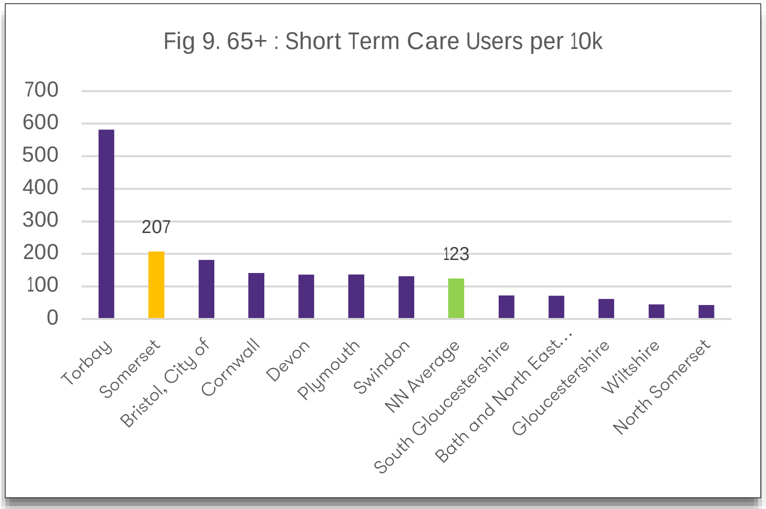
Figs 7 and 8 illustrate short-term and long-term care users within the 18-64 population. Somerset are in line with the South-West for both types of support.

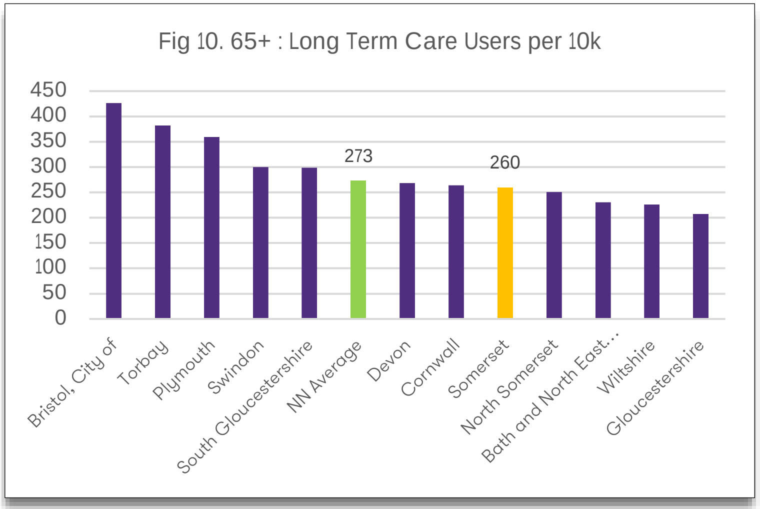
Figs 9 and 10 illustrate the same metric but for the 65+ population. Here, Somerset stand out as having a large number of short-term care users.

The last two slides tell a story of low demand and, for the most part, a good front door policy which isn't leading to a high number of services. However, a particular area for attention is the large number of short-term services provided to older adults. Short-term care for this demographic can quickly result in long-term care and therefore appropriate rehabilitation services need to be in place to avoid this.









Appendix C: Deep Dive – **Adult and Children's Services budgets** (Adult Social Care continued)

Area of review	Commentary on arrangements
The transformation programme and governance arrangements	The Council appointed an external transformation partner (Newton Europe Ltd) in November 2022. Their first task was to produce a detailed diagnostic of the Council's adult social care services and it was subsequently decided to extend the partnership for the duration of the initial phase of the programme. This work highlighted three areas where there were transformation opportunities valued at £14.2m (with a stretch target of £17.2m) which led to the development of the current transformation plan: 1. Improving the environment within which our practitioners operate so they have the tools to do the job; the time, support, processes, and access to the right services, to help people maximise their independence. 2. Ensuring the right care is available in the right place, at the right time; focussing on supporting working age adults (Learning Disabilities / Mental Health / Physical Disabilities) to gain skills and progress to more independent care settings. 3. Optimising intermediate care services, focusing on patient discharge from healthcare settings and the assessment and reablement service. This supports people to return to greater independence, and to have the capacity for more people to move through the service each year. This is supported by the following enabling workstreams: • Develop the workforce • Optimise the process of sourcing • Develop the right performance management dashboards • Develop a process and approach to financial monitoring • Where required, develop the digital and technology infrastructure • Good governance arrangements – transformation board and focused scrutiny committee.

Appendix C: Deep Dive – **Adult and Children's Services budgets** (Adult Social Care continued)

Area of review	Commentary on arrangements
External support and capacity for the transformation programme	The Adult Social Care Service appointed a change partner (Newton Europe Ltd) to support its My Life My Future transformation programme, following the completion of a cross service diagnostic report that looked at current performance and opportunities to improve efficiency. The Newton My Life My Future Programme contract summary confirms a contract value of £7.2m to December 2025 for Newton to facilitate the delivery of the objectives set out in the diagnostic report. This fee is contingent against the programme delivering a measurable financial benefit and includes a supplier's 'Fee Guarantee' should savings fall below £10m, that would result in a rebate of fee to the Council in line with a ratio of fee to benefit that forms part of the contract terms. The Council is therefore protected should the projected benefits fall short. The final financial benefits will be determined at the end of the programme to be agreed by both parties by June 2025 at the latest. We note that £7.166m was due to be paid in June 2024 in line with the contract and was funded from one-off capital receipts in line with government guidelines for transformation projects. Delivery of the projected benefit is on-track as at month 5 with the possibility of exceeding the target. We will revisit the final accounting and execution of the guarantee as part of 2024/25 VFM work once the 12 June 2025 deadline has passed. We note that the delivery of benefit against the savings target is built into the current year budget and the MTFP and is being closely tracked by the Council with monthly financial reports and periodic programme updates to the Finance Board and public Scrutiny Committee. The saving is being tracked in the form of the net financial benefit of reductions in projected higher cost forms of care in favour of lower cost options formed around reablement, which the Council is able to demonstrate through its activity reporting. At this point in time, the contract appears to be on track to deliver tangible benefits to the Council and therefore delivering value for money. We will revisit the final delivery of benefits against the contract as part of our 2024/25 VfM review.

Appendix C: Deep Dive – **Adult and Children's Services budgets** (Adult Social Care continued)

Area of review	Commentary on arrangements
Benefits realisation from transformation	In June 2024 Adults Finance Oversight Board forecasted benefits realisation from the My Life my Future programme of £10m by July 2025 assuming that the current trajectory holds for shifting the ratio of higher cost placements (e.g. residential) placements into lower cost packages centred on reablement and care at home. At that point the forecast was that £8.3m of cumulative benefit would be delivered by end of 2024/25, with £6.2m already delivered even if there were no further improvement. The MTFP includes £10m cumulative savings from the programme by the end of 2024/25 and as at June 2024 the programme was not projected to meet this leaving a shortfall of £1.7m. However, the overall annualised benefit was projected to significantly exceed the target, reaching £14.3m by the end of 2028/29, including an additional £3.7m of benefit in 2025/26 that was not assumed in the MTFP. The reason for the relatively small shortfall, was that the programme had be slower to start in 2023/24 than had initially been anticipated and therefore the realisation of savings had been delayed. We note that during 2024/25 the savings were being delivered in line with the projected rate and value when adjusting for the slow start in the prior year. The latest budget reporting for 2024/25 month 5 indicates that the overall position on savings has improved since the June 2024 report, with continued progress and mitigating actions on track to deliver savings to the overall target of £13.7m (£9.8m in 2024/25 and a further £3.9m that was underachieved in the prior year). Therefore, despite some slippage, Adult Social Care is on target to deliver its savings target driven primarily through the My Life My Futures Programme and is currently (at month 5) forecasting an overall in-year surplus of £2.8m. The driver of the savings is supported in the activity reports for different types of care, with the numbers of higher cost residential and nursing placements all reducing in the period April to August 2024 and Homecare increasing. The service is also able to provide evidence that even before the current transformation programme had taken effect, the average length of stay for older people in higher cost settings has been reducing over the past 3 years, indicating that people are having these placements later in life than they would otherwise have done, as a result of the investment the Council had already made in strengthening its 'front door' and its commissioning policies post COVID-19 pandemic. Reablement as part of the helping people to live independent lives workstream has been a key focus of the current transformation effort delivering the largest portion of savings benefit. Overall, the service is able to provide compelling evidence of the success of the programme in driving out cost savings to offset against its financial pressures. We note that the current programme differs slightly from the opportunities originally identified at the diagnostic stage in that there is an additional focus on the collection of income from fee paying service users (£3.5m of benefit in the savings programme). However, the net impact puts the projected benefits ahead of the original £14.2m proposed.

Appendix C: Deep Dive – **Adult and Children's Services budgets** (Adult Social Care continued)

Area of review	Commentary on arrangements
Maintaining and improving quality and performance	We have considered evidence on the quality of service provided by Adults in the context of transformation of services. We note that some of the key aspects of transformation have the potential to affect the user experience, including the focus on the collection of fee payments due from users and the shifting of people between different types of care while managing the user's expectations of the level of service. We note that the directorate is in the process of preparing for inspection that is due from the Care Quality Commission (CQC). We have considered the pack of information the service has prepared ahead of the inspection as well as the latest service performance reports to the Adult Social Care Scrutiny Committee (October 2024) in order to inform our review. There is no indication from these sources that the directorate has suffered a downturn in performance over the period. The level of contacts with the service and the rate of resolution has remained consistent and on target compared to prior years. The level of unmet need and hand-backs (requiring alternative provision to be found) for homecare provision has remained very low and CQC rating for its providers is slightly below the 90% target but above the national average. The level of Care Act assessments outstanding remains an area of focus for the directorate and remains a red rated area, however this is not directly linked to transformation. The directorate runs a stakeholder feedback process to gauge user satisfaction on a more regular basis than annual surveys. This data has seen a significant improvement in the percentage of good or excellent ratings given in the first half of 2024 which has coincided with the implementation of key transformation programmes. Practice quality audits indicated that, in the majority of cases, were meeting or exceeding standards with a limited number of exceptions, none of which were flagged as red. Overall, there is no indication that service quality has been adversely affected over the period of transformation at this stage. We also note that the service received a positive report from the LGA peer review in March 2024 that emphasised the ambition and commitment of the team and the strength of local partnerships.
Prospects for future transformation and further savings in the MTFP period	The Adult Services Directorate are in the process of developing further transformation opportunities beyond the current programme. In particular, they have identified an opportunity to apply the methodology they used with Newton Europe Ltd on care for older people, and to apply this to mental health and learning and disabilities areas of service. We discussed with the directorate leadership how transformation would be managed when the current transformation partner Newton Europe Ltd transitions out of the organisation. The directorate felt that the experience of working alongside the partner and the way that responsibility for delivery and ownership of the tools and processes that had been developed was shared, meant that they were confident that momentum could be maintained in future years and the risk of not doing so was effectively mitigated.

Appendix C: Deep Dive – **Adult and Children's Services budgets** (continued)

Children's Social Care

Area of review	Commentary on arrangements
Track record of budget and savings delivery and prospects for future financial performance	***Financial Year 2022/23*** For the financial year 2022/23, the former Somerset County Council reported that the final outturn for Children's Services was an overspend against budget of £21.2m (19.8% on a budget of £107m). This was primarily driven by overspending on the external placements budget (£15.2m) with pressures also evident in Children Looked After (£1.1m), Home to School Transport (£1.3m) and SEND transport (£2.5m). It should be noted that 2022/23 was affected by unprecedented high inflation in the global economy that affected unit costs. However, the key driver of the increase in external placement costs was due to a comparatively small number of children with complex needs for whom it had been extremely challenging to find registered placements, resulting in their placement in higher-cost unregistered placements. Following the creation of the Somerset Council unitary authority from 1 April 2023, significant steps were taken to strengthen budget setting and management for 2022/23. While other Council services were subject to significant re-organisation as a result of re-organisation, the Children' service faced comparatively little disruption. The enhanced budget management arrangements included an enhanced role of monthly financial monitoring carried out by the Children and Families Scrutiny Committee. ***Financial Year 2023/24*** For the financial year 2023/24 the Children and Families service was provided with a budget uplift that broadly matched the level of reported overspend in the prior year but did not make provision for any significant growth in demand and did not fully model the impact of shortages of foster care and specialist residential placements in the local and national market. The revised budget of £127m reflected some provision for unit price inflation but also included savings and mitigating actions to reduce costs that were predicated on a set rate of children being transferred from high-cost placements that exceeded their needs to more appropriate forms of care including fostering placements. The budget also assumed the number of new lower cost placements would become come available from the Council's investment in the Homes to Horizons partnership, providing the opportunity to move children out of high-cost emergency placements. In addition, the Council invested in additional contractor support to build a new financial model to monitor and forecast Children's service pressures. Further support was also provided to report and manage service transformation and the delivery of savings. The intention was that these measures would enable the Children's service to manage within budget. However, the budget outturn for 2023/24 showed an overspend of £12.3m (9.7% of budget). Although smaller in proportion to budget than had been the case in the prior year, the overspend was still significant in the context of the Council overall budget and worsening financial position. This was again primarily driven by the excessive cost of external placements. We note that in the final quarter of that year, progress was made on reducing the overspend as a result of some children being moved out of high-cost unregistered care into more cost-efficient residential provision. While demonstrating a degree of progress, the rate at which this was able to happen was below the level planned in the budget due to challenges and delays in the availability of suitable alternative placements which were significantly below the levels assumed in the budget.

Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

Area of review	Commentary on arrangements
Track record of budget and savings delivery and prospects for future financial performance (continued).	***Financial Year 2024/25*** For the financial year 2024/25 the Children and Families service underwent some relatively minor changes in the configuration of the budget. The new budget for the revised Children, Families and Education Services directorate was £138.2m an effective net investment of £15.7m on the equivalent budgets in the prior year (an uplift of 13%). This was a smaller uplift than the directorate had received in the prior year, reflecting the increasing pressure on the Council's overall budget. This included projected new pressures of £26.5m offset against mitigating planned savings of £9.6m. The savings were again predicated primarily on moving children out of high-cost placements into more affordable modes of care. We note that at month 3 as at June 2024 (reported to members in September 2024), the Children, Families and Education Services directorate was projecting a forecast overspend of £5.4m, again due primarily to higher than planned external care costs. There are underlying increases in the numbers of children coming into care, above the levels that had originally been modelled. Planning and construction delays in the Homes and Horizons capital scheme had also meant that fewer of these placements were available for children to transfer into from higher cost placements. By month 5, the forecast outturn overspend had increased to £7.5m, again primarily driven by the cost of placing children in high-cost residential care settings. This was attributed to the continuing significant increases in the demand for children looked after that had not been anticipated in the budget model. This is partly a result of weaknesses in the dialogue with schools that might alert the Council to potential cases at an earlier stage and mitigate the need for high-cost emergency placements. This is exacerbated by delays in the court system leading to young people and siblings spending longer in temporary care placements and delaying longer term placements or the return to family. This is an issue that is recognised nationally. We note that the reporting of forecast outturn in the prior year was highly volatile and was based on the idea that pressures identified on the budget would remain consistent and would not become more acute over the period. During 2023/24, the forecast outturn overspend increased by increments month by month which undermined the Councils visibility of the issue and the ability to plan and take action at corporate level earlier in the year. We note that this pattern of incremental month by month increases in the forecast deficit appears to be repeating in 2024/25. This approach to forecasting pressures is a significant concern. Discussion with members of the Children, Families and Education Directorate indicates that there was a general lack of confidence in the ability to deliver the savings benefits presented when the budget was agreed. There is a risk that pressure to manage the Council's overall financial position is creating a culture that is not conducive to transparent reporting and open discussion of the challenges at hand.

Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

Area of review	Commentary on arrangements
Financial modelling of cost and demand in the context of national and local market conditions	We have reviewed the Council's forecasting model for Children's services and found that it is relatively well designed and comprehensive in regard to the modelling of placements. The finance manager (business partner) for the Children, Families and Education Services directorate is the current owner, however there is a reasonable level of engagement with the services, particularly the Director of Commissioning to check and test planning assumptions. Note that we have not undertaken a detailed check of the functionality and integrity of the model. The Council's reliance on Excel spreadsheets to host the modelling is not unusual in the sector but this approach does carry standard risks to integrity and data quality. In addition, the fact that the model was designed by an external contractor who has since left the organisation could pose some risks to the Councils ability to revise and adapt the model. The Council should consider the safeguards to preserve the integrity and accuracy of the model structure and also the level of operational resilience, should the current business partner be unavailable for any reason. There is currently significant reliance on the finance manager of the children's service to own and run the model. We also note that the Council is behind schedule in developing the model to support the 2025/26 budget setting process that is currently underway. In regard to the basic model assumptions used, we find that the understanding of the Children's Services market nationally and locally, is consistent with the data we have used to benchmark the Council's performance. • Unit cost has been low but has been increasing at an above average rate compared to peers. • Looked After Children (LAC) levels are comparatively low, but the increases in cost per placement seen across the region and nationally, is being exacerbated by the comparatively high increase in the proportion of children in Somerset that are placed into high-cost residential settings in the absence of adequate lower cost settings such as foster placements. • The proportion of looked after Children in residential placements is increasing significantly above the rate seen by peers. • Lack of supply of lower cost placements, including foster care, is driving demand for higher cost residential placements. • The high school exclusions profile in the county and lack of dialogue with schools is leading to sudden unexpected increases in demand. For the financial year 2022/23 we raised a significant weakness in the Council's arrangements for developing and delivering mitigating actions to manage demand and costs in relation to Adult and Children's services and this weakness has carried through into 2023/24.

Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

Area of review	Commentary on arrangements
Financial modelling of cost and demand in the context of national and local market conditions (Continued…)	As we have noted, the Children's service reported a significant overspend in 2023/24 (£12.3m, 9.7% of budget), primarily through demand levels above those modelled (a relatively small number of high-cost children). The transformation savings commitment in the 2024/25 MTFS of £9.6m is under delivering and some of the core budget assumptions used in the budget setting due to the lack of fostering and specialist care places available on block contracts, to move children out of current higher cost places, often using more expensive spot placements out of necessity. This has been exacerbated by delays to the Homes and Horizons scheme, which was due to provide some of the lower cost places. The most recent month 5 budget report is forecasting a further budget overspend of £7.5m in 2024/25 due primarily to the failure to deliver planned transformation savings benefits and increased demand that is having to be met through higher cost spot placements and residential settings due to the shortage of foster placements. In our view the significant weakness around the failure to develop and deliver effective mitigating actions remains the case for Childrens. Due to the significance of the challenge facing Children's services in particular, we have raised a further key recommendation specific to the Children's Service: Childrens services should accelerate its response to the 2025/26 budget setting process and focus on the following areas of improvement: • Robust consideration of the timing and valuation of current and new savings schemes, taking into account realistic assumptions around the short-term availability of fostering and specialist care places, including the roll out of Homes for Horizons places. • Greater use of scenario planning and critical path analysis to help develop financial assumptions • Develop a clear strategy for exploring future transformation opportunities, particularly in regard to shaping the provider market and determine what investment may be required to realise this. • Use the new transformation board framework and Scrutiny Committee to provide robust challenge to budget and savings assumptions at an earlier stage. There are several steps the Council could consider to help address the key recommendation above. • **Wider use of demographics to forecast demand.** Currently, demand is forecasted by taking the previous year's placement figures and apply a percentage uplift. There is nuance by placement type; the percentage uplift is based on an average rate of change, over and above inflation, for the last 3 years. The subsequent uplift is based on this historic rate of change with CPI then applied for the upcoming year. A consideration would be to incorporate wider demographics into the forecast, this would include population growth and other elements, such as recent school exclusions. • **Staggered approach to placement changes.** The model assumes a certain number of placements can be 'stepped-down', from residential to fostering, say. However, the functionality of the model means that the majority of placement changes are assumed to take place at the start of the year, with a full year of reduced costs. This is unrealistic and impacts both forecast expenditure and potential savings. Separating the model into a month-by-month view would allow for a staggered approach to placement step-downs, with savings realised at certain points of the year. **Full audit of model.** The model was built by an external party last year and has continued use for this year. However, we feel it would be appropriate for a full audit of the model to ensure that hardcoded figures are not affecting dynamic calculations. Furthermore, it would allow for much greater ownership of the tool within finance and provide the ability to 'clean' the model, removing any unnecessary tabs and comments.

Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

Fig 11 illustrates the revenue outturn submitted to the MHCLG. Budgetary data is drawn from publicly available returns. Net expenditure is drawn from publicly available returns up until 2022/23, and independently provided by children's services for 2023/24. Forecast spend in 2024/25 is based on a projected £6.4m overspend as referenced in committee meeting agenda documents from October 2024 and relates to expenditure as of month 4 in the current financial year. However, the overspend in month 5 is already at £7.5m, therefore expenditure for the rest of the financial year is assumed to track to budget. Conversations with children's services indicate this is unlikely, with additional overspend expected, so the forecast represented by the dotted line appears unrealistic at this stage. Irrespective of the final outturn for 2024/25, the line chart illustrates increasing expenditure on children social care.

Fig 12 represents Somerset's unit cost compared to other South-West authorities. Unit costs are derived by taking total expenditure in relation to the 0-17 population, normalising spend and allowing for comparison across the region. This shows that Somerset are slightly above the average for children's social care expenditure.

Fig 13 represents the change in children social care spend since 2018/19 through to 2024/2025. Although spend is increasing across the region, the rate of change within Somerset is high compared to other South-West authorities.

Please note that data up to and including 2022/23 reflects Somerset before unitary reorganisation. Conversations with service teams indicate that the approach to service provision and financing has not been affected by the reorganisation, therefore we are reviewing here Somerset's historic spend alongside finances from 2023/24 and 2024/25.

Fig. 11

How does actual spend on services compare to budget?

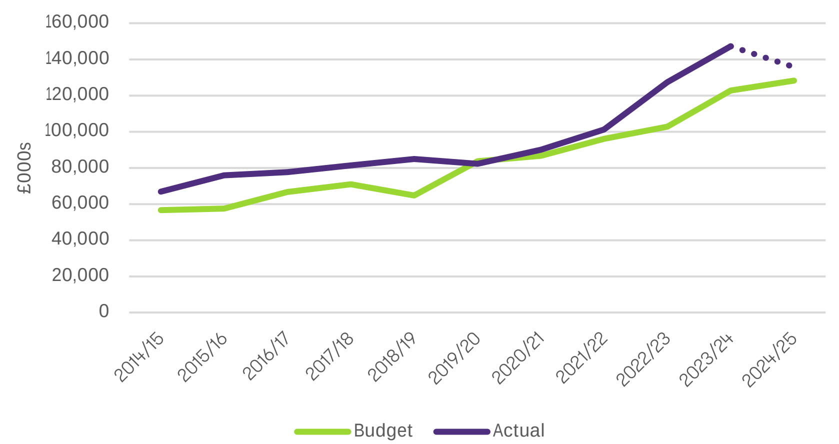


Fig. 12

Children Social Care – 2023/24 – Unit cost expenditure

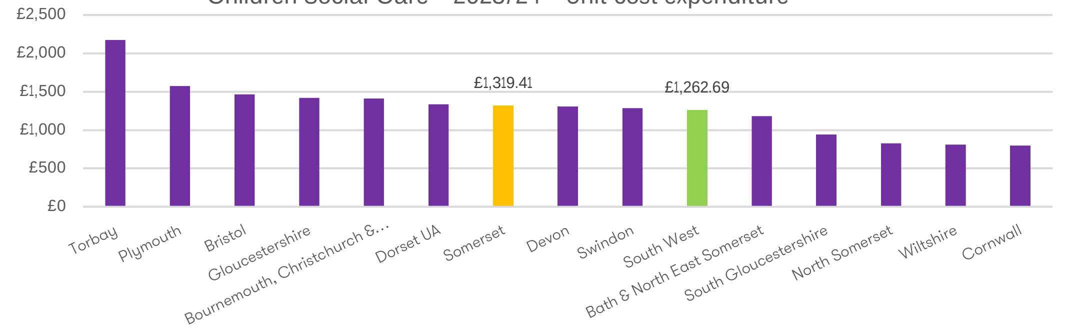
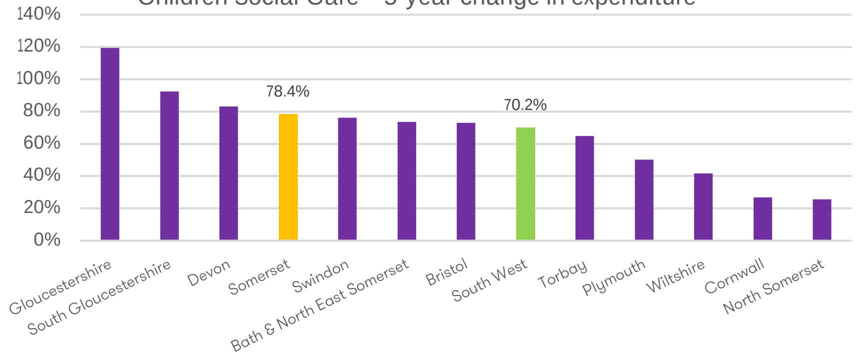


Fig. 13

Children Social Care – 5-year change in expenditure



Appendix C: Deep Dive – **Adult and Children's Services budgets (Children's Social Care continued)**

As such a large proportion of total service expenditure goes towards Looked After Children, a major part of our analysis has focussed on this area. Please note that Looked After Children demand data is publicly available up to 31 March 2023, whilst spend data is available up to 31 March 2024. Total expenditure on Looked After Children has significantly increased over the last five years – rising from £47.2m to £75.7m. The following analysis aims to explain the causes of this increase – is it due to increased demand, increased costs, or a combination of the two?

Fig 14 illustrates the number of Looked After Children per 10k of the 0-17 population. Again, this normalises demand and allows for comparison. Clearly, Somerset do not stand out as an outlier within the South-West. We are aware through conversations with children's services that demand has significantly increased in the last year, though the increase in spend was evident even before the uptick in demand. However, given the rise in demand, the situation may be worse with rising placement costs.

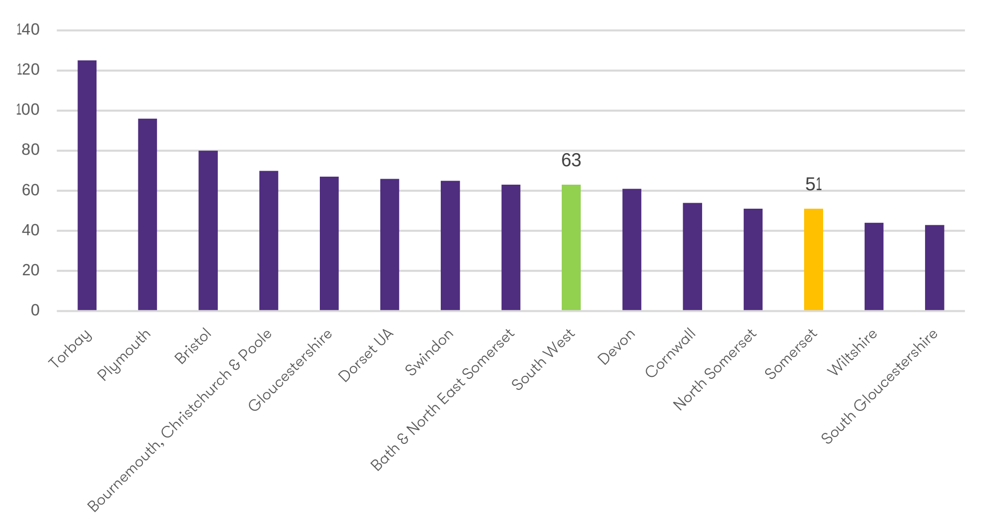


Fig. 14 - Looked After Children per 10k

Fig 15 illustrates the 5-year change in Looked After Children spend and demand for the South-West. Authorities are listed in order of spend increases. Somerset sit in the middle of the graph, indicating an increase in spend in line with the regional average. However, the bar chart indicates that during the period in which demand increased by 11.4%, total expenditure rose by 60.3%.

It seems clear, therefore, that the increase in total expenditure can be ascribed to the rising costs of placements, rather than an increase in demand.

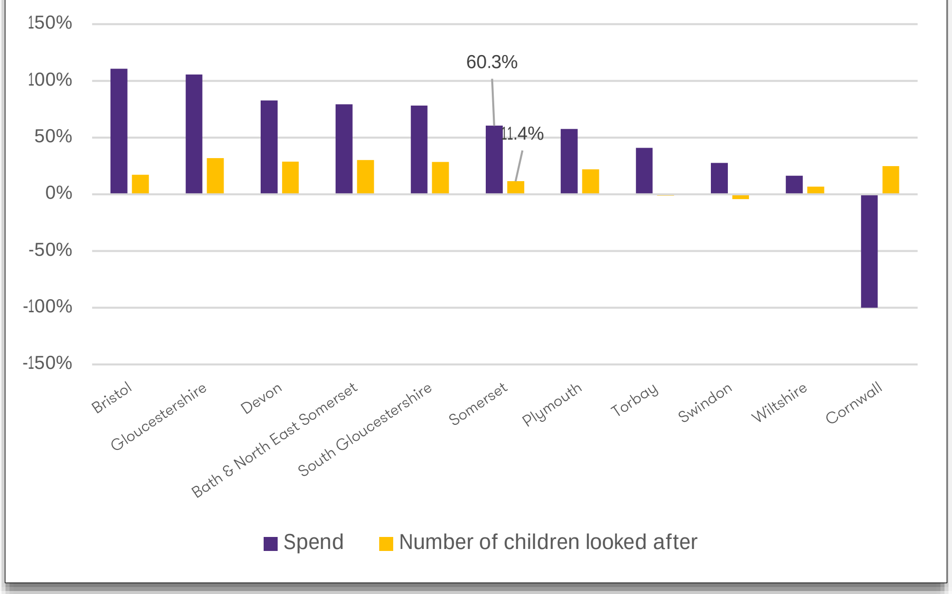


Fig. 15 - Change in Expenditure vs. Change in number of Looked After Children (2018/19 - 2023/24)

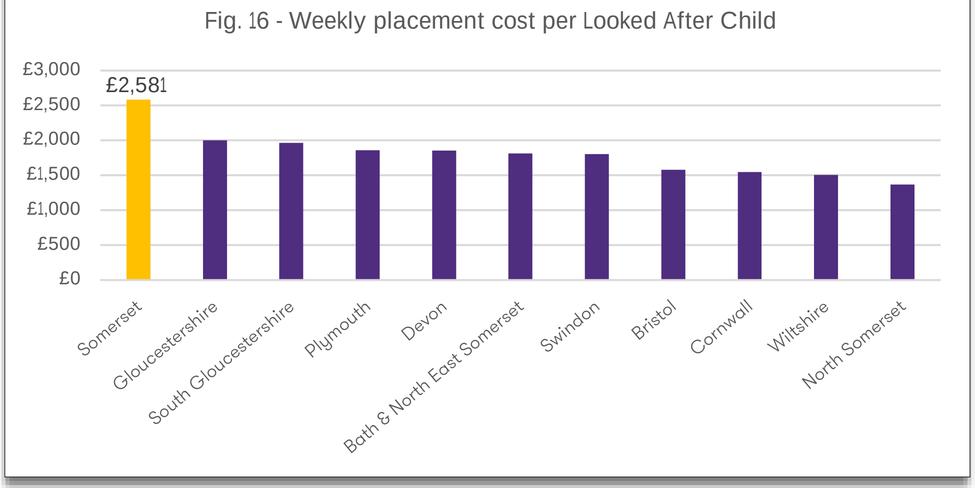
Appendix C: Deep Dive – **Adult and Children's Services budgets (Children's Social Care continued)**

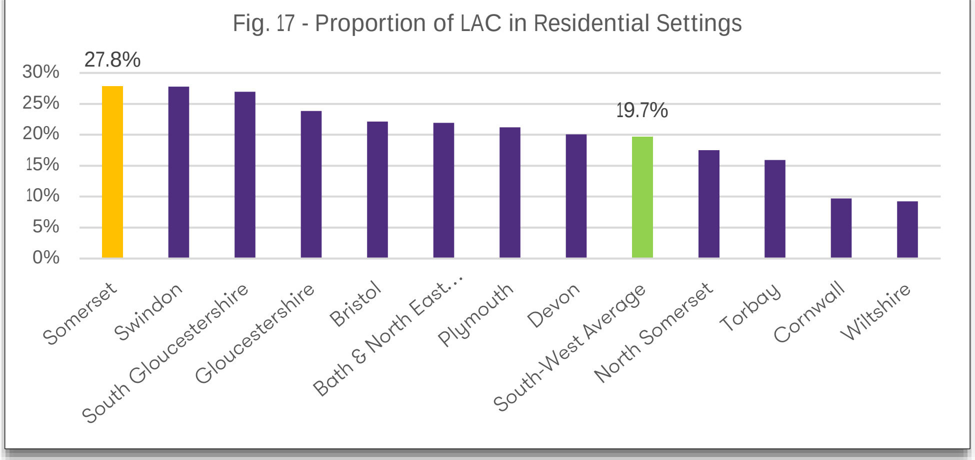
For Looked After Children, we can derive an alternative unit cost based on the actual number of children in care (rather than in reference to the child population). A placement cost is derived by dividing the total spend on Looked After Children by the number of children within the care of Somerset. This is divided by 52 to calculate an estimated weekly cost. Using this method, and illustrated in Fig 16 (to the right), Somerset's weekly placement cost is £2,581. This is far above the South-West average, indeed the next highest weekly cost within the region is Gloucestershire at £2,000.

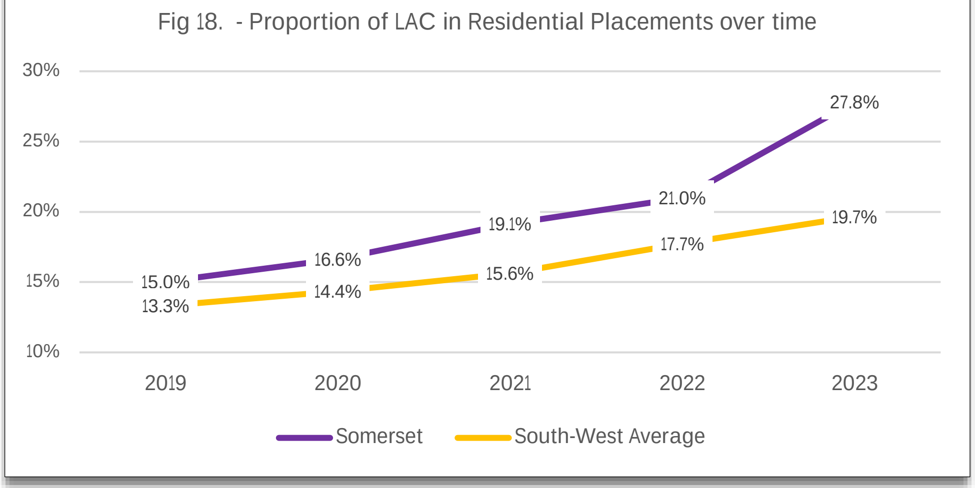
Breaking down the placement of Looked After Children highlights some very interesting trends.

Fig 17 (below) illustrates the proportion of Looked After Children placed in a residential setting, as of 31 March 2023. Compared to other South-West authorities, Somerset have the highest proportion in residential settings. Furthermore, Fig 18 shows how this has changed over time. The disparity between Somerset and the South-West has widened in recent years.

This suggests that, rather than Somerset getting worse rates than their neighbours, the problem is simply an unusually large proportion of children being placed in a residential setting. This tallies with discussions with Children's services, who indicated that the lack of foster carers mean children are placed in unnecessarily expensive settings.







Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

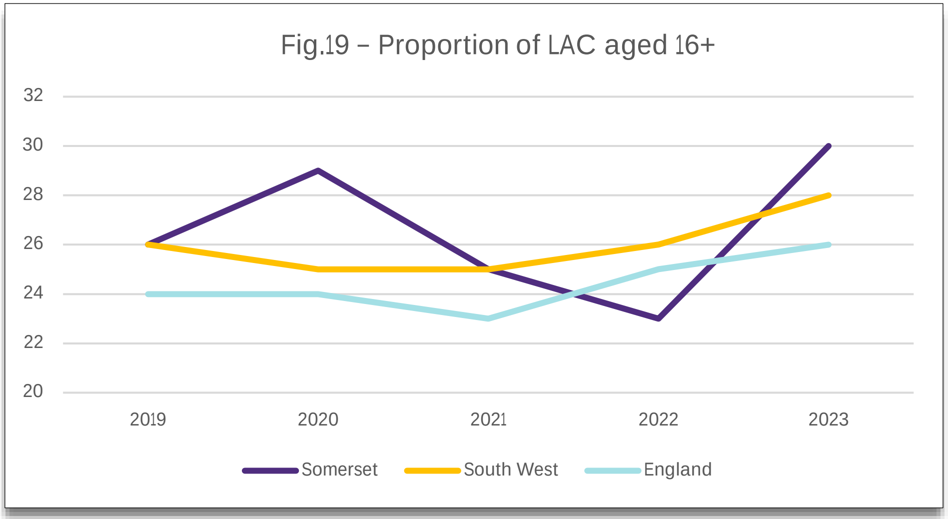
The issue with a lack of foster carers is a national one, the question therefore is why Somerset are being disproportionately affected. Anecdotally, and through conversations with Children's services, it's due to many children entering care at an older age, specifically following school exclusions. Foster placements are harder to come by for older children, and this could explain the difficulties in finding cheaper foster arrangements.

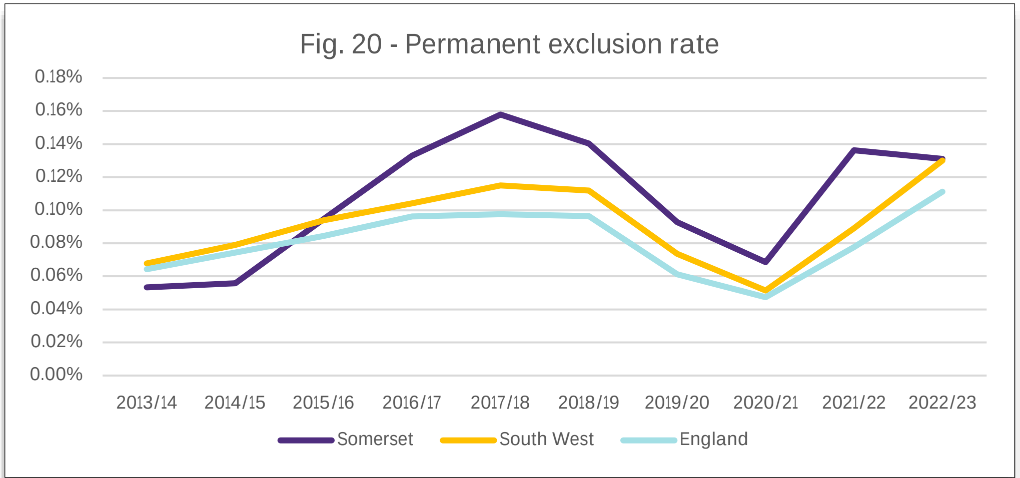
Figure 19 indicates that the proportion of children looked after aged 16+ is increasing in Somerset at a higher rate than peers which is likely to be creating an additional demand pressure.

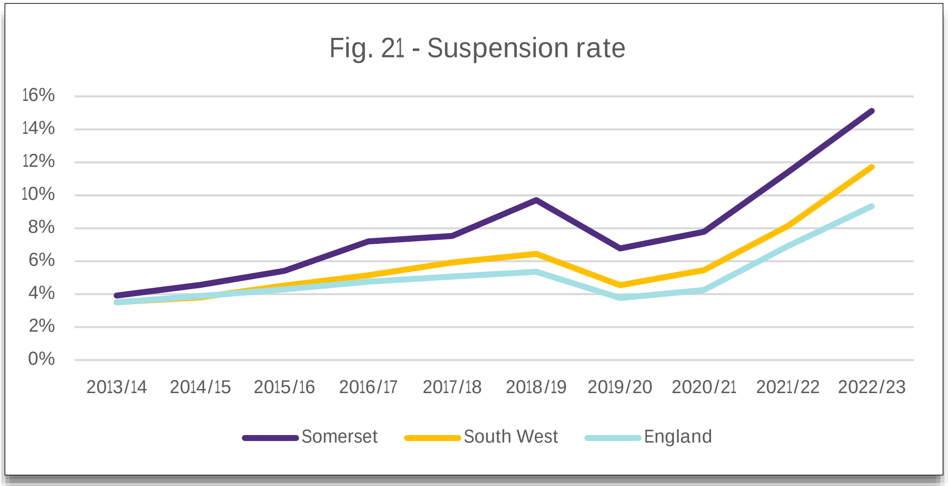
Figs 20 and 21 (below) illustrate permanent exclusion and suspension rates over the last ten years. Two things immediately stand out; firstly, the South-West as a region stands out compared to the national average, with consistently higher rates of exclusions and suspensions. Secondly, and perhaps more pertinently, Somerset stand out as an outlier even within the South-West.

Over the last 5 years, an average of 86.7 pupils per year have been permanently excluded from Somerset schools. The suspension rate is even more extreme, compared to a national average of 9.33%, Somerset saw 15.12% of pupils suspended at some point in 2022/23. This is the highest in the South-West and 14th highest of all English authorities.

As a result, the most recent set of Looked After Children data shows that Somerset have a high rate of children in care aged 16 and older. This supports a lot of the problems that children's services have reported to us in discussions over the last month.







Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

Area of review	Commentary on arrangements
The transformation programme and governance arrangements	See commentary below

The Children, Families and Education Service has put in place a transformation programme to deliver in year savings and further financial benefits over the life of the MTFS. The programme is subject to the Council's newly implemented transformation programme governance structure with regular progress reports managed by the Children's Transformation Finance Board and the overseen by members via the Scrutiny Committee – Children and Families. The key workstreams are as follows:

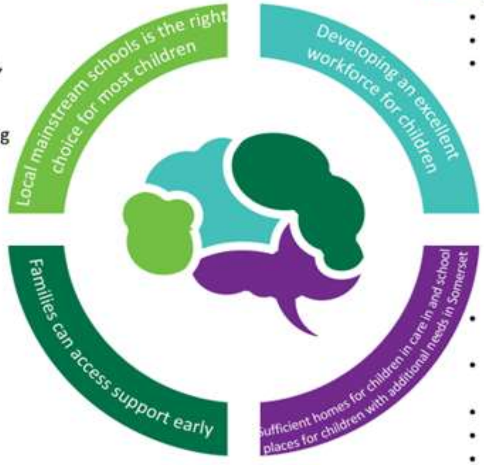
A Local mainstream schools is the right choice for most children

- Mainstream Plus
- Assessment post-5 (Inc. EHCPs)
- High risk capital/structure projects (Frome, Ilminster, W Somerset and Bridgwater)
- Supported Internships
- EHCP communications and decision-making
- Funding and finance policy and strategy
- DMP tracking and planning
- LA-MAT collaboration

B Developing an excellent workforce for children

- Locality working
- Workforce development strategy
- Curriculum for the Children's Workforce

E Education Restructure (short term)



C Families can access support early

- Assessment pre-5
- Transform family view
- Team around the school
- Automated early help
- Communicating to 30,000+ professionals
- Shared case management
- Speech and Language Strategy
- Pre- and post-natal education
- Family Hub offer
- Identification and tracking

D Sufficient homes for children in care and school places for children with additional needs in Somerset

- Sufficiency strategy 0-25 inclusive of SEND, Early Years and mainstream planning
- Fostering Improvement (inclusive of recruitment and retention)
- 16+ accommodation
- Market shaping
- Homes and horizons
- Children with Disabilities resource transformation

The transformation programme is intended to run until 2026 and encompasses service improvement as well as savings. For 2024/25, the key transformation areas delivering financial benefits focused on 16+ provision (block and spot contract and Homes to Horizons, in addition to a number of smaller schemes).

The Homes and Horizons scheme forms a key part of the Council's investment in social care provision and the savings benefits identified form a key part of the current transformation plan. Homes and Horizons sought to create additional lower cost placements for the relatively small number of young people with significant needs, who nevertheless incurred very significant level of costs that was unsustainable in the current provider market.

Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

Area of review	Commentary on arrangements
Benefits realisation from transformation	We have reviewed the most recent savings tracker for Children and Family Services (Month 5 2024/25) and found that there had been further slippage on the delivery of planned savings. Of the £9.6m that had been planned for delivery in 2024/25, £4m was at risk. This slippage reflected the majority of the overall slippage on the Councils savings programme as a whole and accounts for over half of the projected £7.5m overspend on budget. Within the overall savings target for 2024/25, the key areas of slippage in 2024/25 are in the provision for people aged 16+ both in regard to the use of block contracts at reduced unit costs and the roll out of the new DPS spot contract arrangements. The financial benefits arising from the roll out of Homes and Horizons places had also been significantly reduced due to delays in delivering the programme. We note that 2023/24 also saw slippage in planned transformational savings of £1.4m out of a target of £4.6m. The shortfalls were as a result of over estimated benefits from family intervention, delays in the Homes to Horizon's programme and delivering step downs from higher cost placements into fostering that could not be delivered. We note that some of the same challenges that have affected the accuracy of budget projections in 2023/24 and 2024/25 have also affected the ability to deliver transformational savings at the expected pace. These issues include: • Use of overly optimistic assumptions or best-case outcomes. • Lack of consideration of delivery risks and the critical path required for savings to be delivered. • Delays in delivering Homes and Horizons. • Shortage of fostering places. Business cases need to be prepared with sufficient analysis of risk in terms of values and phasing and these need to be more rigorously challenged through the Transformation and Finance Boards, and by members at Scrutiny Committee. Note that we have raised a statutory recommendation on this point (SR2) in our wider VfM work.

Appendix C: Deep Dive – Adult and Children's Services budgets (Children's Social Care continued)

Area of review	Commentary on arrangements
External support and capacity for the transformation programme	In 2023, the Council engaged with a transformation support partner (Peopletoo Ltd) who undertook initial diagnostic work and reported in December 2023. This has been viewed by the directorate as largely helpful and has prompted positive changes over 2024. The work identified that high levels of changes in placements for individuals, lack of robust care planning and changes of social worker were increasing the level of breakdowns. This is contributing to high levels of high cost emergency placements under higher cost spot contract arrangements. Shortage of specialist placements for children with high needs enabling them to be supported at home that is not well targeted. There is a shortage of foster care places in the region and that current transformation programmes addressing fostering and Homes and Horizons are offering only a partial solution. There are more opportunities to work with providers to find mutually beneficial solutions and to place a higher proportion of children in local placements as opposed to out of borough. The relationship with schools is challenging with low achievement outcomes, lack of access to SEND support and high exclusion rates. There are also indications that the arrangements to identify and intervene and support children and families at an earlier stage before they escalate and require higher cost modes of care. Whilst some good work has been done, the service has struggled to address some of the root causes of the budget pressures it faces. Some of the savings benefits proposed from current schemes are unlikely to be delivered as planned. The key challenges were identified as: • Earlier identification and support provided to Children and Families to reduce instances where demand for higher cost services crystallises in excess of the financial assumptions used to set the budget. • Focus on building sufficiency in the market in those care settings that are most needed. • Developing sufficient resources, social workers and providers to make sure the needs of the young person are met reducing instability and the level of breakdowns. • Social workers are able to develop deeper knowledge of the young person's needs to enable appropriate planning. Recommendations focused on Changes to the target operating model, the approach to commissioning, business support and the approach to transformation. A number of these changes have been made, for example in regard to the approach to transformation and the operating model, however, there remains significant work to be done.

Appendix C:
Deep Dive – **Adult and Children's Services budgets (Children's Social Care continued)**

Area of review	Commentary on arrangements
External support and capacity for the transformation programme (continued…)	Follow up work was done (May 2024) to consider progress on budget performance and financial planning in the MTFP and emphasised the importance of the Council providing sufficient support to the service to enable transformation. More recent work (August 2024) has focused on commissioning with a number of recommendations made to improve the position centred around development of the market and market relationships, the provision for better information and tools for decision making and improvements to processes to source residential placements to improve efficiency. The work also looked at potential improvements to the way that SEND provision is managed to address some of the issues arising from the education sector. The Children and Families Service has been subject to a number of other reviews from external sector experts that have delivered mixed results in the opinion of officers in the service. Initial attempts to provide challenge has sometimes been overly high level or targeted only on specific aspects of service, without consideration of the whole. In 2023 the Council undertook a review of the Homes and Horizon's scheme as there were concerns about the value for money it offered. The initial report called for a delay to the project while further engagement was undertaken with the external provider market to explore alternative lower cost solutions. In the event, the initial findings were disputed by the Children and Families Service and a second review supported the continuation of the scheme. While deemed necessary at the time to secure value for money, the delay caused to implementing the new placements has been a contributing factor. Overall, the work with the current transformation partner in Children, Families and Education has been positive. However, in contrast to the close integrated support for implementation that Adult Social care has benefitted from, the relationship with the transformation partner in Children' has to date been that of external reviewer with periodic access to the service to check progress and latterly, to provide analysis on specific areas. Children and Families might benefit from increased support for transformation implementation as the Adults Service has. Were this to be taken forward, it must be balanced against the value that can be delivered for the significant investment that this would involve. The transformation partnership and the contractual relationship in Adults my provide a model for this although this must be properly assessed on its own merits.

Appendix C: Deep Dive – **Adult and Children's Services budgets (Children's Social Care continued)**

Area of review	Commentary on arrangements
Maintaining and improving quality and performance	The Inspecting Local Authority Children's Services (ILAC) visit by Ofsted reported in July 2022, judged the quality of services delivered by the Children's Service to be Good overall and across all four of the inspection categories. This indicates that the Council is working from a reasonable strong base of quality of delivery in regard to looked after Children as it entered into its transformation programme. We note that there have been historic issues with SEND provision but with Ofsted acknowledging improvement in this area in its last inspection. We also note issues found by the regulator in the way that local partnerships work together to deliver child protection. Although neither of these latter areas directly relate to budget performance for looked after children there is a link with observations we have made on the challenges the Council faces in productive working with local schools. In regard to key service KPIs, the most recent performance reports indicate a number of challenges on delivering priority areas. These include indicators relating to school's exclusions including Children requiring SEND provision and the completion of Education Health and Care assessments. The ratio of children in foster care remained below target but improving, however the numbers of Children in residential care remained challenging. We noted that one of the cost pressures that was still presenting a challenge to the directorate was the comparatively small number of children with high needs and complexity who remained in high-cost unregistered placements. This is not permitted under Ofsted guidelines and the Council is in regular contact with the regulator on these cases. We did note that the Council had made improvements in this area and there were plans in place to move the remaining individuals, including through places created through the Homes and Horizons programme.
Prospects for future transformation and further savings in the MTFP period	We discussed with the directorate whether there were further opportunities for transformation and potential savings and there were a number of opportunities that were currently being worked on. These included: • Early intervention/ prevention and keeping children at home. • Provider market negotiations to improve the position of the sufficiency of provision, particularly on a local basis. • Dialogue with schools to improve the ability to identify issue and apply early intervention and to avoid unexpected increases in demand. • Dialogue with peer councils was underway and it was felt that there was opportunity for cross-learning and potentially collaboration, including in the approach to the provider market. • Focus on the re-integration of Children into mainstream schooling and family life, following a period of receiving a more intensive care package. • Focus on reducing the number failed placements to improve the stability of packages and the need for additional interventions. We encourage the directorate to continue to develop these opportunities and initiatives and work up specific actions to deliver the potential benefits and savings.

Appendix D: Follow-up of previous recommendations

	Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
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.	Key	January 2024	As part of our 2023/24 value for money work, we undertook additional risk-based work to check progress on the delivery of the Adult and Children's budget and transformation programmes, to review the modelling used to project demand and to gain an understanding of the likelihood that transformation would be able to deliver the financial benefits projected in the MTFP. We have concluded that although good progress has been made, the significant weakness in arrangements first raised in 2022/23, remains open and consider that a new key recommendation would be helpful in terms of providing additional focus and guidance on addressing this issue within Children's Services.	No	This recommendation remains open. We have raised a further key recommendation that Children's services should accelerate its response to the 2025/26 budget setting process and focus on several areas of improvement.
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.	Key	January 2024	The Council has brought forward the planned transformation programme to start delivering savings in 2024/25, but sufficient progress was not made in include savings in the 2024/25 budget. The Financial Strategy approved in April 2024 included £40m of savings relating to the workforce programme but did not include any further savings relating to the transformation programme. While the Council has acted with necessary urgency in implementing the workforce reduction programme during 2024/25 in order to generate savings for 2025/26, it has not yet developed the full costed and funded transformation business case that will support the transformation of services, support service delivery with a reduced workforce, and which will release further savings to balance the budget.	No	We have raised a statutory recommendation that the Council should develop the overarching transformation business case and detailed business cases for individual workstreams that will deliver service transformation and contribute to delivering the Council's ambitious savings targets. The funding required to deliver transformation, and the new target operating model, should be identified and a funding plan developed. See SR2.

*Explanations of the different types of recommendations which can be made are summarised in Appendix B.

Appendix D:
Follow-up of previous recommendations

	Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
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; • 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, 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.	Key	January 2024	Executive approved the disposal of the commercial investment portfolio in November 2023 and the Property and Investments Executive Sub Committee has been established to oversee the disposal of the portfolio and management of properties. The Council is now actively disposing of commercial properties in accordance with the approved Investment Property Disposal Strategy. Portfolio financial performance is reported at a very high level to the Sub-Committee, comprising of total contracted annual income, voids and rent arrears with no targets or analysis by individual asset. The capacity for detailed reporting is limited by the small size of the commercial property team, the reliance on spreadsheets, and the focus of resources on disposing of commercial property.	Partly	We have raised a further key recommendation that the Council should strengthen financial performance reporting for the commercial investment property portfolio and consider the resources and processes in place to report on and manage the portfolio. See KR2.
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; • 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.	Key	January 2024	The 2024/25 budget could only be balanced using £81.4m of one-off resources, including £36.8m of the medium-term financial plan support reserve. The General Fund Balances is forecast at £52.1m as at 31 March 2025, within the prudent range of £30m-£60m, but earmarked reserves are forecast to reduce from £114.8m as at 1 April 2023 to £55.2m as at 31 March 2025, as they are utilised to support the 2024/25 budget. There are significant risks within the financial strategy to deliver the scale of savings required and if the full 2025/26 budget gap of £103.9m is not balanced through savings then there is a risk that further contributions from reserves will be required.	No	We have raised a statutory recommendation that The Council should develop detailed savings plans at pace to deliver the savings targets set out in the financial strategy and in order to reduce reliance on one-off resources and rebase the Council's budgets to a financially sustainable level. See SR1.

Appendix D: Follow-up of previous recommendations

	Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
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.	Key	January 2024	The Somerset DSG Deficit Management Plan was updated and shared with CIPFA and the DfE in January 2024 and includes opportunities identified with Impower and the DBV Programme to mitigate the deficit. The Council overspent on its DSG allocation by £14.2m in 2023/24, resulting in a cumulative DSG deficit of £36.2m at 31 March 2024. The mitigated cumulative DSG is forecast to reach £72.3m as at 31 March 2026 when the statutory override ends and is greater than the General Fund balance of £52.1m as at 31 March 2024.	Partly	We have raised a further key recommendation that the Council should continue to develop and implement mitigating actions to reduce the DSG deficit. See KR3.
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, invoices and data; • developing standardised system generated budget monitoring reports; • 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.	Key	January 2024	System developments and training have continued since go live and the system is now considered fully functional other than fixed assets planned for development in due course. However, ongoing issues with the Microsoft Dynamics finance system are significant contributary factors to the Council not meeting the statutory deadline for the production of the 2023/24 financial statements by the end of May 2024 and there are indications they will not be ready for the end of September 2024. This is having a significant impact on the audit of the financial statements.	Partly	We have raised a further key recommendation that the Council should continue to develop the Microsoft Dynamics finance system to ensure that it supports accurate and efficient financial reporting and continue to validate the data within the system. The Council should ensure that it monitors and reports on business case benefit realisation with regard to integration, productivity and data-based decision making. See KR6.

Appendix D:
Follow-up of previous recommendations

	Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
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.	Key	January 2024	Significant weaknesses remained during 2023/24. Weaknesses include the delay in implementing recommendations from the DLUHC pilots aimed at improving contract management that related to appointing a senior responsible officer and implementing a governance structure. Evidence of weaknesses in arrangements is provided through the limited assurance internal audit opinion for the Children Looked After Placements Contract and Procurement audit in November 2023. The Audit Committee were not provided with waiver reports to allow for scrutiny and challenge, and we note the Procurement Policy is out of date.	No	We have raised a key recommendation that robust procurement and contract management processes should be embedded across the organisation. See KR8.
8	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;	Improvement	January 2024	The capital budgets for 2023/24 were primarily based on the spending plans of the previous 5 councils, but spending plans have been revised with the objective of reducing pressure on the revenue budget by minimising debt charges and reprofiling capital investment into future years where appropriate. As a result of the review of capital spending plans the total 2024/25 - 2026/27 capital programme is £368.0m, a reduction of £82.5m compared to the 2023/24-2025/26 programme, with the General Fund element reducing by £93.7m. The General Fund Capital Budget identifies £112.7m of new capital scheme, of which only £3.3m have to be funded by borrowing with £109.4m funded from external sources.	Yes	No

Appendix D: Follow-up of previous recommendations

	Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
9	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	January 2024	The Council has updated the HRA business plan which has resulted in an improved financial position and significant unallocated reserves above the minimum balance. The projected HRA unearmarked reserve balance as at 31 March 2025 is £13.1m against the £3.7m recommended minimum balance. HRA balances are not forecast to reduce to the minimum prudent level until 2048/49.	Yes	No
10	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	January 2024	The Council has continued to develop and embed risk management arrangements during 2023/24. There are further plans to strengthen risk management arrangements as set out in the Strategic Risk Report presented to the Audit Committee in May 2024. These include the refresh of strategic risks, improvements to risk reporting, and the management of risk and performance on the Ideagen system.	Partly	We have raised an improvement recommendation that the Council should continue to embed risk management throughout the organisation. See IR2.
11	Robust arrangements for preventing and detecting fraud and corruption should be implemented at Somerset Council, including: • considering the strengths and weaknesses identified in the predecessor councils; • 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	January 2024	The internal audit Whistleblowing Policy and Awareness review was provided only limited assurance, and noted limited promotion of the Policy and a lack of mandatory training for officers and Members. The Council has not produced an annual Whistleblowing Report to update Members on the outcomes of whistleblowing allegations. The Council currently has no dedicated anti-fraud resource, although we understand that a job description has been drafted with a view to recruiting to this role. There was no dedicated anti-fraud plan produced for the Council for 2023/24.	No	We have raised a key recommendation that the Council should embed a sound system of internal control across the organisation. This includes ensuring that arrangements to prevent and detect fraud including whistle blowing arrangements are robust. See KR4.

Appendix D:
Follow-up of previous recommendations

	Recommendation	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
12	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	January 2024	In their Annual Review letter 2023/24, the Ombudsman expresses their disappointment that in 6 out of 19 cases (32%) the Council did not implement recommendations within the agreed timescales. There were also delays in the Council responding to Ombudsman investigation enquiries. On two occasions the Ombudsman had to remind the Council of their powers to issue a witness summons before they received the information requested.	No	We have raised a key recommendation that the Council should review its procedures for coordinating with the Ombudsman to ensure timely responses and explore options for minimising delays in meeting agreed recommendations. See KR7.
13	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	January 2024	The Council faces challenges in benchmarking its performance due to the lack of organisational data as a new authority. However, some services, such as Housing, Adults, and Children's Services, do carry out benchmarking. The Council can demonstrate the use of nearest neighbour cost benchmarking for trends in expenditure on Adults and Children's social care and benchmarking of Children's Services performance against other authorities in the South-West.	No	We have raised an improvement recommendation that the Council should continue to embed and develop strategic and operational performance reporting. This includes embedding service benchmarking against other organisations' cost and performance. See IR4.

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