

# LGA Corporate Peer Challenge

Somerset Council

12<sup>th</sup> – 15<sup>th</sup> November 2024

Feedback report



**Corporate Peer Challenge**



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# 1. Introduction

Corporate Peer Challenge (CPC) is a highly valued improvement and assurance tool that is delivered by the sector for the sector. It involves a team of senior local government councillors and officers undertaking a comprehensive review of key finance, performance and governance information and then spending 4 days at Somerset Council to provide robust, strategic, and credible challenge and support.

CPC forms a key part of the improvement and assurance framework for local government. It is underpinned by the principles of Sector-led Improvement (SLI) put in place by councils and the Local Government Association (LGA) to support continuous improvement and assurance across the sector. These state that local authorities are: Responsible for their own performance, Accountable locally not nationally and have a collective responsibility for the performance of the sector.

CPC assists councils in meeting part of their Best Value duty, with the UK Government expecting all local authorities to have a CPC at least every five years.

Peers remain at the heart of the peer challenge process and provide a 'practitioner perspective' and 'critical friend' challenge.

This report outlines the key findings of the peer team and their recommendations.

# 2. Executive summary

The consolidation of five predecessor councils into a single entity through Local Government Reorganisation (LGR) created Somerset Council in 2023. The LGR process has clearly provided an opportunity for transformation but has also served to highlight the complexity of integrating multiple systems, cultures, and ways of working. The council was clear that following the creation of the unitary council, there would need to be a period of transition, before seeking to transform the council into the organisation residents, members and staff would like it to be. A CPC at this point in the process would always have found a 'work in progress' and the peer team were aware there would be many elements of the new council still under development at the current time.

Like many other councils, Somerset Council is facing an extremely challenging

financial position with the cost of delivering services increasing significantly faster than the income received. Unlike many other, Somerset Council went through local government reorganisation in the midst of a difficult financial situation for the sector and in November 2023, little more than six months after becoming Somerset Council it declared a financial emergency. This meant the council has faced a period of very difficult decisions to ensure that it can continue to function effectively. The scale of these challenges was not foreseen in the LGR business case but became obvious from the financial reports and developing position post Vesting Day - given the Government's recently announced plans for more widescale local government reorganisation, there are important lessons to be learned from the Somerset experience that will be of great benefit to the sector in coming months. The council has acted decisively to the emergency by introducing measures to stabilise, and control spend, engaging early with the department for levelling up housing and communities (now the Ministry of Housing, Communities and Local Government (MHCLG)) setting out the assessment of financial pressures and request for exceptional financial support to enable a balanced budget for 2024/25 to be set. The council has sought savings across all service areas, stopped all non-essential in-year spending, implemented establishment & recruitment control board, reviewed contracts, and commenced programmes to dispose of investments and assets, as well as a programme of significant workforce reductions.

The peer team recognise the significant impact of having to tackle a financial emergency whilst at the same trying to establish a new council and this has inevitably impacted upon its plans and ambitions. We commend Somerset for being proactive in tackling the financial emergency, and so far with the exceptional financial support provided, succeeding in avoiding a section 114 notice. We also note the significant toll this has taken on the morale, effectiveness and strategic progress of the council to date.

Whilst retaining sharp focus on its financial sustainability, it is now time for the council to deliver on what has already been committed and rebalance its future focus in order to further pursue its council plan objectives and to realise the full potential of LGR so that the residents of Somerset have access to the best possible services and support.

Whilst acknowledging that a degree of uncertainty will remain for some time, the council should now work to provide more clarity on the priorities, timelines and deliverables needed towards building a sustainable and well-functioning authority.

In establishing the above it will be also important that it strengthens its business planning process in conjunction with enhanced and robust financial planning, so that political priorities are clearly articulated and embedded within the organisation and in turn drive effective delivery in all service areas.

Leading the council at a time of such challenge is difficult and both political and officer leadership teams should continue to invest time in themselves for their development and growth, both separately and jointly, so that they are able to provide the Corporate Leadership needed for a successful council – a leadership team that enables the executive and senior officers to work together at the right level to address the significant challenges ahead and with sufficient capacity allocated for open and reflective dialogue to support a stronger corporate response.

Senior members and officers should reflect with some comfort that despite the difficult decisions that have needed to be taken, partners are positive about political and officer leadership and there is opportunity to leverage this confidence and positivity in order to secure commitment to achieving good outcomes for the people of Somerset.

The council has been proactive in seeking feedback from staff through this period of change. Survey responses show that staff are under enormous pressure and that morale is very low. The work on values and behaviours carried out prior to the financial emergency being declared was well received by staff, however, there is now a sense that these have been undermined by actions subsequently taken especially in relation to the workforce reduction programme. As a priority, the council should focus effort on rebuilding trust with staff and demonstrating and recognising their value in order to secure their commitment and good will moving forward. This will require visible and consistent senior leadership.

Whilst the council should be praised for its determination to tackle the financial emergency, it is important to recognise that a sustainable financial solution that delivers the long-term strategic priorities and outcomes within the council plan, will

only be achieved over the medium to longer term. Members and officers will need to be aware that there remains risks that further financial issues may materialise as the discovery phase, in relation to predecessor council, systems, process and practices, and due diligence attributed to the council, its subsidiaries and third party investments are fully completed, and any further action that may be required quantified.

As the council renews its focus and resets its broader corporate objectives, it should use the opportunity to streamline and better align scrutiny committees to reflect the new council that is evolving, balancing the need to reduce operational costs with providing focused overview and scrutiny.

Elements of the proposals for the new organisational structure raised questions within the peer team in particular the structural positioning of some statutory officers. Given the vital role statutory officers have to play in ensuring councils' viability and good governance in difficult financial times, the team question if now the time is to reposition these roles. It will be essential that these roles have the necessary influence within the organisation and are positioned in a way that enables the recruitment and retention of quality officers to these posts.

Somerset has significant economic growth potential, and the council should be more, confident in leveraging the opportunities that come from place and continue to build on the positive relationships they have with their partners. The opportunity to provide leadership through a new Economic Growth Strategy will give confidence to the wider business sector who are keen to work with the council on this shared agenda. It will also help position the council in future discussions on devolution, as well as being an active partner in the major economic growth projects across the area such as the national infrastructure project at Hinkley C as well as the Agratas GigaFactory in Bridgwater. Alongside this, the council has the potential to benefit from national and international brands such as the Glastonbury Festival and Leonardo (helicopter manufacturers based in Yeovil).

Despite the challenges that the council has had to face data shows that performance in services valued by residents has been maintained.

The inevitable focus on financial sustainability has meant that the council has not

developed a detailed vision for the future of the organisation or the place. The council leadership is all too aware of the impact of declaring a financial emergency has had and the Peer Team have sought to offer reflections on how the council can move forward with purpose, and importantly, hope.

### 3. Recommendations

There are a number of observations and suggestions within the main section of the report. The following are the peer team's key recommendations to the council:

#### 3.1 Values and Behaviours

Introduce an organisation-wide staff engagement programme that at its core should have how the council will value its staff.

#### 3.2 Finance

- Fully complete the discovery phase, identify, quantify and report any further financial risk, and develop mitigations.
- Consider the development of a two-pronged approach focusing on, developing a realistic and achievable plan for setting 25/26 budget utilising the resources available, with a medium-term forecast /outlook. Thereafter developing a balanced and sustainable MTFS, over a longer-term horizon, without the requirement for any exceptional financial support.
- Considerer the appropriate timing, that some internal control measures which were introduced to address the financial emergency, could be lifted to empower staff and demonstrate trust.
- Revisit the evaluation methodology for the divestment and asset disposal programme, to ensure the wider financial implications such as impairments and revenue costs and income foregone over the asset life, are fully integrated into the process, demonstrably considered and outlined in reports for the

decision makers.

- Produce a refreshed Dedicated Schools Grant (DSG) deficit recovery plan, which is supported by the school's forum and key stakeholders, demonstrates how current and projected need will be met sustainably, and how the council plans to recover the local deficit incurred, over the long term.
- Produce a refreshed Housing Revenue Account (HRA) 30-year business plan, reflecting agreed priorities, identified sources of funding and embedded affordability metrics such as interest cover ratio and preset minimum reserves (inflated on an annual basis) that the HRA does not fall below in any year of the 30-year plan. These metrics can be assessed annually to demonstrate the sustainability and viability of the Authority's long-term plans.
- The annual procurement forward plan should be enhanced with visible links from the development of strategies and inclusion of approved projects / programmes. Procurement compliance, commissioning and contract management also need to be strengthened to ensure the best value for money can be achieved.
- Refresh the reserves policy and risk assessment methodology to ensure it reflects local circumstances in determining the level of reserves to support the council's medium and long-term priorities, known liabilities and risks.
- Plan for a medium term and appropriately resourced transformation fund to deliver the required whole council transformation.
- Develop a more robust, evidence-based approach to priority setting supported by effective business, financial and service planning.
- Establish a programme and clear action plan for harmonisation, transparency and consistency for pay and grading, noting the likely financial impact.

### 3.3 Governance



- Capture recommendations and agreed management actions from audits and other external reviews and put in place appropriate governance to track progress on the timely implementation of the agreed actions.
- Consider streamlining scrutiny panels and leveraging their capability more effectively.
- Provide Audit Committee with appropriate financial training on an ongoing basis to help them discharge their responsibilities.
- LCN's require further development. Consider how the benefits of the LCN's can be better evaluated and communicated, reviewing form and function if appropriate.

### **3.4 Independent Advisory Board**

Given the complexity of the challenges faced by the council, consider establishing an external Independent Advisory Board that would help bolster strategic capacity, enhance assurance and maintain momentum.

### **3.5 Member and Officer Leadership**

- Promote greater member interaction and development, recognising their vital role as leaders in their localities, while simultaneously reinforcing their role as a representative for all of Somerset
- Strengthen Executive and ELT development programmes building in opportunities for joint development and refocus regular meetings to allow for strategic discussion.
- Address imbalance between officer/ Member led organisation through continued programme of Member and officer development, including “top

team” development.

### 3.6 Economic Development

- Develop a comprehensive economic growth plan that will also contribute to the future financial wellbeing of the organisation and provide clear direction in any future devolution discussions.

### 3.7 Skills and Capacity

- Initial assessment to map Member and Officer skills gaps to inform next steps.
- Ensure that statutory posts are able to have the appropriate organisational influence and that you are able to recruit and retain the experience and talent that you need for these key roles.
- Enact the plan to address the legacy systems and data issues.

## 4. Summary of peer challenge approach

### 4.1 The peer teams.

Peer challenges are delivered by experienced elected member and officer peers. The make-up of the peer team reflected the focus of the peer challenge and peers were selected by the LGA on the basis of their relevant expertise. The peers were:

- Councillor Gareth Roberts – Leader, LB Richmond Council - Member Peer
- Councillor Adam Brown – Leader of West Northamptonshire Council – Member Peer
- Gavin Jones – Chief Executive Essex County Council – Chief Executive Peer
- Denise Murray – Best Value Commissioner, Slough Borough Council – Senior

Finance Officer Peer

- George Candler – Executive Director of Place (Deputy Chief Executive) – North Northamptonshire Council – Senior Officer Peer
- Eve Roodhouse – Director of Strategy and Reform – LGA
- Emily McGuinness – LGA Peer Challenge Manager

## 4.2 Scope and focus

The peer team considered the following five themes which form the core components of all Corporate Peer Challenges. These areas are critical to councils' performance and improvement.

1. **Local priorities and outcomes** - Are the council's priorities clear and informed by the local context? Is the council delivering effectively on its priorities? Is there an organisational-wide approach to continuous improvement, with frequent monitoring, reporting on and updating of performance and improvement plans?
2. **Organisational and place leadership** - Does the council provide effective local leadership? Are there good relationships with partner organisations and local communities?
3. **Governance and culture** - Are there clear and robust governance arrangements? Is there a culture of challenge and scrutiny?
4. **Financial planning and management** - **Does the council have a grip on its** current financial position? Does the council have a strategy and a plan to address its financial challenges? What is the relative financial resilience of the council like?
5. **Capacity for improvement** - Is the organisation able to bring about the improvements it needs, including delivering on locally identified priorities? Does the council have the capacity to improve?

As part of the five core elements outlined above, every Corporate Peer Challenge includes a strong focus on financial sustainability, performance, governance, and assurance. Whilst Somerset Council have not suggested any additional focus areas,

in advance of this CPC it was agreed that given the unique set of challenges facing the council (recent Local Government Reorganisation (LGR) and the declaration of a Financial Emergency), there would be an increased focus on the financial sustainability and Capacity themes - a focus reflected in the make-up of the Peer Team.

### **4.3 The peer challenge process**

Peer challenges are improvement focused; it is important to stress that this was not an inspection. The process is not designed to provide an in-depth or technical assessment of plans and proposals. The peer team used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and material that they read.

The peer team prepared by reviewing a range of documents and information in order to ensure they were familiar with the council and the challenges it is facing. This included a position statement prepared by the council in advance of the peer team's time on site. This provided a clear steer to the peer team on the local context at Somerset Council and what the peer team should focus on. It also included a comprehensive LGA Finance briefing (prepared using public reports from the council's website) and a LGA performance report outlining benchmarking data for the council across a range of metrics. The latter was produced using the LGA's local area benchmarking tool called LG Inform.

The peer team then spent 4 days onsite at Somerset Council, during which they:

- Gathered evidence, information, and views from more than 61 meetings, in addition to further research and reading.
- Spoke to more than 180 people including a range of council staff together with members and external stakeholders.

This report provides a summary of the peer team's findings. In presenting feedback, they have done so as fellow local government officers and members.

## **5. Feedback**

### **5.1 Local priorities and outcomes**

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**President:** Baroness Grey-Thompson

Addressing the well-publicised financial emergency has clearly been the overriding organisational priority over recent months, and given the existential nature of that challenge, this is entirely understandable. Residents, staff and partners value the clarity of the council's messaging on this point and recognise the scale and complexity of the challenges the council is facing. They fully appreciate that responding to these challenges should take precedence. Members and officers should be commended for gripping this situation at an early stage and seeking advice and support – as evidenced by proceeding with a CPC at this time.

What Somerset Council does next is important, whilst the council is in 'response' mode, focus has understandably been diverted from developing and maintaining an evidence-based set of priorities that will support the needs of residents and partners. Moving forward, the council needs a more robust approach to priority setting with opportunities to influence for a wider group of members, residents and other stakeholders so that resources can be targeted appropriately, and progress effectively monitored.

The council has established a council plan ( from -to) with four main priorities:

- A greener more sustainable Somerset
- A healthy and caring Somerset
- A Fairer, Ambitious Somerset
- A flourishing and resilient Somerset

Whilst there is a high-level delivery plan which sits beneath this, in the view of the peer team this is not driving organisational activity. The Peers understand why the short-term approach to political priority setting was undertaken this year – essentially to allow financial sustainability to be the core focus. However, starting to think about what Somerset Council will deliver in the medium and longer term will be an important part of the organisational reset that must follow this period of singular focus on the financial emergency. This is a very important next step.

Purposeful priority setting must be supported by effective business planning aligned to financial and performance data. This is very much easier said than done, but it is a core discipline that is required and will define the success of the council into the medium term. Importantly, this will ensure that agreed priorities will be deliverable given the likely size and capabilities of the organisation in the future.

We understand there are plans in place to fully embed a 'Golden Thread' which will outline key priorities, how they will be delivered, potential risks and indicators of success. There is some way to go for these plans to reach maturity and form the bedrock of service delivery. Monitoring and maintaining strategic focus and capacity

on these core principles of sound organisational leadership will be vital moving forward.

Somerset Council has had to make some difficult decisions, and indeed, continues to be faced with such decisions, such as significant workforce reduction and reviewing service provision, in order to endeavour to secure the financial future of the council. This has understandably consumed organisational capacity and as this report goes on to suggest, the Peer Team are recommending an organisational reset and refocus. Such a reset will enable the council to adopt a more measured approach to responding to the financial emergency alongside reframing how it will restructure to deliver local priorities and outcomes in the medium to longer term.

The requirement to improve compliance with the councils Contract Procedure Rules, eliminate breaches and reduce waivers has been widely recognised by the council. There is a renewed focus on this area, but the improvement plan attributed to the recommendations from the audit reviews of contract management, needs to be delivered at pace, and the internal and external training aligned to procurement compliance and the forthcoming new procurement act (which is in train), proactively and extensively rolled out to relevant officers.

The council produces a procurement forward plan, which is broadly based on business-as-usual activity. A visible link from the development of strategies, programmes and business cases and projects through to procurement specifications and contract awards / contract management was not evident. There is a high likelihood that procurement resources will be constrained and a realistic strategy that can flatten the peak demand curve, by strategic forward planning based on a realistic understanding of procurement timeframes, could assist in avoiding the annual post-budget surge, procurement delays, use of waivers, secure best value in the provision of all its services, and provide the opportunity for cabinet members to be engaged in advance of the procurement cycle.

## 5.2 Performance

Somerset Council has only existed since 2023, and whilst there is performance data relating to the predecessor councils, there is limited historical data available for comparison **LGInform**. However, available data demonstrate that services valued by residents such as street scene shows that good levels of performance have largely been maintained – given the context of LGR and the financial emergency, staff should be commended for this.

The council is encouraging the use of Ideagen (a performance management system)

to promote greater ownership and accountability of performance data. They are also developing a new 'Approach to Performance Management' to align the 'Approach to Risk Management' that is being developed as the two functions become aligned on the Ideagen system. This system provides a clearer link between performance and risk management, highlighting the impact that performance and risk have on services and facilitating service development. This work is still at a relatively early stage but has the potential to ensure a robust performance management framework is developed if implemented fully and consistently across the council and the peer team commend this approach.

Regular oversight of budget, performance and risks is undertaken by Executive, Scrutiny Corporate & Resources and Audit Committee. To build upon this, the council have established a bi-monthly Performance, Risk and Budget Board, comprising officers and members. This Board seeks to provide assurance to senior members and officers and clear organisational accountability, ensuring that performance, risk and budget management are continuously monitored and optimised. The first targeted 'deep dive' at the Performance, Risk and Budget Board was provided by the Somerset Council Fostering service. Officers from the Fostering service were invited to attend and present a rounded picture of performance, risk and budget issues and opportunities. This was an opportunity for them to highlight to Board members where things were working well and also areas of concerns and barriers and to show the work that was taking place within the service. As a result of this deep dive, the measures within quarterly reporting are being amended. A programme of further deep dives is planned throughout the year and again shows a commitment to sound principles of effective performance management.

Whilst there are clearly good intentions for the future, there are risks emerging that show there is a need to focus on more effective performance management in the present. The Peer Team heard of an example relating to Temporary Accommodation figures and how data was being collected at a service level but the process to report this data a corporate level was unclear, and a deterioration in performance was not identified as early as it could have been.

The lack of an overarching corporate delivery plan is impacting on the council's ability to embed an effective performance management framework. As with many other

things at Somerset Council, plans were in place, which were subsequently paused to focus on the financial emergency. As part of an organisational reset, this work needs to be restarted to allow Somerset Council to better use performance information to inform resource allocation/service design and strengthen the 'golden thread'.

The council should recognise the importance of effective performance management for its future success and ensure that there is sufficient capacity in the new organisational structure to support the continued development of the framework and accompanying performance culture to enable the continuous improvement journey.

### **5.3 Organisational and place leadership**

The Chief Executive has demonstrated robust and decisive leadership at a time when the council most needed it and in doing so the Executive Leadership Team (ELT) needed to adopt and progress 'command and control' approach to ensure sufficient urgency and focus were brought to addressing the issues. In prioritising financial sustainability, there have been inevitable consequences for staff morale, referenced by both the recent staff survey results and the staff the Peer Team met with. The council will want to think carefully about how it empowers staff and regains their support so that the whole organisation can work towards a more positive future. Developing a comprehensive engagement and recognition approach will be pivotal to this and is a theme the Peer Team explores further in the Governance and Culture section of this report.

Standing up a new unitary council is a lengthy and complex process, even when not compounded by the scale of a financial challenge as faced by Somerset Council. The new council 'stood up' in 2023 and so is still very much in the early stages of fully integrating 5 predecessor councils into a single unitary body. It is to be expected that much of the implementation activity is still 'work in progress'. Whilst there were transition plans in place to implement the LGR Business case, the financial emergency exposed the need for more fundamental organisational redesign to achieve the scale of savings necessary. Consequently, plans to integrate and harmonise systems, structures and processes have either been paused or slowed and this is impacting on organisational capacity to both maintain service delivery and plan future service redesign.



It is positive to see that the council is working with the Society of Local Authority Chief Executives (SOLACE) to build capacity, competency and cohesion at the Extended Leadership Team level (ELT). The ELT in its current form is newly established (3 weeks at the time of the CPC) and perhaps understandably is not yet functioning as a collegiate leadership team. There are examples of service interests dominating over the greater need to all work together to both address challenges in the here and now and build a stronger council moving forward. How ELT share collective ownership, and accountability will be crucial to the future success of the council.

The Leader is valued for the role he plays in representing the council externally, with partners praising in particular the clarity of his messaging in relation to the financial emergency. Whilst all partners and external stakeholders the peer team met with were fully aware of the financial challenge facing the council, and the steps being taken in response, they were much less clear about the strategic priorities for the council as it emerges from the challenges. Crucially, partners across all sectors (business, voluntary and community) are ready and willing to work with the council to provide the best possible outcomes for the residents of Somerset, but the lack of a clear set of priorities, supported by tangible delivery plans, means they struggle to know when and how to contribute.

Partners welcome and value their relationship with the Chief Executive who is seen to provide effective personal leadership and cite the move to a unitary council has having more effectively streamlined the partnership landscape, although all the benefits that this could bring have not yet been realised. Partners understand why the focus has been on stabilising the council to date, but there is a real opportunity to double down efforts now with partners to collectively agree priorities for the county and set a clear path forward.

There are several positive examples of individual staff working effectively with partners, where relationships are built on trust and respect. This is particularly evident in the improving relationship between the council and schools where although significant challenges exist in areas such as SEND, headteachers feel that they are now able to have more productive conversations with the council. Other

partners also spoke highly of their 'named' council officer but referenced that there is a need to improve the strategic approach to partnership engagement and that the uncertainty over the futures of both individual officers and service areas is limiting the potential of truly effective partnership working.

Somerset Council engages well at both the political and officer level in the Integrated Care Board (ICB) and Integrated Care System (ICS) space. The Somerset Board is a single high-level partnership board for health, care and well-being for the county and is where the Improving Care Partnership and Health and Wellbeing Board for Somerset come together. The potential impact of this Board is enhanced by the Primary Care Trust (PCT) and the Unitary Council being co-terminous and has the potential to build on existing effective relations across the health landscape to support Somerset residents.

There are significant growth and inward investment opportunities in Somerset, and as stated in the Council Plan, many of these align with the vision of the Great South West (a pan-regional private-public partnership for Cornwall, Isles of Scilly, Devon, Dorset and Somerset) and are focused on energy transformation, defence and energy supply. The council are actively involved in the national infrastructure project at Hinkley C as well as the Agratas GigaFactory in Bridgwater. Alongside this, the council has the potential to benefit from national and international brands such as the Glastonbury Festival and Leonardo (helicopter manufacturers based in Yeovil). However, there is currently no cohesive narrative or ambitious and clearly articulated Growth Strategy for Somerset which sits above these individual projects and sets out the aspirations for the place. The Peer Team heard the council's approach to partnership working described as 'tactically effective but strategically naïve'. As the council seeks to reset and refocus on developing a more prioritised approach to service design and delivery, they should ensure they work with willing partners to harness shared capacity in the pursuit of mutually beneficial objectives. Building on the successful model of the Somerset Board to create a forum for place leadership through partnership delivery could be a positive next step.

A more coherent vision for place is an important foundation for purposeful conversations on devolution (from central to local government). Again, whilst

Somerset Council has been internally focused, the national devolution agenda has been moving at pace and to secure the best possible advantage for the place and the organisation, Somerset Council needs to continue to play an active role in regional discussions influencing the outcomes expressed at a high level in their expression of interest in devolution alongside Dorset and Wiltshire councils.

The Local Community Networks (LCN's) established at part of the unitarisation process have developed inconsistently and the value they add to all communities is not clear. The council created 18 LCN's with the intent to build capacity and resilience in communities through identifying local priorities and building effective community partnerships to:

- Shape and inform the strategic development of services.
- Locally plan and deliver community universal and preventative services.
- Attract external resources to help deliver projects.
- Increase democratic engagement; and
- Provide a voice for communities.

Those LCN's introduced as part of a pilot phase, with allocated resources, are generally seen to be performing better than those created at a later stage. Residents and partners, particularly those from the Voluntary and Community Sector (VCS) remain to be convinced about the added value the LCN's bring and in some instances referenced duplication with existing systems and structures such as Town and Parish Councils and VCS umbrella bodies. Somerset Council has pursued a successful programme of devolution of services and functions to City, Town and Parish Councils and has built community resilience in doing so, alongside protecting services valued by residents. Whilst the intent behind the LCN's as set out above is clear, their efficacy would seem to have been impacted by an inconsistent approach to resourcing. If LCN's are to be a purposeful channel of community

engagement and empowerment, their role, function and purpose would benefit from a refresh, with key stakeholders actively involved in co-designing their future form and function.

#### **5.4 Governance and culture**

Embedding an effective governance framework and a positive organisational culture following LGR is not an easy, nor a fast, process. In preparing for Vesting Day, Somerset Council prioritised being 'legal, safe and functioning' from day one, intending to finesse systems and structures over a longer 2 to 3-year implementation phase. As is the case with other aspects of the transition planning, that work has not progressed at the pace anticipated as resources have been redirected to addressing the financial emergency. That being said, the council has all the corner stones of an effective governance system including publishing an Annual Governance Statement for 2023/24 (with work underway for 2024/25). They have also undertaken a review of the Governance Framework and Constitution within the last 12 months – although it will be important to keep both under review as the shape and scope of the council continues to change as a result of the reduction in work force and the programme of service redesign needed to deliver the transformation programme to ensure the appropriate standards of governance are maintained.

The Audit Committee has a good understanding of its terms of reference and the role that it can and should play in raising the profile of internal control, risk management and financial reporting issues within the council. The Committee provides a forum for the discussion of issues raised by internal and external auditors and strong professional relationship have been established with the Internal and external audit functions, and the authority's interim section 151 officer. Examples of effective working across the scrutiny / audit committee on aligned issues were evident, which provide an opportunity to optimise the skills across the committees and officer / member time. Additional financial training has been requested but delayed due to officer resource constraints. Ensuring Audit Committee members have access to appropriate support will help them continue to discharge their responsibilities effectively, something which is especially important as the council navigates this

period of financial uncertainty.

The council has a number of outstanding recommendations from internal and external audits and other external reviews. To ensure that appropriate oversight and focus is placed on monitoring, tracking the councils progress in implementation of agreed management actions from these recommendations, they will need to be collated in a single location to ensure appropriate strategic oversight.

Statutory officer roles can be fraught with complexity and difficult judgements, in particular for authorities with financial challenges. The Peer Team expressed reservations about the ability in the proposed organisation structure for some of the officers to discharge the statutory responsibilities of the role, influence strategic discussions, and deliver the authority's strategic objectives sustainably and in the public interest, whilst not members of the Executive Leadership Team. This is at odds with the recognised best practice model of the 'Golden Triangle' and going forward, the council will need to ensure that these points are addressed, along with the ability to attract the calibre of officers required in challenging market conditions.

There are currently 110 elected members on Somerset Council with the current Boundary review recommending a reduction to 96 at the next election. In addition to area-based planning committees, Audit Committee, Constitution and Governance Committee and other regulatory committees, there are 5 thematic Scrutiny Panels.

As the council continues to transform, it is important the governance processes and structures continue to be reviewed so that they remain appropriate and proportionate to the size and function of the organisation Somerset Council is becoming rather than the one that was perhaps envisaged at Vesting Day, when the current structures were designed. Ensuring officer and member time is spent delivering maximum value to the residents of Somerset should be the focus.

There are positive and productive relationships between officers and members with opportunities for challenge and reflection. The chief executive and leader (and deputy leader) have an effective working relationship which is valued by both parties and given the difficulty of the decisions currently under consideration, the efficacy of this relationship is paramount.

The declaration of the financial emergency required a reorientation of the

organisation – the need for which is recognised and understood by officers and members alike and has enabled the council to pivot as required. However, there is a feeling of imbalance in terms of the relationship between members and officers, with officers currently inhabiting more of the organisational leadership/ownership space than they themselves would like. Neither party are content for this to continue and recognise the need for members to fulfil an appropriate political leadership role, supported by the Executive Officer Leadership Team (ELT). An opportunity to address this imbalance exists through the development of a broader set of political priorities, combined with continued self-development for the Executive, where there they can gain further confidence and effectiveness in their political leadership. The Executive are already being supported by LGA Peer Mentors and there is scope to align this support with work SOLACE are doing with ELT, with a focus on developing a truly effective ‘Top Team’ where respective roles and accountabilities are recognised and respected so that the council and the community benefits from successful political and organisational leadership.

It is positive to note that the Executive and ELT meet regularly but there is a shared sense that these meetings do not fully optimise the time effectively. Whilst it is important to have clear agendas and papers for discussion there is also value in spending time together in a more discursive way to build trust and understanding between the teams. Diarising time to spend together in a less structured way will help build that effective ‘Top Team’ and enable members and officers to work together to ensure that they are providing appropriate leadership for the organisation and place.

The Chief Executive and ELT recognise that circumstances have demanded they adopt a more ‘command and control’ approach than they intended setting out to become Somerset Council. ELT have stated an intent to move to an environment of empowerment and collaboration which is welcomed by staff at all levels. To achieve this, ELT (and the broader senior officer team) will need to proactively engage with staff, spending more time in face-to-face settings in order to re-establish contact, trust and confidence.

The Peer team recognised that empowerment and collaboration have also been significantly hampered by having 5 operational organisational structures – the workforce programme (including restructuring) and organisational redesign are

addressing this.

The Peer Team was impressed by the honesty and passion with which staff contributed to the various workshops, held as part of this peer challenge, even at a time of such heightened emotion and stress and feel that there is a genuine willingness to engage, should the right channels be made available. 'Dragon's Pen' - an internal communication channel was referenced in several sessions as a welcome starting point for purposeful internal communications with the Chief Executive or Leader's blog being particularly well received, bolstering this with more opportunities for two-way conversations would be a constructive, and an easily achievable next step.

The Values and Behaviours designed in collaboration with staff ahead of the current financial emergency landed well at the time and were well regarded by staff. Trust in these has understandably been damaged as a result of the decisions that have had to be taken in recent months, but the situation is not irretrievable if proper time is given to quality staff engagement. Bringing staff with them will be critical to any future success in the council and there is a finite window of opportunity to achieve this.

The spectre of LGR still looms large at Somerset Council with some members and officers continuing to be unhappy with the plan to establish a single unitary council. Whilst perhaps this is understandable given the levels of personal commitment and dedication to the various predecessor councils, this mindset is not constructive at a time of limited strategic capacity and residents and staff would be much better served if all energies are focused on securing a better future for Somerset.

## **5.5 Financial planning and management**

As a new unitary subject to a financial emergency the council is still developing its operational awareness, overcoming data challenges and building its maturity in financial monitoring and reporting. It is to be expected that there will be a degree of uncertainty around growth and savings estimates. The council's Interim s151 Officer is a full member of the Senior Management Team, and this is critical for the prominence and the governance of the finance function. Officers are working positively to address some of these challenges and are improving the quality of the financial forecasting, monitoring and reporting, providing insight and aiding evidenced

based decision making, and it is vital that this is maintained.

The peer team felt that there is some fragmentation in the financial reporting of the council's General Fund, Housing Revenue Account, Dedicated School Grant and Capital and there is a lack of routine monitoring of balance sheet risks in management account reporting. This reduces the councils understanding of the links between the funds, opportunities and risks and the overall financial implications and for the council. In order to address this, the peer team recommend integrated financial monitoring reports, including all revenue and capital funds, savings, and identified balance sheet risks, to ensure the financial implications can be better understood across all elements of the councils operations, and the Executive and Leadership team have access to the information it needs to identify and correct emerging risks to its budget strategy and financial sustainability at the earliest opportunity.

The consolidation of the five predecessor authorities including operating systems, working processes and practices and the inevitable loss of subject matter expertise and corporate memory which have resulted from workforce restructures has meant that there are gaps in business and financial reporting to the council in several areas such as homelessness activity and pressures, wholly owned subsidiary companies, Joint Ventures and Non-Treasury third party investments. There are no publicly available recent reports that set out the medium to long-term business plans or context for the ongoing commercial investments, due consideration of current risk and reward, implications on the council's revenue accounts and balance sheet and any impact on the achievement of the authority's priorities.

The table provided by officers indicated that there have been third party loans issued by the council over the period 2014/15 – 2020/21 with terms ranging between 1 and 27 years and outstanding balance of £47.4m as of 31 March 2024. Some payment defaults and / or deferrals are evident which present a risks of credit losses. The council should ensure any financial risks are identified, understood, reported and mitigations developed.

In confirming that there are no further financial risks to which the council is exposed the discovery phase should be fully completed and due diligence reported, on the



financial position of each wholly owned subsidiary company, Joint Ventures, Non-Treasury third party investments and loans. This should include any warranties, indemnities, parent company guarantees or letters of support provided by constituent councils for which appropriate provisions should be in place. Thereafter effective 'line of sight' and accountability arrangements for these investment types should be maintained.

The timely delivery of high-quality financial reporting and external audit is vital for the provision of accountability, transparency, and assurance, for local people and elected representatives, over how public money is spent. In tackling the worsening backlog in local audit and restoring the system, the government has set a backstop of 13 December 2024 for bodies to publish audited accounts for all financial years up-to-and-including 2022/23 and 28 February 2025 for financial year 2023/24.

The backstop date creates time constraints that could prevent the auditor from completing all necessary procedures to obtain sufficient appropriate audit evidence to complete audits in full by the backstop date. Where this is the case, auditors will issue 'disclaimed' or 'modified' audit opinions. The council and its auditors have prepared and audited nine sets of outstanding statement of accounts 2020/21 to 2022/23 (10th imminent at the time of the review) and opinions published without a disclaimed or modified opinion prior to the 13 December 2024 audit backstop date.

This provides a strong foundation, setting out the council's financial position and financial direction of travel, which is pertinent to the council's future strategy and decision-making. The commitment of the finance teams, auditors and audit committee should be commended for their work in this regard. However, with a 28 February 2025 backstop date for 2023/24, there will be insufficient time (due to the council's scale and complexity) to complete a full audit of the 2023/24 accounts. A 'disclaimed' audit opinion is likely to be issued which may also present a knock-on impact for the 2024/25 financial year. Careful consideration will need to be given by the finance and audit teams of the specific areas that can be focused on to minimise the impact of the disclaimed opinion.

The peer team recommend the council engage with their external auditors and MHCLG to seek to limit the risk that a disclaimed opinion driven by the February

2025 backstop date, could have on the statement of accounts for financial years 2023/24 and 2024/25.

The councils' deficit on the Dedicated Schools Grant (DSG) is reported to be £36m in March 2024 and projected to increase. The DSG conditions of grant (for 2023/24 and 2024/25), require that any local authority with an overall deficit on its DSG account at the end of the 2023/24 financial year, or whose DSG surplus has substantially reduced during the year, must present a plan to the Department for Education (DfE) for managing their future DSG spend. A local DSG recovery plan was not available for the peer team to review or referenced in the councils' financial reports.

A time limited statutory override is in place, which temporarily permits the deficit to be held separately in the accounts (with a redirection of resources from alternative sources to finance this expenditure), whilst providing additional time for longer term plans to be delivered. The statutory override does not provide additional funding; therefore, following expiry of the override any remaining deficit will form part of the revenue accounts and will need to be repaid. The projected deficit indicates that this would present a risk to the council's financial sustainability.

In the peer teams view, the council should look to develop a refreshed deficit recovery plan supported by the schools forum and key stakeholders to demonstrate how local need (current and projected) will be met and how the council plans to recover the local deficit incurred, recognising that the management of DSG balances, both bringing spend in line with income and repaying local deficits, will take time, require a whole council approach and partnership support.

The Housing Revenue Account (HRA) must operate as a long-term business and the council is required to prepare a 30-year Business Plan for the HRA on an annual basis, covering the spending plans for both capital and revenue over that period. The purpose of this exercise is to keep the long-term financial viability of the HRA under regular review and demonstrates that the investment ambition over the 30 years can be funded sustainably.

Local authority housing is under severe financial pressures. With the challenges from inflation, the need to address investment into the existing stock, increased regulatory scrutiny, the continued need for new affordable homes, preparing robust and fully

stress tested HRA Business Plans has never been more important.

Whilst the updated business plan for the council is showing a significantly improved position in 2024/25 (in comparison to 2023/24), the key principle of long-term viability is still not achieved. The council's plans need to be underpinned by a long-term funding strategy, with clear affordability and resilience metrics embedded in the councils Capital Strategy, which can be assessed to demonstrate that the plan is sustainable with resilience measures in place to mitigate potential risks.

Moving forward, the council should look to produce a refreshed HRA 30-year business plan, reflecting agreed priorities, identified sources of funding and embedded affordability metrics such as interest cover ratio and preset minimum reserves (inflated on an annual basis) that the HRA does not fall below in any year of the plan. These and other metrics can be assessed annually to demonstrate the sustainability and viability of the Authority's long-term plans.

The council's asset portfolio is expected to contribute towards the council's existing financial challenges. Implementing an asset disposal strategy requires a strategic and structured approach that is not yet fully embedded at the council. A framework which consistently and transparently assesses the range of values that a given asset provides (including strategic, economic, operational, social and environmental), along with a focus on the role that the asset portfolio can play in maintaining and enhancing the council's medium to longer term financial sustainability, will ensure that the decision maker can consider all options in supporting recommendations for disposals.

The alignment of the asset disposal programme to the 'future state' target operating model i.e. how the council will operate in the future following a programme of workforce reduction and transformation is not evident. This presents a risk that the policy direction aligned with this objective may not be achieved and the true value of the asset to the council not optimised.

Beyond the potential wider impact on services, the community, or the economy, it is critical to ensure that the financial implications are fully integrated into the divestment

and property disposal process reported appropriately to all decision makers. In evaluating the financial feasibility of a sale, factors such as market value, the asset's net value, cost of sale, impairments, potential income loss if sold, potential benefits from utilising receipts to pay down liabilities, service delivery implications and associated costs should be considered. Subject to the outcome of this evaluation an orderly asset disposal programme could be implemented, which is aligned to current market conditions.

The evaluation methodology for the divestment and asset disposal programme should be revisited to ensure the wider financial implications such as impairments and revenue costs and income foregone over the asset life, are fully integrated into the process, demonstrably considered and outlined in reports for the decision makers.

The council recognises that following the reorganisation there is a significant need to resolve any issues of market pay and is planning accordingly. This work should be completed in a systematic and timely manner with steps taken to avoid future pay problems which may potentially arise from further restructuring, and that risks of affordability issues are appropriately addressed. Ensuring effective engagement with staff and recognised Trade Unions throughout this process will be vital.

It is a legal requirement for the council to set an annual budget and for that budget to be balanced or fully funded. The annual budget should be seen as part of a longer-term financial strategy and good practice is that a balanced budget over the period covered by the Medium-Term Financial Strategy or Plan that is sustainable, resilient and robust is achieved.

In an environment where the primary focus over a prolonged period is cost cutting and the savings still to be identified, there is a danger that the council becomes financially fixated, consumed with closing the immediate financial gap, with a lack of resources and strategic focus on the long-term ambition. Lack of clarity on the strategic vision, savings fatigue, uncertainty of job security and low morale, are all impacting on the ability for Somerset Council to take a collective one council approach, think strategically about reform and transformation and further optimise the opportunities from its scale, partnerships and economic prospects. To enable the

council to overcome the financially challenging situation and move from surviving to thriving, the peer team suggest a recalibrated approach that seeks to reset and refocus plans and activity adopting a short and medium to long-term structure.

In the short term, priority needs to remain focused on creating stability and confidence in the council's immediate financial viability. This can be achieved by undertaking the due diligence required on both the pipeline growth and savings proposals and developing robust business cases to underpin a collectively owned realistic and achievable plan. This will enable a fully funded budget to be achieved in 2025/26 utilising the resources available. This should be accompanied by a medium-term financial outlook reflecting agreed proposals with key assumptions and forecasts which can measure the scale of uncertainty, residual budget gaps and enable decisions to be made and inform future planning.

In the medium to longer term the focus should be to restore financial sustainability over the medium-term financial planning period, with a clear focus on delivery of the long-term strategic priorities and outcomes within the Council Plan. This should include transformational changes that embrace the council's ambitions around early intervention, prevention, demand management, collaboration with communities, partners and businesses community as well as inclusive economic growth plans and an in-built resilience in the council's reserves.

A reserves policy outlining the details of the forward strategy for reserves is needed to support the council's medium to long term spending plans, supported by an assessment of the action to mitigate or remove risks. This may lead to a higher or lower level of reserves being required where appropriate action to mitigate or remove risks has been successfully undertaken.

The scale of the financial challenge is significant, but the council can meet it. Any residual discovery work needs to be swiftly completed with the underlying budget gap, risks and reserve position clearly set out, presenting one version of the truth, which is understood internally and externally. This will confirm the scale of the financial challenge and help to mobilise action to address it, which should include a clear focus on delivering the agreed cashable savings. There are a range of mechanisms and opportunities at the council's disposal, provided it takes the

required action in a timely manner.

As already referenced Somerset Council has declared a financial emergency, has engaged proactively with MHCLG and are progressing discussions around Exceptional Financial Support (EFS). In order to secure this additional financial support, MHCLG have commissioned a CIPFA review to inform ministerial decision making.

Importantly, the council has scale, economic opportunities and indication that staff, members and partners are willing to collaborate to collectively address the challenges and deliver on the councils' ambitions within the relevant financial envelope. The council should be confident in its ability to deliver the changes required to thrive.

## 5.6 Capacity for improvement

Ahead of this Corporate Peer Challenge, Somerset Council commissioned an LGA 'Transformation Deep Dive' – a process led by experienced Transformation Peers from across the sector who over a period of two days, evaluated the council's approach to Transformation. The information from that exercise was used as a source of evidence for this Corporate Peer Challenge, and in line with LGA methodology, the peer team sought to triangulate the reflections of the 'Deep Dive' team.

Delivering an effective Transformation Programme is of existential importance for Somerset Council, given the depth and breadth of financial savings required. A simple first step is to agree a shared understanding of what transformation means for Somerset Council. Calling the current programme of workforce reduction 'transformation' has damaged the brand, with staff and members losing sight of the

more genuinely transformative ambitions as stated prior to vesting day. A refreshed and refocused council-wide Transformation programme, adequately resourced, is a non-negotiable in terms of securing the financial sustainability of the council. There needs to be universal recognition that no service is either exempt nor immune from the need to engage in the Transformation Programme and contribute to delivering the financial savings required.

Responding to the ongoing financial emergency has limited the capacity and capability of the organisation – an inevitable outcome following a such a programme to reduce the workforce by in the region of 670 full time equivalent posts. Whilst the focus has been on the financial savings, the wider risks of losing corporate memory and hollowing out of the corporate centre have not been sufficiently mitigated through a sound approach to succession planning. Given the priority of delivering the proposed Target Operating Model (TOM) and the associated service and process re-design, it is important that there is enough corporate capacity to lead this work well so that all intended benefits are realised.

The TOM is still at a formative stage but has the potential to provide an operating framework, aligned to a set of refreshed values and behaviours and structured around the five thematic areas of:

- Governance and decision making
- people and skills
- digital and technology
- service and process design.
- Data and insight.

The intent behind the TOM is clear and commendable, however, ensuring that there is a clear plan and appropriate corporate capacity in place to support its delivery will be key. The Peer team heard many references to the role digital and technology innovations will play in future service delivery including enhanced use of Artificial Intelligence and there are existing examples of using MS Co-Pilot to improve services. However, for these opportunities to be fully realised, the council must ensure legacy system integration and harmonisation is equally prioritised – there are

examples of services unable to produce statutory reports because they are working on multiple IT systems and relying on poor quality data. Significant investment will be needed to address these issues and at pace given the reduction in workforce capacity. Ensuring this work is completed at the earliest opportunity will give the council the best chance to deliver their TOM ambitions.

One of the themes of the TOM is Service and Process Design and the council should seek to protect skills and capacity in this area. Design skills are an important capability for any Council and their value has already been proven in the council's approach to service and process redesign with Adult's Social Care. Consideration should be given to securing design and continuous improvement skills for broader corporate benefit.

The work that has already been done to deliver the workforce reduction programme is significant and has been done at in a short space of time, driven by the financial imperative. It is unsurprising that morale in the council is low and senior members and officers are acutely aware of this. There are of course, sensitivities around articulating what the future will look like as so many staff are facing uncertainty, but if the council is to retain the right capacity and competencies, senior leaders must start to articulate their vision for the future for both the council and the place. Whilst morale is low, many staff are still hopeful for the future. Once the restructure has landed and all people are in post, the council should design a staff programme that rebuilds morale, trust and confidence and helps all staff to feel valued – such as reintroducing long service awards and staff recognition schemes so that the stated ambition to collaborate on service design can be achieved. The completion of the planned pay and grading review will be an important part of this and will help the council to recruit and retain the right skills moving forward.

The peer team do not underestimate the sheer scale of all that the council is trying to deliver against a uniquely challenging backdrop, and it is thanks to a talented and committed workforce that the changes to date have been achieved. As referenced earlier in this report, the current pace and scale of change will be hard, if not impossible, to maintain and building in time and space to pause, reflect and adapt current and planned activity is important. Given the complexity of the challenges ahead, the council should give consideration to establishing access to independent



and relevant advice via an independent Advisory Board. Such a Board would bolster strategic capacity and maintain momentum over the short to medium term and provide an additional layer of assurance to internal and external stakeholders. Details such as the membership, scope and function of such a Board would be for the council to agree, building on the learning from others in the sector who have already adopted such an approach to garnering additional support.

## 6. Next steps

It is recognised that senior political and managerial leadership will want to consider, discuss and reflect on these findings. The LGA will continue to provide on-going support to the council. Following publication of CPC report you need to produce and publish an Action Plan within 5 months of the time on site. As part of the CPC, the council are also required to have a progress review and publish the findings from this within twelve months of the CPC. The LGA will also publish the progress review report on their website.

The progress review will provide space for a council's senior leadership to report to peers on the progress made against each of the CPC's recommendations, discuss early impact or learning and receive feedback on the implementation of the CPC action plan. The progress review will usually be delivered on-site over one day.

The progress review at Somerset Council will be conducted in September 2025.

In the meantime, Paul Clarke, Principal Adviser for the South West, is the main contact between your authority and the Local Government Association. As outlined above, Paul Clarke is available to discuss any further support the council requires.

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