
Somerset Council – Assurance – Balance Sheet Review

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Summary

1. As part of the Financial Strategy approved by the Executive was an action to complete a financial sustainability and resilience review for Somerset Council in the light of 2022/23 statement of accounts for the five-predecessor councils.
2. The purpose of this review was to provide some assurance by compare Somerset's opening Balance Sheet position against the nine neighbouring unitary authorities that are most similar to Somerset in terms of population size and location. The review has been undertaken independently and is set out in Appendix 1.
3. Overall, the review found that the new Council was relatively well placed at 1 April 2023, with net assets of £2,500 per head of population and useable reserves of £750 per head. Despite this, the new Council had some significant financial issues to address. These included high levels of short-term variable rate borrowing, legacy investments in commercial property and limited companies, and the need to utilise earmarked reserves to balance the 2023/24 and 2024/25 revenue budgets. Action has been taken to date as follows:
 - the Council has used available cash balances to minimise new borrowing and to repay short-term loans. Consequently, the value of investment holdings has fallen from c£300m at 1 April 2023 to £183m at 30 September 2023, and short term borrowing has fallen by over 50%, from £278m to c£160m

- the Council has decided to dispose of all investment property, and company shareholdings are also being reviewed with a view to winding-up or onward sale, and
 - earmarked reserves have either been repaid to third parties or utilised to support revenue budgets. By 1 April 2025 it is anticipated that General Fund earmarked reserves will have reduced from £291m to c£75m.
4. The report identifies a number of issues for the Council to consider and a suggested action plan is provided. Key issues are:
- to maintain financial resilience, we recommend that General Fund working balances are kept, as a minimum, at the current level of 5% of net revenue expenditure. Robust processes need to be established to control the use of remaining earmarked reserves and to match growth items in the revenue budget with achievable savings plans.
 - Somerset is carrying lower levels of liquid cash balances than most of the comparator authorities and is experiencing cash-based budget pressures in the current financial year. Detailed cash flow management is needed to avoid unplanned borrowing and ensure there is sufficient cash available to meet the Council's needs.
 - the Council should, as a priority, develop a more proactive approach to asset disposals and rationalise asset use. This would reduce revenue costs and generate capital receipts which could be used to fund new capital investment or reduce existing debt.
 - calculation methods for bad debt provisions and Business Rates appeals provisions at 1 April 2023 should be reviewed. These were not consistent between the previous five authorities, and did not, in our view, represent adequate provision to address non-payment risks.
 - there is scope to make additional employer contribution payments into the pension fund, to reduce pressure on revenue budgets going forward, and
 - there was a DSG deficit of £20m at 1 April 2023 with a projected deficit of £100m at 31.03.26 when the statutory exemption ceases. The Council needs to prioritise successful delivery of agreed recovery plans, and start to make

realistic provisions in respect of any remaining deficits expected at 1 April 2026 when the current statutory over-ride expires.

5. The report identifies several issues for the Council to consider and a suggested action plan is provided with 27 areas of action. All of these are except, some have already been addressed and some are in the process of being addressed. It is recommended that a report setting out progress on these is produced for the next Audit Committee.

Recommendations

6. The Audit Committee:

6.1. Reviews the Balance Sheet Review and receive a progress report on the actions at its next meeting.

Financial and Risk Implications

7. It is clear that the scale of financial challenges facing the Council are significant. There is also more risk and uncertainty for the new Council until all the external audits of the 2022/23 accounts from the predecessor councils are finalised. Given the size of the updated budget gap, Strategic Risk ORG0057 Sustainable MTFP has the highest score possible.

Likelihood	5	Impact	5	Risk Score	25
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Implications

8. As set out in the Balance Sheet Review.

Legal Implications

9. There are no direct legal implications of this report.

Background Papers

10. Monthly budget monitoring reports to Scrutiny & Executive
11. Financial Strategy report to July 2023 Executive

Appendices

Appendix 1 - Balance Sheet Review of Somerset Council