Somerset Council

Balance Sheet Review

December 2023

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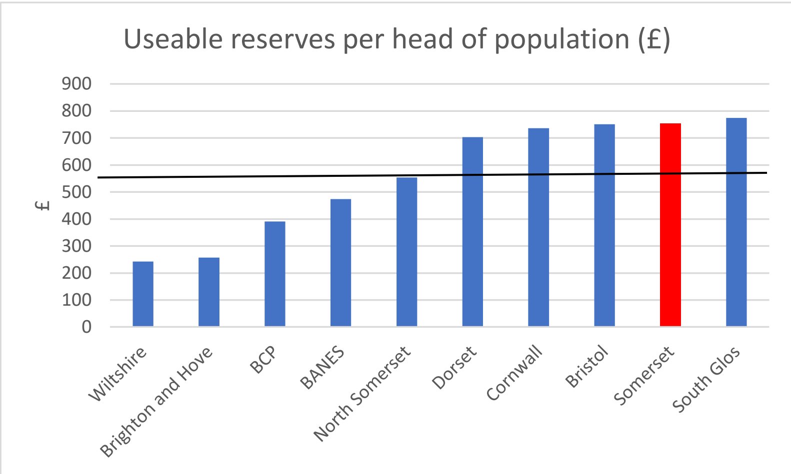
1. Introduction and Summary

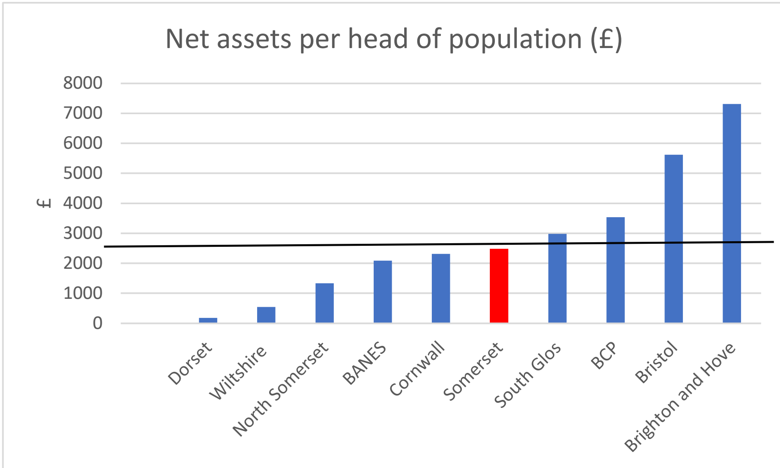
Somerset Council is a new unitary authority, serving a resident population of 573,100 and a geographical area of 1,333 square miles. It was formed on 1 April 2023 from five previous local authorities as shown below (see Appendix 1 for further details):

Balance sheets at 31 3 2023	£m Somerset County Council	£m Somerset West and Taunton	£m Mendip	£m Sedgemoor	£m South Somerset	£m Total
Total assets	1,420	617	119	396	253	2,805
Total liabilities	(727)	(234)	(92)	(163)	(173)	(1,389)
Net assets	**693**	**383**	**27**	**233**	**80**	**1,416**
Total useable reserves	235	81	15	54	47	432
Total unuseable reserves	458	302	12	179	33	984
Net reserves balance	**693**	**383**	**27**	**233**	**80**	**1,416**

Source: Published Statements of Accounts 2022/23

The purpose of this review was to compare Somerset's opening Balance Sheet position against the nine neighbouring unitary authorities listed in Appendix 2. These authorities were selected because they were most similar to Somerset in terms of population size and location. Overall, we 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 as shown below:





Source: Calculations based on 2021 Census data and most recently published Statements of Accounts. Black lines represent group average.

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.

This report identifies a number of issues for the Council to consider and a suggested action plan is provided in Appendix 3. 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.

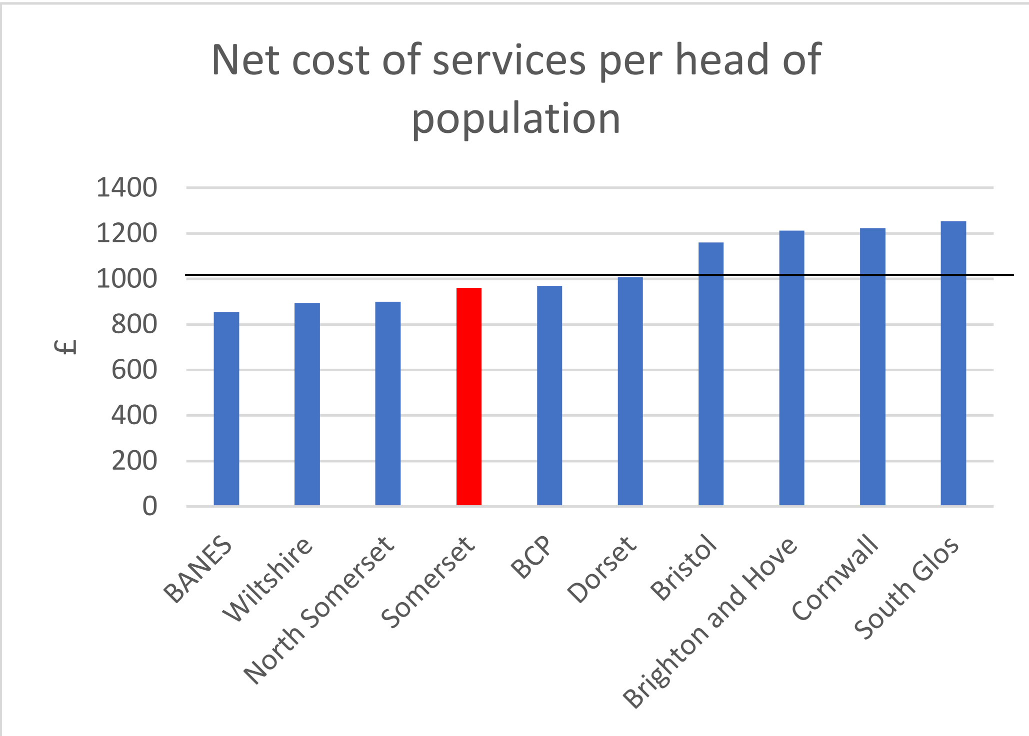
2. Net cost of services

Two key indicators were identified:
• **How does net cost of services per head of population compare to other authorities?**
• **How is revenue spending funded?**

Net Cost of Services per head of population

For this particular group of authorities, net cost of services per head of population ranged from £855 per annum up to £1,250. At £960 in 2022/23, Somerset's spending on services was just below the average level of £1,050.

Graph 1 – Net cost of services per head of population



Source: Population data from 2021 Census plus net cost of services data taken from most recent published Statement of Accounts. Black line denotes group average.

Significant spending pressures have been identified when setting the 2023/24 and 2024/25 budgets, and a key challenge for the new authority will be to maintain spending at this level by matching growth items in revenue budgets with achievable savings plans.

Funding for revenue budgets

Funding for revenue budgets comes from a combination of central government grant funding, fees and charges for services, and local taxation (council tax and business rates). Table 1 below suggests that Somerset Council receives relatively less income from fees and charges for services, so there may be scope to increase these going forward. A fees and charges review based on relevant comparative data from other authorities should be carried out each year as part of the budget setting process.:

Table 1 – Analysis of revenue income

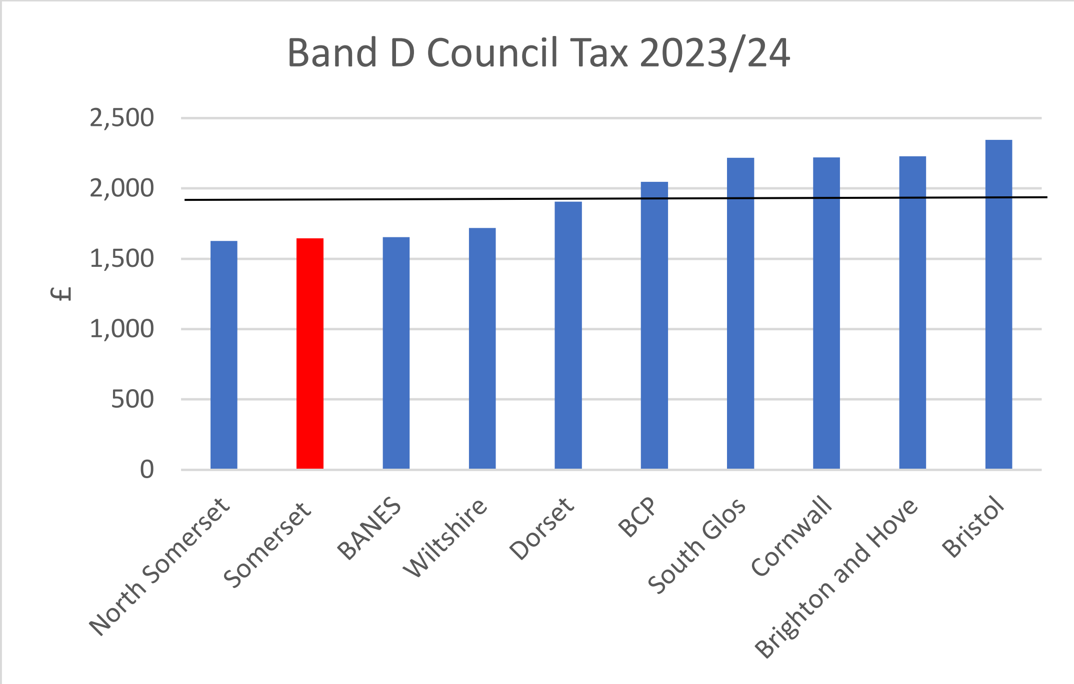
	Fees and charges	Council tax and Business rates	Grants and Contributions*	Other income	Total
Somerset %	14	30	55	2	100
Average %	23	32	41	4	100

Source: Analysis of income and expenditure provided in most recent published Statement of Accounts.

**For Somerset CC this includes £195m "Contributions" in 2022/23.*

Total income raised from local taxes at Somerset is in line with comparator authorities overall, and Council Tax increases for 2023/24 were set at 4.99% in line with other authorities in the comparator group and with most local authorities in the UK. However, Council Tax levels in Somerset are second lowest in this group for a standard Band D charge in 2023/24, which partly reflects the historic decision to freeze Council Tax levels for six years between 2010/11 and 2015/16.

Graph 2 – Band D Council Tax 2023/24



Source: [www.gov.uk/government/statistics/council-tax-levels-set-by-local-authorities-in-england-2023-to-2024.](www.gov.uk/government/statistics/council-tax-levels-set-by-local-authorities-in-england-2023-to-2024) Black line denotes group average.

Annual increases to Council Tax are capped by central Government. There is an option for authorities to hold a local referendum seeking residents' approval for additional increases, but no councils in England have exercised this option successfully to date.

Recommendations

R1. The Council should aim to maintain net cost of services at current levels by matching growth items in the revenue budget with achievable savings plans.

R2. The Council should review fees and charges annually as part of the budget setting process.

3. Capital investment and funding.

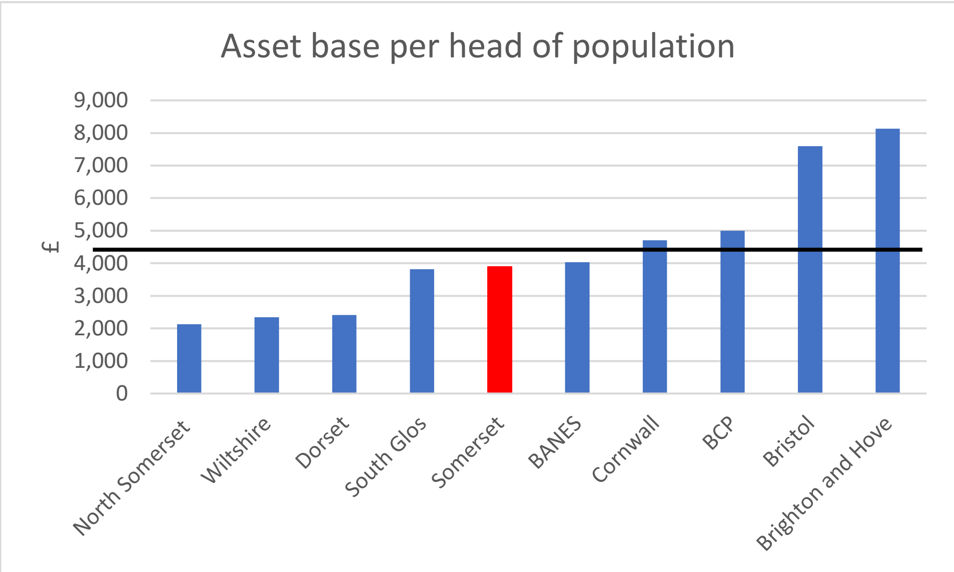
Four key indicators were identified:

- **How do overall levels of capital investment compare to similar authorities?**
- **Is there a focus on maintaining and improving operational assets used to deliver core services?**
- **Are funding strategies appropriate?**
- **Does the Council have a proactive approach to reviewing asset use and generating capital receipts?**

Overall levels of capital investment

The Council's non- current asset base mainly comprises operational land and buildings, infrastructure assets and investment properties. At just under £4,000 per head of population, this is in line with the average for this comparator group.

Graph 3 – Non-current asset values per head of population



Source: Carrying value of operational PPE, heritage assets, intangible assets and investment property per most recently published Statements of Accounts. Population data from 2021 Census. Black line denotes group average.

The Prudential Code requires local authorities to report to members an estimate of the total capital expenditure for the current year and forthcoming next two years. CIPFA recommends an even longer-term planning process, which includes an assessment of capital investment and funding requirements over the next 3-5 years. This process will need to be established at the new authority, and should be based on:

- an up-to-date assessment of the current portfolio's maintenance needs and key assets estimated remaining life
- a realistic assessment of the capital funding which will be available, and revenue budgets for ongoing maintenance needs, and
- a gate-keeping process to assess capital bids based on affordability, service priorities and value for money.

Examples of good asset management plans and capital investment strategies can be found on www.bolton.gov.uk/council-property-assets.

Operational vs non-operational investment

Table 2 below suggests that the carrying value of Investment Property and Infrastructure assets at Somerset on 1 April 2023 was higher than the average for this comparator group.

Table 2 – analysis of non-current assets

	Somerset %	Average %
Social housing	26	29
Land and buildings	34	37
infrastructure	24	21
Investment property	13	6
Other assets	2	7
Total	**100**	**100**

Source: Most recently published Statements of Accounts.

96% of infrastructure assets were previously in County Council ownership and are being depreciated over 25 years. This appears to be in line with CIPFA's recently published guidance for practitioners (*Bulletin 12, Accounting for Infrastructure Assets*) but the County Council's 2022/23 financial statements acknowledge that, as for many highways authorities, there are shortcomings in the quality of the underlying information relating to these assets which will need to be addressed. Bulletin 12 contains some practical guidance for authorities in this respect.

Investment properties were previously held by district councils, principally South Somerset and Somerset West and Taunton. This portfolio was valued at £295m at 1 April 2023. 2022/23 financial statements reported an overall net return of 9% from a combination of revenue income and capital growth, which was significantly better than the average return of only 1% reported by comparator authorities, However, work undertaken by the new authority has established that after allowing for voids, debt charges and management fees, the properties are expected to report net operating losses of c£3m in 2023/24, and their market value has reduced from £295m to £220m, a reduction of almost 25%.

In November 2023, the new Council decided to dispose of these investments and has appointed Jones Lang Lasalle (JLL) as advisors to market the properties in 2024/25.

Funding strategies

Across all five previous authorities, capital investment in 2022/23 was primarily funded from government grants. Funding from revenue contributions and capital receipts, although low, was in line with the other authorities. Funding from borrowing however was higher than all other authorities in this comparator group.

Table 3 – Capital investment funding

	Somerset %	Average %
Grants and contributions	48	52
Capital receipts	8	9
Revenue	21	25
Borrowing	22	15
Total	**100**	**100**

Source: Most recently published Statements of Accounts.

In this context, "borrowing" includes use of available cash and investment resources as well as external borrowing, but the use of either form of funding has obvious implications either for capital financing costs, as set out in section 4 below, or for future investment income. We are aware of other local authorities with capital funding policies which:

- aim to generate significant funding from capital receipts and section 106 income,
- aim for an equal split between grants, borrowing and other sources of finance,

- aim to maintain external borrowing and/or the capital financing requirement at current (or reducing levels), or
- only approve capital projects which can be funded from sources other than borrowing.

Asset disposals and capital receipts

The value of the Council's current asset base indicates there may be scope to generate capital receipts from disposals by rationalising asset use. 2022/23 financial statements suggested that minimal asset sales were being pursued, with only £5m of assets identified as being either held for sale or surplus to operational requirements. Although more ambitious plans are being put in place for 2024/25, the Council does not yet have a stand-alone asset disposal strategy, or any structured process in place for reviewing and rationalising asset use.

Other local authorities have a much more proactive approach to identifying and selling surplus assets. Rationalising asset use could also help to reduce revenue costs in terms of insurance, maintenance, fuel and utilities as well as reducing debt costs and helping to re-balance capital investment strategies as discussed above. Some local authorities have also integrated a commitment to reviewing current asset use into their carbon reduction, energy management and sustainability plans.

Recommendations

R3. The Council should develop a rolling 3–5-year capital programme in line with the requirements of CIPFA's Prudential Code.

R4. To inform capital programme development, the Council should carry out property surveys and assess current maintenance needs.

R5. The Council should improve the quality of the underlying information on infrastructure assets in line with CIPFA Bulletin 12.

R6. The Council should aim to reduce its dependence on borrowing to fund capital investment plans.

R7. A more pro-active approach to reviewing asset use and disposing of surplus property would help to reduce future debt charges and revenue costs as well as providing funding for capital investment plans.

4. Cash holdings and investments

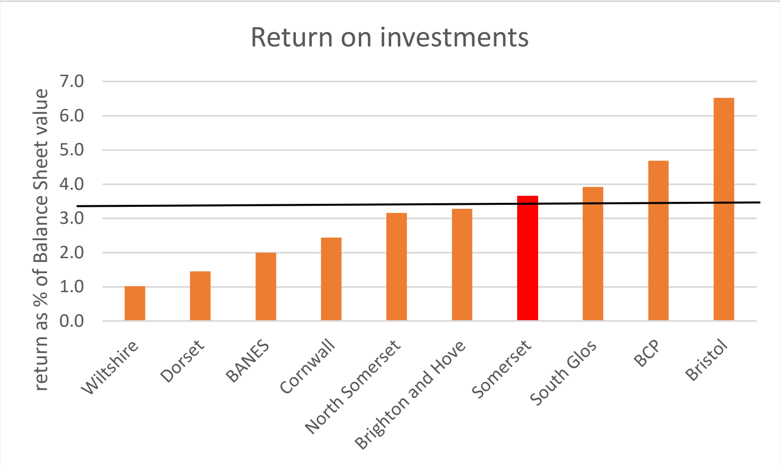
Three key indicators were identified:

- **Are investment returns in line with other authorities?**
- **Are cash balances adequate?**
- **Are investments in Council-owned companies achieving expected returns?**

Investment returns

Investment returns averaged 3.75% across long- and short-term investments and long-term debtors at the five former authorities in 2022/23. This bettered the group average of 3.2% as shown below:

Graph 4 – Investment returns



Source: Calculations based on most recently published Statements of Accounts. Black line represents group average.

The Council's 2023/24 budget assumes the same 3.75% return for the current financial year. Notwithstanding that last years' returns compared favourably with neighbouring authorities, investment benchmarks going forward should be based on a realistic assessment of the following factors, in addition to historic performance achieved:

- expected changes in the investment profile during the year,

- other investment options available, and
- forecast investment performance,

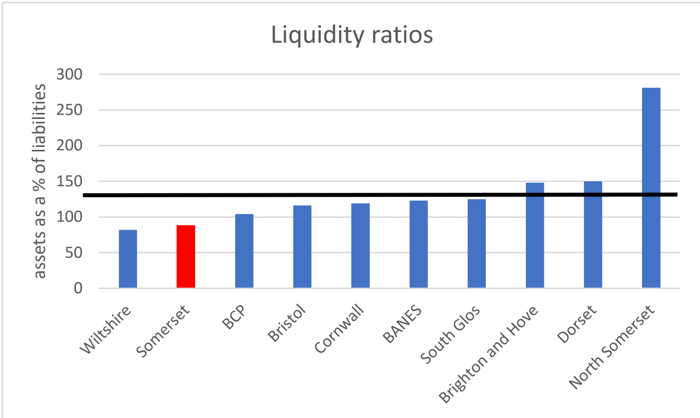
At Somerset, the value of short-term and long-term investment holdings has fallen from c£300m at 1 April 2023 to £183m at 30 September 2023. Out of this remaining balance, 63% relates to pooled funds which are currently priced lower than the initial cost and this downward capital revaluation should be reflected in reported (and anticipated) investment returns. It should also be noted that c£85m of investment assets represented cash held on behalf of 3rd parties such as the NHS, Exmoor National Parks Authority and the Somerset Police and Crime Commissioner. Any investment income relating to these assets should also be reported as belonging to the relevant third parties and not to the Council.

Cash balances and liquidity

At 1 April 2023 the new Council had higher levels of long-term investments than the average for the comparator group, and lower cash balances, as shown below. To maintain day to day service delivery it is essential for the Council to be able to pay both service-based and treasury management liabilities as they fall due. The group position on liquidity at 1 April 2023 is shown below:

Graph 5 - Investments analysis and liquidity ratios

	Somerset %	Average %
Long-term investments	19	11
Short-term investments	54	54
Long-term debtors	17	15
Cash	9	20
Total	**100**	**100**



Source: Most recently published Statements of Accounts. The liquidity position of each authority has been assessed by comparing the total of trade payables, bank overdrafts and short-term borrowing against short term debtors, cash balances and short-term investments. The black line denotes the group average.

Councils choosing to operate with lower cash balances require detailed cash flow management to ensure that on a week-by-week basis there is sufficient cash available to meet expected both service-based and treasury management needs. This is particularly important for a council like Somerset which has significant cash-based budget pressures in the current financial year. Looking forward, we recommend that:

- Treasury Management strategies include a clear and explicit assessment of the Council's minimum operational cash need, and
- detailed cash flow management processes are put in place to avoid unplanned borrowing.

Council-owned companies

A summary of the new Council's principal corporate investments at 31 March is provided below:

Table 5 – Limited company loans and investments

Former authority	Group interests identified
Somerset County Council	1 associate interest (Futures for Somerset) - not considered material
Somerset West and Taunton	no company interests identified
Mendip	1 wholly owned company - dissolved May 2023
Sedgemoor	3 subsidiaries - total reserves £3m at 31 March 2023
South Somerset	3 subsidiaries - total reserves £24m at 31 March 2023

Source: Published Statements of Accounts.

Based on this analysis, Somerset does not have to deal with the significant financial issues experienced by some other local authorities in relation to trading losses and loan defaults generated by limited companies. No impairments in respect of these investments would currently seem to be necessary, however delivering services through separate trading vehicles inevitably presents additional exposure to risk and the companies do not currently make a significant contribution to the Council's revenue budgets in terms of investment income.

The Council has already initiated a review of corporate shareholdings. This review should re-assess the current rationale for holding these investments and the risks associated with them in terms of:

- contribution to current Council objectives, ie service-based, strategic and financial
- future funding needs
- governance risks eg transparency of decision-making, potential conflicts of interest and whether the Council has sufficient skills and capacity to adequately supervise company activities,
- adequacy of up to date and accurate financial information, and
- skills and capacity of company directors.

Depending on the outcome of this assessment, the companies should either be wound up or adequate processes put in place to ensure that Group companies do not expose the Council to financial risk. In the meantime, oversight and governance arrangements need to be reviewed to ensure that for as long as the companies continue to trade under Council ownership:

- up-to-date financial and performance information is subject to appropriate levels of scrutiny challenge,
- decisions are made which properly safeguard the position of the Council, and
- and any additional funding needs, are clearly understood at both officer and member level.

Many authorities have found that establishing a Shareholder Committee or the equivalent provides a useful focus for exercising appropriate oversight.

Recommendations

R8. Investment benchmarks going forward should be based on a realistic assessment of current investment assets, other investment options available and forecast returns rather than just historic performance achieved.

R9. Treasury Management strategies should include a clear and explicit assessment of the Council's minimum cash requirement, with detailed cash flow management processes maintained to avoid unplanned borrowing.

R10. The Council should review the current rationale for holding company investments and the risks associated with them. Either the companies should be wound up, or arrangements put in place to ensure that company activities do not expose the Council to financial risk.

R11. The Council should review the adequacy of governance and oversight arrangements for limited companies and consider the benefits of a Shareholder Committee or the equivalent.

5. Borrowing and debt charges

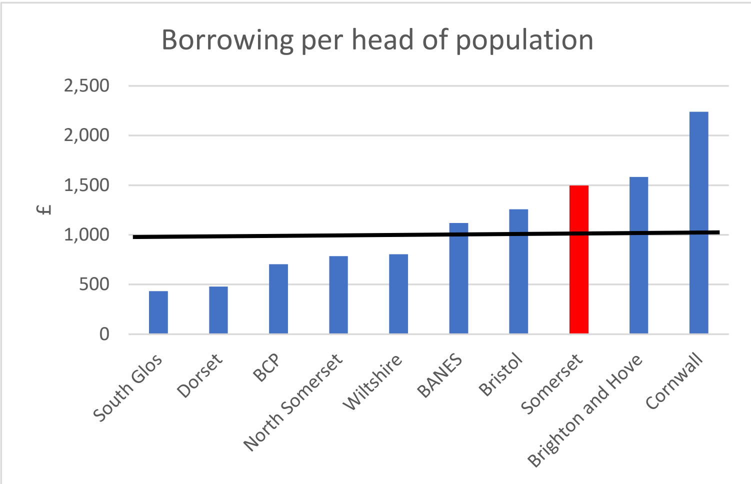
Four key indicators were identified:

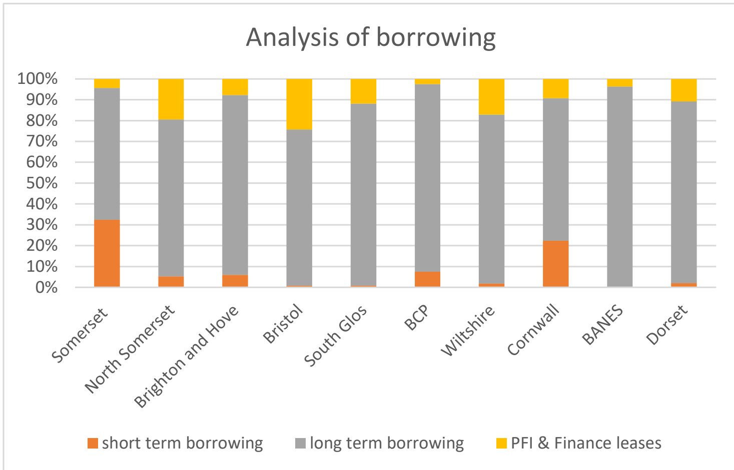
- **Is borrowing in line with similar authorities?**
- **Is overall borrowing below CFR?**
- **Is MRP set-aside at least 2% of CFR?**
- **Are interest charges in line with similar authorities?**

Overall borrowing levels

At 1 April 2023, Somerset Council's total borrowing per head of population (including PFI schemes and leasing liabilities) was just under £1,500, compared to an average of c £1,000 for the comparator group. Short-term borrowing represented almost one-third of total debt at Somerset, much higher than most of the other authorities in the group:

Graph 6 – Council borrowing at 31 March 2023



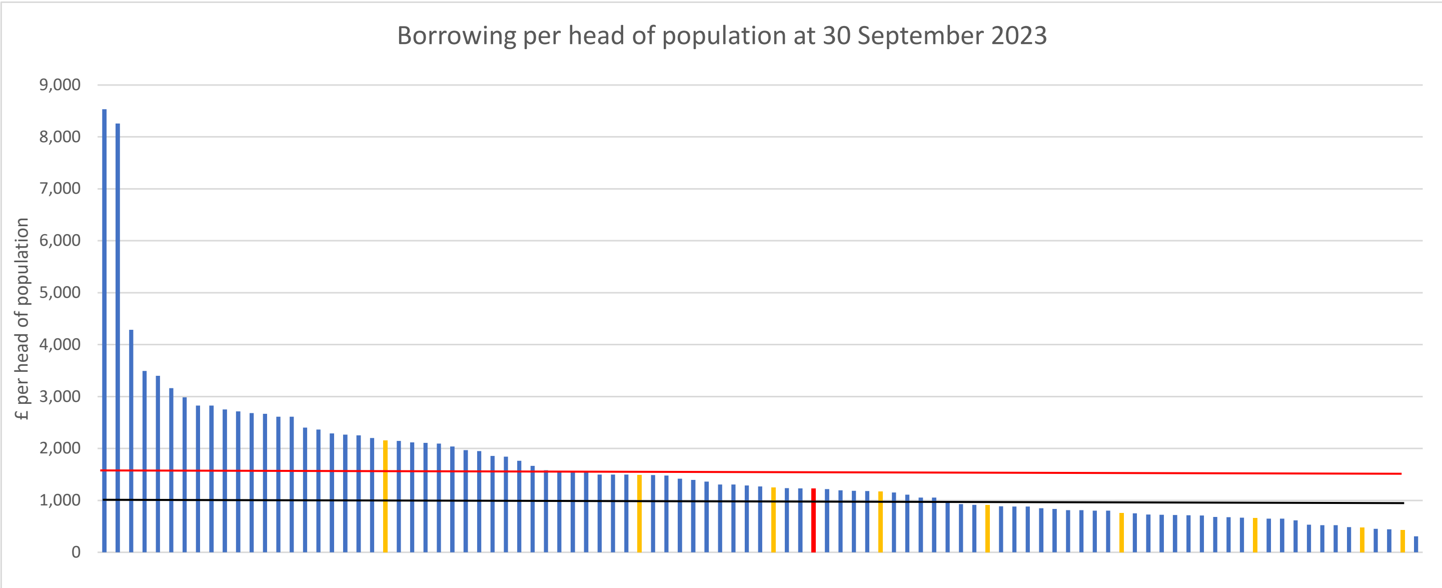


Source: Calculations based on most recently published Statements of Accounts and Census data for 2021. Black line represents group average.

In recent years short-term variable-rate borrowing has offered low interest rates but this represents a risk if the Council is not able to either repay existing loans or replace them with new ones at equivalent rates in the future. Servicing the “churn” of short- term borrowing also increases the workload for Finance staff and many local authorities aim to maintain short-term borrowing at 10-15% of their total portfolio.

During 2023/24 the Council has used liquid investment balances as an alternative to borrowing and by 30 September 2023 had managed to reduce overall borrowing from £858m to £702m and short-term borrowing by over 50%. The current position, as demonstrated by Graph 7 below, confirms that borrowing per head of population at Somerset has now reduced by almost 20% and, although still just above the average for this comparator group, is well below the average level of £1,600 per head for metropolitan and unitary authorities as a whole:

Graph 7 – Council borrowing at 30 September 2023 compared to all metropolitan and unitary authorities



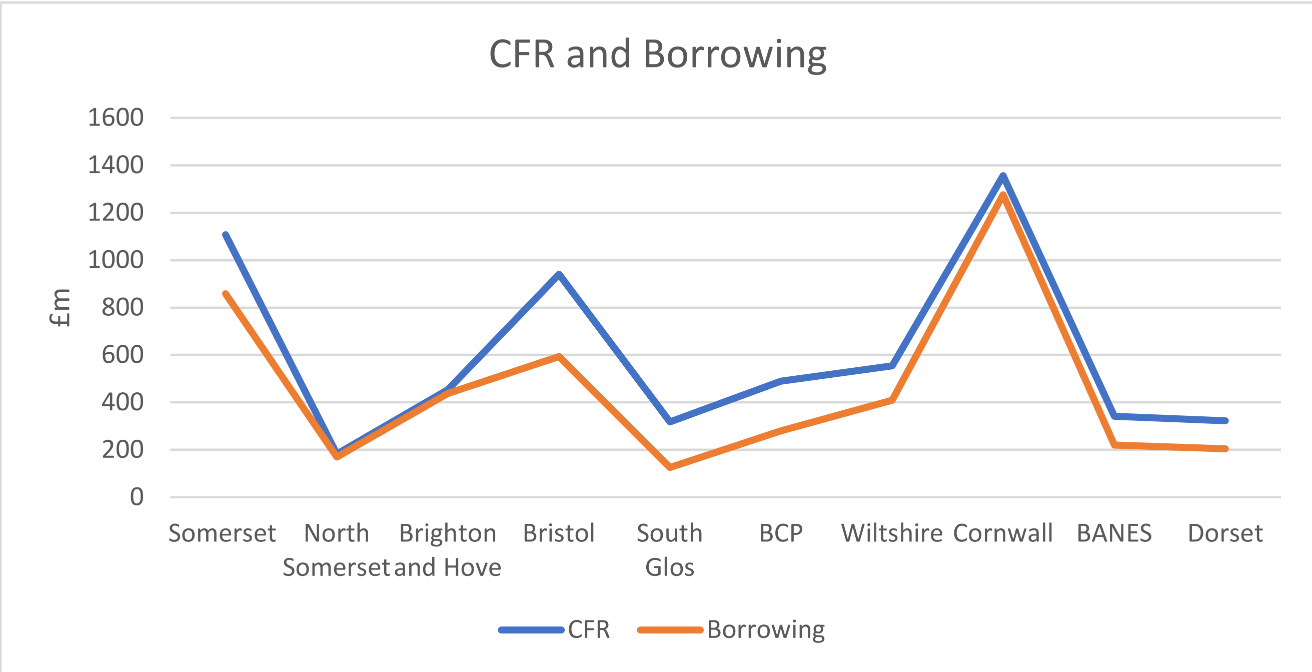
Source; DLUHC – www.gov.uk/government/statistical-data-sets/live-tables-on-local-government-finance (all metropolitan and unitary authorities)
Red bar represents Somerset Council and yellow bars represent the other authorities in the comparator group.
Black line represents comparator group average of £1.000 per head of population. Red line represents the UK average of £1,600 at 30 September 2023.

This is a significant achievement, but the scope to keep on using up cash balances to reduce borrowing is limited. Looking forwards, the Council should continue to reduce its short-term borrowing by generating additional capital receipts through asset sales.

Capital Financing Requirement (CFR)

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow to finance capital investment. One of the key requirements of the Prudential Code is that external borrowing remains below the CFR overall, as this ensures that borrowing does not take place to fund revenue activities. The Council is currently meeting this requirement, but at 1 April 2023 its CFR represented 78% of borrowing compared to the average of 72% for the group. This is consistent with the fact that, as previously noted, a relatively high per centage of capital investment in 2022/23 was funded from borrowing.

Graph 8 – CFR comparisons



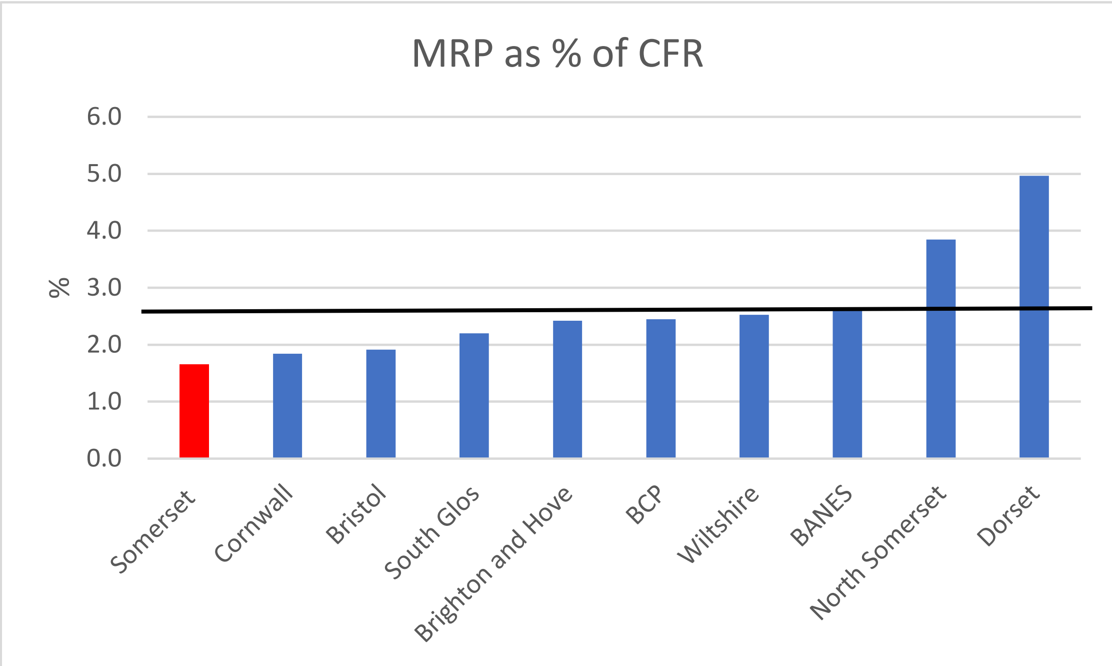
Source: Most recently published Statements of Accounts

Minimum Revenue Provision (MRP)

MRP set aside is a legal requirement which arises when capital expenditure has not been financed through grant funding, revenue contributions or capital receipts. In theory it represents a set-aside from the General Fund against repayment of debt, albeit that the requirement arises irrespective of whether or not any actual debt repayments have taken place or fall due.

Although the exact level of MRP charged to the General Fund is for the Council to decide, local authorities must "have regard to" guidance issued by the Government and must publish an annual MRP Policy Statement explaining how set-aside calculations have been arrived at. Current guidance contains a clear expectation that MRP will be at least 2% of the CFR each financial year. In 2022/23, the Council's MRP set aside represented 1.7% of the CFR and was both below the 2% threshold level, and the lowest set-aside % within the comparator group.

Graph 9 – MRP as a % of CFR



Source: Most recently published Statements of Accounts.
Black line denotes group average.

The Council has increased its MRP budget by £3m to £21m per annum over the next five years up to 31 March 2028. This relatively modest increase does not, however, make a significant difference to the calculations shown above. External consultants have been engaged to review the Council's approach to calculating MRP and this work should take account of new Guidance which is currently available in draft. The new Guidance sets out much more clearly how DLUHC expects MRP should be calculated, together with:

- clarification of how to use the asset life method for calculating MRP, and
- set-aside and impairment requirements for REFCUS, equity and property investments and third-party loans

The Council should ensure that its published MRP Policy Statement for 2023/24 sets out the calculation options included in the guidance, explain how permitted flexibilities have been exercised, and confirm that the overall set aside each year represents a "prudent amount".

Interest rates

Table 6 below demonstrates that total interest charges in 2022/23 were below the group average as a % of borrowing, but eighth highest when calculated as a % of net cost of services:

Table 6 – comparisons of interest rates

	Interest as a % of borrowing	Interest as a % of net cost of services
Somerset	3.8	6.0
Group average	4.1	4.2
Target Rate	**5.0**	**10.0**

Source: Calculations based on most recently published Statements of Accounts. Black line denotes group average.

The Treasury Management Strategy approved by members for 2023/24 expected borrowing to rise from £858m at 1 April 2023 to almost £1,058m by 31 March 2026. Without any changes in interest rates, interest as a % of net cost of services would increase from its current level of 6% of net cost of services to c7.5%. In a subsequent change to this initial strategy, the Council is now currently taking steps to minimise the cost of borrowing by utilising available cash balances rather than taking on external debt.

Going forward, the Council should ensure that reports to members present a realistic assessment of potential future borrowing needs and report forecast interest costs as a % of net revenue spend as this is a key financial indicator under the Prudential Code. Many local authorities aim to maintain this ratio at between 5% and 10% of net cost of services.

Recommendations

R12. The Council should generate additional capital receipts and use these to reduce its dependence on variable rate loans.

R13. The Council should ensure that MRP Policy Statements set out the calculation options included in current guidance and explain how permitted flexibilities have been exercised. Where Options 1-4 are not being followed, the Policy Statement should explain why this approach has been adopted and confirm that the overall set aside each year represents a "prudent amount".

R14. Any proposed changes to MRP policies and supporting calculations should be reviewed in detail against new DLUHC guidance which is currently available in draft. MRP should not, as a general principle, fall below 2% of the Council's MRP at the start of any given financial year.

R15. The Council should ensure that reports to members present a realistic assessment of potential future borrowing needs and report forecast interest costs as a % of net revenue costs.

6. Provisions and liabilities

Four key indicators were identified:

- **Are pension fund liabilities being minimised?**
- **Has adequate provision been made against Business Rate appeals?**
- **Do bad debt provisions reflect current collection rates and the age of debt?**
- **Do other provisions reflect known liabilities?**

Pension fund liabilities

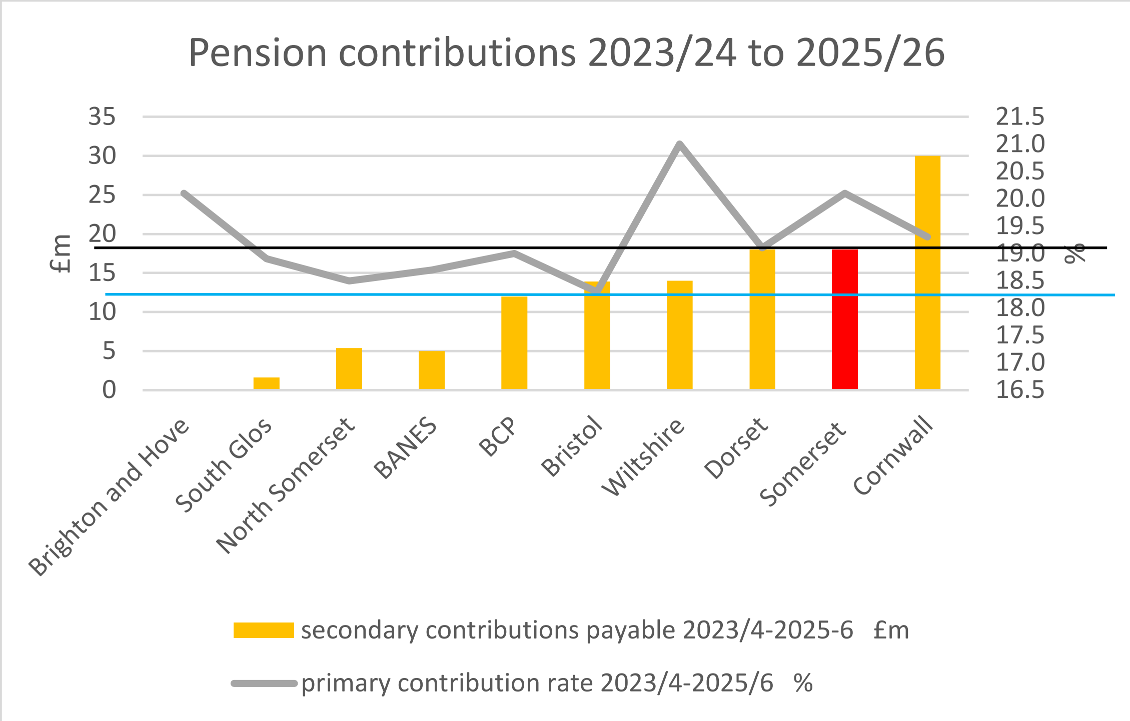
For most local authorities, pension fund contributions are one of the largest single items of revenue spending, and pension fund obligations represent one of the most significant liabilities in the Balance Sheet. Funding levels for LGPS pension funds are assessed by independent actuaries every three years and used to determine the following:

- primary contribution rates, representing current pension liabilities – expressed as a % of payroll costs, and
- secondary contribution rates, representing previous funding shortfalls – expressed as £m or as a % of payroll costs.

As demonstrated in Graph 10 below, funding levels for the Somerset Local Government Pension Scheme are the lowest in the comparator group and well below the average for English and Welsh pension funds as a whole, many of which are now fully funded following the 2022 revaluation. This means that primary and secondary contributions are both above the average levels for the group.

Making additional contributions to the pension fund in order to reduce secondary contribution levels would generate a return of 6-7% per annum in terms of reduced payments going forward, which would have a significant impact on the Council's General Fund budget.

Graph 10 – LGPS funding levels and pension contribution rates



	% LGPS funding 2022 valuation
Somerset	95%
Avon	96%
Dorset	96%
Wiltshire	103%
LGPS average	107%

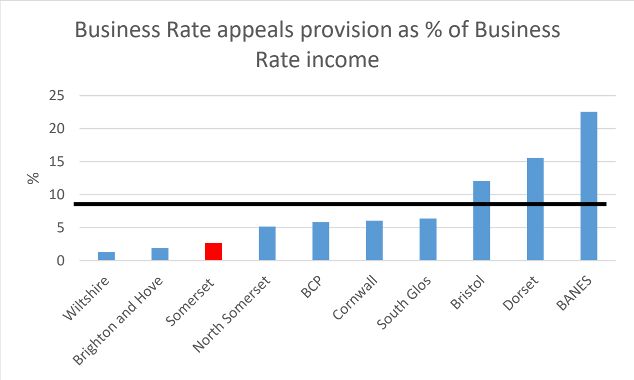
Source: Rates and Adjustment certificates 2022. Black and blue lines represent the average primary and secondary contributions respectively.

Business rates appeals

The Council's provision for Business rates appeals at 31 March 2023 was £4m, representing 3% of total Business Rates income. As Graph 11 shows, this was one of the lowest levels of set-aside within the comparator group. Although the Council did report 100% Business Rate collection levels in 2022/23, most commentators expect the 2023 revaluation to generate a significant increase in rating appeals.

Independent advisors have been appointed to review the Council's Business Rate appeals profile which should inform provision calculations for 2023/24.

Graph 11 –Business Rates appeal provisions



Source: Most recently published Statements of Accounts. The black line represents the group average.

Bad debt provisions

The new Council has three main categories of debts requiring provisions for late payment and default each year-end:

- Council Tax arrears,
- HRA rent arrears, and
- sundry debtors, mostly comprising housing benefit overpayments and fees for services and charges not yet paid.

Business Rates arrears are very low, and bad debt provisions in this area are not significant for this particular group.

Councils in this group also reported Council Tax collection rates well above the UK average in 2022/23. However, the method of calculating bad debt provisions for Council Tax arrears was not consistent between the four previous billing authorities. Arrears in excess of £9m, and in some cases over 5 years old, were not being fully provided for in 2022/23 as shown below:

Table 7 – Council Tax arrears at 31 March 2023

	Arrears over 12 months old not provided for £'000	Arrears over 5 years old not provided for £'000
Sedgemoor	1,038	76
South Somerset	3,818	0
Mendip	2,756	174
Somerset West and Taunton	1,558	79
Total	**9,170**	**329**

Calculations based on information provided by Somerset Council

Information on bad debt allowances for HRA rent arrears also suggest calculation inconsistencies, and lower provision rates than comparator authorities. If provisions had been increased to the group average in 2022/23, an additional provision of c£0.5m would have been required.:

Table 8 – HRA rent arrears

HRA bad debt provisions as a % of total arrears	
Somerset West and Taunton	43%
Sedgemoor	26%
Group average	80%

Source: Most recently published Statements of Accounts

Collection rates for sundry debts are not generally collected or published, however our review did provide some limited information, as shown in Table 9 below. This indicates that the methods adopted to calculate and disclose bad debt provisions and impairment allowances has not been consistent between the previous Somerset authorities in the past, and that the % applied to bad debt calculations has, in some cases, been lower than comparator authorities:

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Table 9 – Provisions for sundry debtors

Analysis of trade receivables	
Brighton and Hove - no info provided	
BCP	50% of debts over 12 months old provided for
North Somerset - no info provided	
BANES - no info provided	
Cornwall	Debtors totalling £193m have an impairment allowance of 30%.
Wiltshire - no info provided	
Dorset	All trade debts over 12 months old are provided for
South Glos	Total bad debt provision = £7.6m on £80m (10%)
Bristol	£38m provision against £181m sundry debtors at 31 3 2023 (20%)
Somerset CC	Impairment of £16m on £82m sundry debts (c20%)
SWT - no detailed info provided	
Mendip	impairment of £100k on sundry debtors of £1.2m (8%)
Sedgemoor - no info provided	
Sth Somerset	impairment of £0.6m on sundry debts balances of £2.2m (27%)

Source: Most recently published Statements of Accounts

Calculation methods do vary between authorities, and there is no prescribed method of calculation. However, as a general rule we would expect:

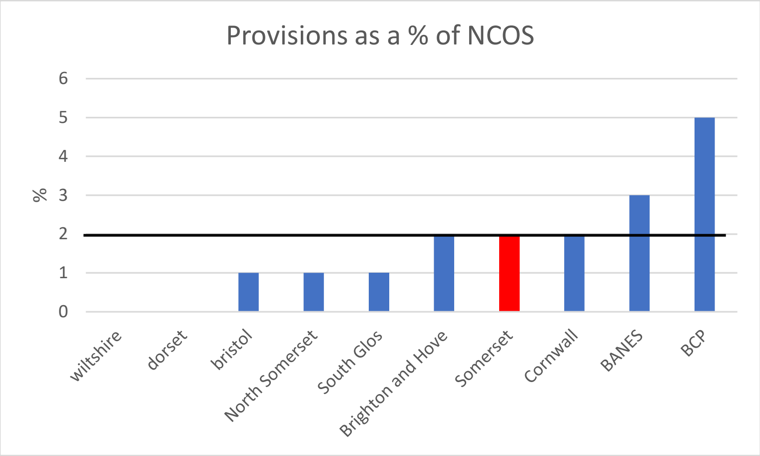
- all debts over 5 years old to be fully provided for, and
- debts over 12 months old to be at least partially provided for unless there was clear evidence to confirm that the debt was collectable.

Some issues with system migration and reconciliation processes have yet to be addressed which mean that the new Council has not been routinely producing aged debt analysis reports in the current financial year. This lack of accurate and up to date information on arrears will inevitably hamper effective debt collection. It will also, if not resolved relatively quickly, prevent the Council from making accurate calculations and disclosures for credit risk, bad debt provisions and credit loss allowanced at 31 March 2024.

Other provisions

Provisions carried forward in the Council's Balance sheet at 1 April 2023 were £10m excluding pension liabilities, business rates appeals and bad debt provisions which have been considered separately above. Most of these provisions were held by the former County Council and represented redundancy and restructuring costs. At 2% of net cost of services, this level of provisions represented an average set-aside when compared to the group as a whole.

Graph 12 – Comparison of provisions at 31 March 2023



Source: Most recently published Statements of Accounts. Black line represents group average.

For authorities not affected by reorganisation, the most significant provisions related to equal pay claims and insurance claims, or legal cases ongoing but not settled at the year end. By March 2024 the new Council will need to establish robust process for identifying both actual and potential litigation and claims, to inform provisions calculations at the year end. The Council should also review the use made of provisions set up last year in respect of reorganisation costs, to ensure that these have been used during 2023/24 for the purposes intended, and that any residual reorganisation costs are adequately provided for at 31 March 2024.

Another significant area to consider going forward is DSG deficits. At 31 March 2023 the former County Council reported deficits totaling over £20m, with an estimated deficit of £100m at 31 March 2026. Currently there is a statutory override in place which means that this does not impact on local authorities reserves, however the statutory override is due to end in 2025/26 and this would have a significant impact on the General Fund if no additional grant funding is provided.

Most education authorities now have deficit recovery plans in place, but a key task for the Council over the next two years will be to ensure that this plan is delivered in a way that not only brings spending and funding back into balance year-on year, but recoups accumulated overspends. Some local authorities are also establishing provisions to cover any residual overspends remaining at 1 April 2026 and this is a course of action that the Council should also consider.

Recommendations

R16. The Council should consider the benefits of making additional contributions to the pension fund.

R17. The Council should review its Business Rate appeals provision in the light of 2023 revaluations and independent advice.

R18. A consistent method for calculating bad debt provisions should be implemented by the new authority. As a general principle, debts over 5 years old should be fully provided for and there should be partial provision against all debts over 12 months old at 31 March 2024.

R19. The new Council has not been routinely producing aged debt analysis reports in 2023/24. This needs to be addressed not only to support effective debt collection, but also to enable the Council to make accurate calculations and disclosures for credit risk, bad debt provisions and credit loss allowances at 31 March 2024.

R20. The new Council will need to establish robust process for identifying both actual and potential litigation and insurance claims, to inform provisions calculations at the year end.

R21. The Council should ensure that provisions established in 2022/23 to cover reorganization costs have been used for the purposes intended, and that any residual costs are adequately provided for at 31 March 2024.

R22. The Council should establish a provision to cover any residual DSG overspends at 1 April 2026.

7. General Fund balances and earmarked reserves

Two key indicators were identified:

- **Are General Fund and HRA balances adequate as a % of spending?**
- **How do earmarked reserves compare with similar authorities?**

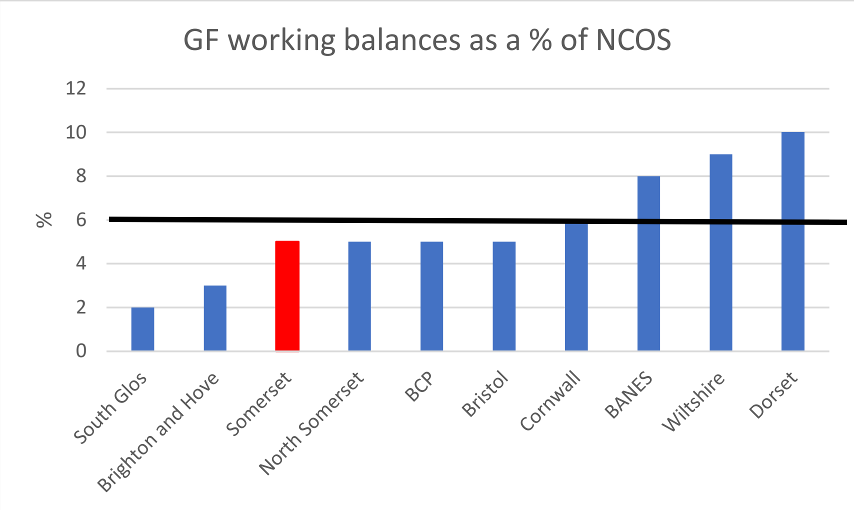
General Fund working balances

There is no specific guidance about what levels of General Fund working balances and earmarked reserves should be. However:

- CIPFA have published LAAP Bulletin 13, "Local Authority Reserves and Balances", which provides guidance on the establishment and maintenance of reserves (this updated the previous Bulletin 99 issued in 2014), and
- recent surveys indicate most local authorities aim to maintain working balances at between 5% and 10% of net revenue spending.

At 1 April 2023, General Fund working balances at Somerset were reported as £28m representing 5% of net cost of services. This was just below the group average of 6%, as shown below:

Graph 13 - General Fund working balances as a % of Net Cost of Services



	General Fund working balances as a % of NCOS
South Glos	2
Brighton and Hove	3
Somerset	5
North Somerset	5
BCP	5
Bristol	5
Cornwall	6
BANES	8
Wiltshire	9
Dorset	10

Source: Most recently published Statements of Accounts. Black line represents group average.

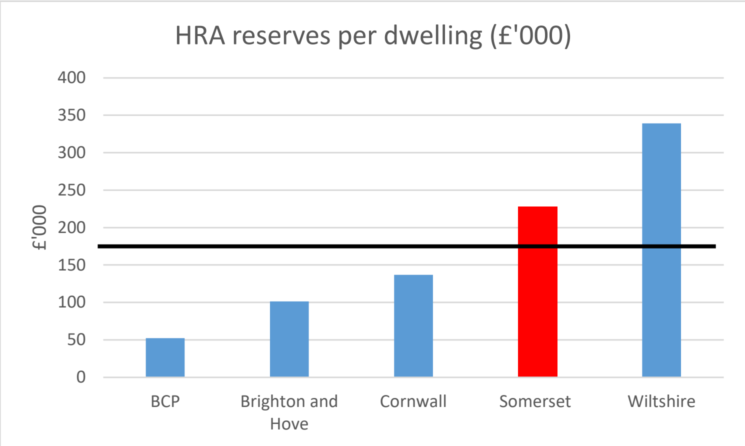
We recommend that General Fund working balances are maintained at their current level and if possible increased to 6% of net revenue spending over time. Failure to deliver savings plans to manage spending on services within approved budget limits, or to deliver DSG recovery plans, all represent the key financial risks which could have a detrimental impact on General Fund working balances in future.

Regular and up-to-date reporting on the Council's expected outturn position will enable action to be taken promptly to address unforeseen pressures affecting General Fund balances.

Housing Revenue Account (HRA) balances and reserves

Six authorities in this comparator group maintain and manage social housing directly through a Housing Revenue Account. This includes Somerset, although the Council only provides social housing in two out of four local areas. Bristol, which has both a much larger and a differently configured social housing stock than the other five authorities, has been excluded from the analysis below:

Graph 14 – HRA working balances and reserves



	HRA working balances £m	HRA reserves £m	Total £m	Number of dwellings
BCP	5	0	5	9,580
Brighton and Hove	4	8	12	11,818
Cornwall	7	7	14	10,231
Somerset	14	8	22	9,665
Wiltshire	10	8	18	5,307

Source: Most recently published Statements of Accounts. Black line represents the average.

This analysis suggests that Somerset was relatively well placed in terms of HRA reserves and balances at 1 April 2023. A key task for the new authority will be to develop a 30-year HRA Business Plan in line with Government guidance and these plans should explicitly consider:

- the Council's policy on what levels of HRA balances and reserves will be required going forward,
- current maintenance backlogs and improvement needs, and
- how any existing reserves above this level can best be used to improve or extend the available housing stock.

Whilst there is no specific guidance on what prudent levels of HRA reserves and balances should be, many housing authorities aim to maintain these balances at between 5% and 10% of HRA rental income, which in Somerset's case would only be between £2.5m and £3m.

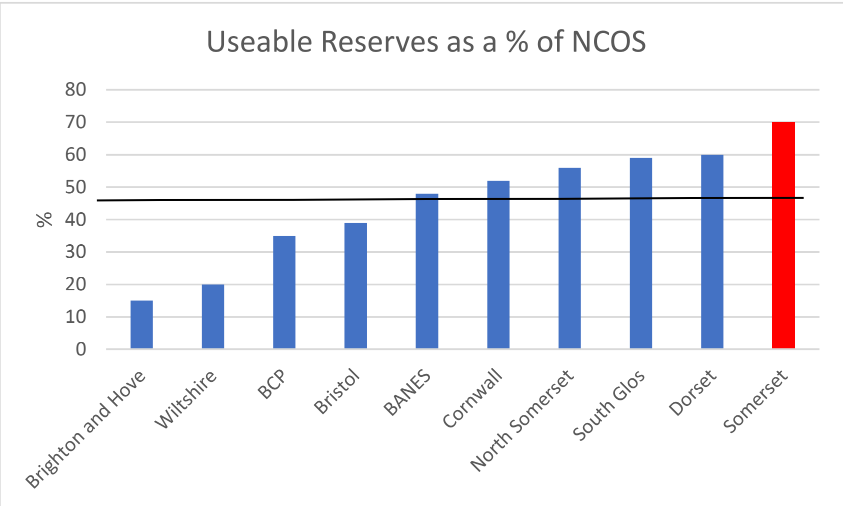
Earmarked reserves

Earmarked reserves are unique to local government. They represent balances set aside to either fund future planned expenditure, meet specific legal or accounting requirements, or to safeguard against identified financial risks. Approaches to setting aside and using earmarked reserves vary significantly between authorities, so comparisons in this area are not always very helpful. However, Graph 15 below suggests that:

- taking earmarked reserves, capital receipts and grant funding reserves all together, the Council's overall level of reserves at 1 April 2023 as a % of net cost of services was higher than any of the other nine authorities in the comparator group, and that:

- most of these reserves were earmarked to address revenue budget risks and initiatives, with a lower % of reserves earmarked for capital purposes.

Graph 15 – Earmarked reserves at 1 April 2023

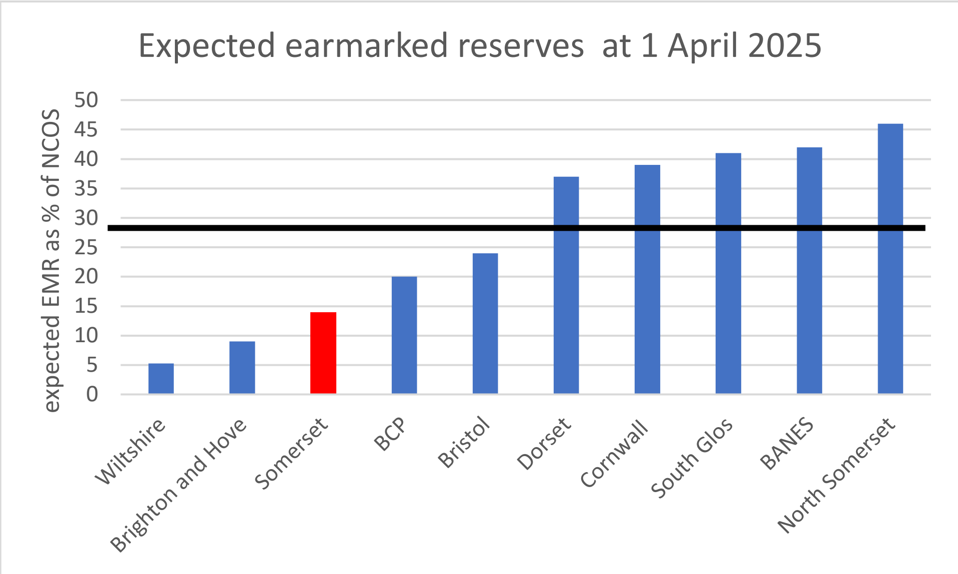


	Somerset %	Group Average %
Local risks and initiatives	61	40
CRR and CGU balances	24	32
Capital investment	1	14
Revenue grant funding	7	9
Insurance	2	2
Schools	6	4
Total	**100**	**100**

Source: Most recently published Statements of Accounts. Black line represents the group average.

This overall position has helped to provide the new authority with funding to cover contingencies and budget overspends in 2023/24 and 2024/25. Current estimates prepared by officers suggest that by 1 April 2025 earmarked reserves will have reduced from £291m (as reported in the previous authorities' 2022/23 Balance Sheets) to c£75m. All other things remaining equal, this will place Somerset in a "well below average" position compared to other authorities in the group.

Graph 16 – Expected use of reserves 2023/24 and 2024/25



Source: Data prepared by Somerset Council plus most recently published Statements of Accounts. Black line denotes group average.

2023/24 budget reports suggest that revenue-based earmarked reserves are being used up either to balance identified shortfalls in the budget, to compensate for non-delivery of savings, or to cover unexpected overspends. Using reserves in an "unplanned" way does not promote value for money or promote good financial management.

A detailed review of all earmarked reserves should take place during 2023/24 to ensure that:

- the reason for establishing each earmarked reserve remains appropriate and in line with financial reporting requirements. Some balances previously classified as earmarked reserves should arguably be accounted for as creditor balances given that (a) they are held on behalf of 3rd parties and (b) repayment in previous years has occurred shortly after the year end, and that

- capital receipts and grant funding reserves are used in preference to borrowing. The new Council reported CRR and CGU balances totalling £92m compared to the group average of £60m at 31 March 2023, and there should be clear plans in place setting out how and when these balances will be utilised.

To improve the accuracy of medium-term financial plans, the expected timescales for using each reserve should also be more clearly understood. Budget reports and financial monitoring data should be clear about how reserves are being used, by reporting information gross and not net. Processes should also be established to ensure that the use or transfer of existing reserves is controlled through the corporate finance function and not delegated to individual service departments. This helps to ensure that use of reserves represents best value for the authority as a whole, and that available resources are directed towards agreed priorities. Where significant, establishment of new reserves and the use of existing ones should always be approved by members.

Recommendations

R23. The Council should aim to maintain General Fund working balances at their current level of 5% of net cost of services and if possible, increase working balances to 6% over time. Delivering agreed savings plans and successfully managing revenue budgets will be key to achieving this.

R24. A 30-year Business Plan for the social housing function should be developed which explicitly considers what level of HRA balances and reserves will be required going forward, taking account of backlog maintenance and improvement needs.

R25. A review of all earmarked reserves should take place to ensure that the reason for establishing each reserve remains appropriate and in line with financial reporting requirements. Expected timescales for using each reserve should also be more clearly understood..

R26. Capital receipts and grant funding reserves should be used to fund capital expenditure in preference to borrowing.

R27. Robust processes should be established to ensure that the use of existing reserves is controlled through the corporate finance function and not delegated to individual service departments.

Appendix 1 – Somerset Council at 1 April 2023

Balance sheets at 31 3 2023	£m Somerset CC	£m SW&T DC	£m Mendip	£m Sedgemoor	£m Sth Somerset	£m Total
PPE	1,077	478	21	302	64	1,942
Heritage assets	2				2	4
Investment Property		101	55	37	102	295
Intangible assets		2				2
Long term investments	40			40		80
Long term debtors	20	4	9		37	70
Assets held for sale		1				1
ST investments	184	15		1	22	222
ST debtors	88	13	6	10	26	143
Inventories	7	1				8
Cash	2	2	28	6	0	38
Creditors	(120)	(13)	(9)	(19)	(17)	(178)
Borrowing ST	(11)	(86)	(1)	(49)	(131)	(278)
Borrowing LT	(332)	(87)	(63)	(61)		(543)
Provisions	(11)	(1)		(1)	(1)	(14)
GCRIA	(91)	(14)	(7)	(11)	(6)	(129)
IAS 19	(125)	(33)	(12)	(22)	(18)	(210)
PFI & leasing liabilities	(37)					(37)
Net liabilities	693	383	27	233	80	1,416
GF balances	4	11	4	2	7	28
HRA	0	11	0	11	0	22
Earmarked GF reserves	216	16	9	24	26	291
CRR	11	21		5	6	43
CRU	4	22	3	12	8	49
Total useable reserves	235	81	15	54	47	432
Total unuseable reserves	458	302	12	179	33	984
Net reserves balance	693	383	27	233	80	1,416

Appendix 2 – Comparator authorities

Authority	Accounts Publication date	Population at 31 March 2021	Net Cost of Services £m	Net assets £m	HRA?
North Somerset	2022/23	216,700	195	288	No
Brighton and Hove	2022/23	276,300	335	2,020	Yes
Bristol	2022/23	472,400	548	2,656	Yes
South Glos	2022/23	290,400	364	865	No
BCP	2022/23	397,000	385	1,405	Yes
Wiltshire	2019/20	510,300	456	279	Yes
Cornwall	2022/23	570,000	697	1,317	Yes
BANES	2022/23	196,400	168	410	No
Dorset	2021/22	426,500	430	75	No

Source: Most recent published Statements of Accounts as shown above. Population data based on March 2021 Census.

These authorities were selected because they were most similar to Somerset in terms of population size and location. They are all single tier authorities.

Appendix 3 – Suggested Action Plan

Asset/liability	Suggested Action	Council response	Owner	Expected delivery	Reportable to Committee
Net cost of services	R1. The Council should aim to maintain net cost of services at current levels by matching growth items in the revenue budget with achievable savings plans.	The Council will need to manage this as part of ongoing budget setting work, using the following principles: • Growth items are limited where no equivalent funding is proposed. • Wherever possible services should be negotiating inflation/demand or managing contracts to mitigate increased costs.	Service Directors	2025/26 budget setting	Executive
	R2. The Council should review fees and charges annually as part of the budget setting process	The budgets setting process does this and for 2023/24 a number of fees & charges were aligned following the creation of the new unitary. There is still further work to be done building on this to establish the basis of all fees and charges, introduce new fees and a review of overheads. Leading to production of a corporate register that allows challenge to current levels and attracts new options.	Chris Hall	July 2024	Executive
Capital spending	R3. The Council should develop a rolling 3–5-year capital programme in	A three-year capital programme is in place for financial planning (MTFP). The capital strategy considers the longer-	Emily Collacott	Completed	Executive

and funding	line with the requirements of CIPFA's Prudential Code.	term impacts and the budget monitoring extends to forecasting up to 5 years of the current approved programme. 3-5 years will be considered in future, against the challenging final backdrop and elections every 4 years not wanting to commit future council priorities.	with Service Directors		
	R4. To inform capital programme development, the Council should carry out property surveys and assess current maintenance needs.	The assessment of asset condition and maintenance needs was carried out through a cyclical programme in the former County Council (including both the corporate and Local Authority Maintained School estates), but to a much more limited extent in district councils. The Strategic Asset Management has carried out some additional targeted survey work to inform bids, but developing a full understanding of building condition across the estate will take time and resource which is not currently available. The new structure being implemented for the department will, when fully populated, address the issue of resource availability to an extent, but it will take time to complete a full cycle	Oliver Woodhams	Ongoing	Audit Committee

		of condition surveys to provide a comprehensive understanding of need.			
	R5. The Council should improve the quality of the underlying information on infrastructure assets in line with CIPFA Bulletin 12.	Work to comply with the Infrastructure Code of Practice began with proposed implementation for 2017. The Code was never introduced nationally as it was recognised the difficulties in managing this information. The former County Council progressed to comply with current regulations; high level components and depreciation rates. The renewed regulation requires delivery of this as part of the 2024/25 accounts. Waiting on further national guidance to commit to instigating from the former project.	Ben Bryant	31/03/2025	Audit Committee
	R6. The Council should aim to reduce its dependence on borrowing to fund capital investment plans.	This approach was adopted for the 2024/25 budget setting process. A number of existing schemes were removed from the programme and bids for new capital schemes were focused on those that we fully funded or urgent health & Safety or legally required. This limited new borrowing to £9.2m over the next 3 years.	Jason Vaughan	Action completed as this strategy was adopted as part of financial strategy and the	

		The Council will continue to focus on limiting / reducing schemes approved by borrowing by challenging the ongoing need or exploring alternative sources of funding.		response in dealing with the financial emergency in setting the 2024/25 budget.	
	R7. A more pro-active approach to reviewing asset use and disposing of surplus property would help to reduce future debt charges and revenue costs as well as providing funding for capital investment plans.	A Property Rationalisation programme focussing on operational property has been mobilised and is being taken forward through the council's wider transformation programme. In parallel, the Strategic Asset Management team are conducting a rolling review of non-operational leased or legacy property under the governance of the council's Asset Management Group. The forthcoming restructure of the Strategic Asset Management department will enable resources to be focussed and managed more efficiently, and also provide a foundation for bringing in additional resources to increase the rate of asset review.	Oliver Woodhams	Part action underway	Audit Committee
Cash holdings and investments	R8. Investment benchmarks going forward should be based on a realistic assessment of current investment assets, other investment options available and forecast returns rather	Investment benchmarking is regularly undertaken by Arlingclose our Treasury management Advisors. The results of this are set out in the established reporting process to members through mid year, outturn and strategy reports.	Emily Collacott	Action Completed	

	than just historic performance achieved.				
	R9. Treasury Management strategies should include a clear and explicit assessment of the Council's minimum cash requirement, with detailed cash flow management processes maintained to avoid unplanned borrowing.	The Service Manger - Investments has discussed cash flow, minimum balances and cash flow projections with the report's authors and indicated that detailed cash flow planning on a daily basis is already done supported by the cash flow module on Logotech. Discussion around the Logotech module and alternatives were had but the Service Manager - Investments believes the Logotech solution is more than fit for purpose. There is always scope for better information flow to the Treasury team to inform the cash flow forecast, particularly around grants and income in general. This true for the cashiers allocations too. A grants detailed expected register needs to be compiled and a promotion to the wider authority on providing timely and informative information up front is an ever present. Daily Treasury Management is done with a plan to always have a minimum liquid cash buffer of £25m and decisions made to maintain this	Emily Collacott	Grant register by end of May 2024	Audit Committee

		level. Levels of investments (but not necessarily of the liquidity of those) is reported and available in the monthly Treasury Management pack provided to the Service Director for Finance.			
	R10. The Council should review the current rationale for holding company investments and the risks associated with them. Either the companies should be wound up, or arrangements put in place to ensure that company activities do not expose the Council to financial risk.	This review is already under way as part of the work of the Property and Investments Executive Sub-Committee. **Note**: one of the Sedgemoor subsidiaries is the ALMO which is not an investment company	Property and Investments Executive Sub-Committee	In accordance with the Sub-Committee's programme of work	Audit Committee
	R11. The Council should review the adequacy of governance and oversight arrangements for limited companies and consider the benefits of a Shareholder Committee or the equivalent.	Agreed – it would be prudent to ensure that whether the Council has companies or not at any particular point in time, appropriate governance and oversight arrangements are set out in the Constitution	Jill Byron – Interim Head of Legal	24/07/24 (Full Council)	Audit Committee

Asset/liability	Suggested Action	Council response	Owner	Expected delivery	Reportable to Committee
Borrowing and debt charges	R12. The Council should generate additional capital receipts and use these to reduce its dependence on variable rate loans.	With reference to R6. Capital receipts will be used to the capitalisation direction and future transformation. It is unlikely that there will be additional receipts available that could be used to repay debt. The council will continue to review its debt portfolio and the balance between variable and fixed rate as part of its treasury Management Strategy.	Jason Vaughan		
	R13. The Council should ensure that MRP Policy Statements set out the calculation options included in current guidance and explain how permitted flexibilities have been exercised. Where Options 1-4 are not being followed, the Policy Statement should explain why this approach has been adopted and confirm that the overall set aside each year represents a “prudent amount”.	The MRP policy has been updated as part of budget setting 2024/25. The 2024/25 MRP Policy was approved on the basis that work will be done within the next 12 months to improve the quality of records from the abolished authorities to properly support the use of the asset-life approach underpinning the legacy MRP to: ensure improved compliance with the MRP Guidance; and transition the new Council to a consistent MRP	Emily Collacott	Part of budget setting 2025/26	Audit Committee / Executive / Full Council

		Policy for all unfinanced capital expenditure			
	R14. Any proposed changes to MRP policies and supporting calculations should be reviewed in detail against new DLUHC guidance which is currently available in draft. MRP should not, as a general principle, fall below 2% of the Council's MRP at the start of any given financial year.	The revised policy, named above, maintains at an equivalent level of 2.5% of the CFR (capital financing requirement) as at 31/03/2024. Further updates will be consideration against any regulation updates will be adhered to in future policies.	Emily Collacott	End of August 2024	Audit Committee
	R15. The Council should ensure that reports to members present a realistic assessment of potential future borrowing needs and report forecast interest costs as a % of net revenue costs.	This action has been completed with the 2024/25 Capital strategy report setting this out.	Emily Collacott	Action completed	
Provisions and liabilities	R16. The Council should consider the benefits of making additional contributions to the pension fund.	The Council is not in a financial position to look at making additional contributions whilst it has a significant budget gap in its MTFP. The proposed funding to this was capital receipts. The Council is having to balance the use of this limited resource within managing the MTFP priorities.	Emily Collacott	No action	

	R17. The Council should review its Business Rate appeals provision in the light of 2023 revaluations and independent advice.	The business rates figures including provisions was reviewed in setting the 2024/25.	Jason Vaughan	Action complete	
	R18. A consistent method for calculating bad debt provisions should be implemented by the new authority. As a general principle, debts over 5 years old should be fully provided for and there should be partial provision against all debts over 12 months old at 31 March 2024.	A single and consistent approach will be added as part of the 2023/24 close down guidance to services. An update to the Income Code Of Practice is currently underway for April 2024.	Ben Bryant	End of June 2024	Audit Committee
	R19. The new Council has not been routinely producing aged debt analysis reports in 2023/24. This needs to be addressed not only to support effective debt collection, but also to enable the Council to make accurate calculations and disclosures for credit risk, bad debt provisions and credit loss allowances at 31 March 2024.	Purposeful approach with new finance system implementation. Action to date: • All debt recovery action (dunning letter chasers) now live. Was phased from October to December. • Aged debt BI report now produced, live first week of January 2024. Available adhoc and part of monthly budget monitoring. • Cash allocations improving but more work needed in these areas. A focussed effort as part of 31/03/24 closedown is organised.	Ben Bryant	Q1 budget monitoring	Executive

	R20. The new Council will need to establish robust process for identifying both actual and potential litigation and insurance claims, to inform provisions calculations at the year end.	No prior audit findings in this area and expected as part of usual year end. Will share comments with Insurance and Legal teams to ensure litigation and claims info as accurate as possible.	Claire Griffiths	End of June 2024	Audit Committee *(as part of annual statements)*
	R21. The Council should ensure that provisions established in 2022/23 to cover reorganization costs have been used for the purposes intended, and that any residual costs are adequately provided for at 31 March 2024	All funding allocations pre-vesting day were reviewed and approved by the Programme Implementation Board (as required by the Unitary Change Order). All spend against the allocations made were reported to Programme Board and the member LGR Implementation Board. Post vesting day all spend, allocations and monitoring has been undertaken in accordance with the Council's decision making processes.	Alyn Jones	April 2025	
	R22. The Council should establish a provision to cover any residual DSG overspends at 1 April 2026.	An updated deficit management plan to address the DSG has been produced and shared with CIPFA. This significantly reduces down the in-year overspend. The Councils financial position means it is unlikely that we will be able to identify reserves to do this.	Jason Vaughan		
Balances and Reserves	R23. The Council should aim to maintain General Fund working balances at their current level of 5% of net cost of services and if possible,	The minimum level of General Reserves has been set by Council in February 2024 as 5%.	Nicola Hix	Part of budget monitoring	Executive

	increase working balances to 6% over time. Delivering agreed savings plans and successfully managing revenue budgets will be key to achieving this.	The Council will continue to closely manage the balances of reserves. Reviewing the necessity for the reserves, the commitments and/or any reallocation that can be made. The Council will endeavour to increase the level of reserves as much as possible.			
	R24. A 30-year Business Plan for the social housing function should be developed which explicitly considers what level of HRA balances and reserves will be required going forward, taking account of backlog maintenance and improvement needs.	The legacy Council's (Somerset West and Taunton Council and Sedgemoor District Council) have had an HRA 30-year business plan in place for a number of years. This has been updated on an annual basis. When combining the HRA's into one for the new Somerset Council, the minimum balance for general reserves was reviewed and set based on 7.7% of turnover which was the median percentage used by 24 other HRA Authorities (5%/£2.3m-10%/£3m). These levels will continue to be reviewed on an annual basis as part of the annual budget setting process with an updated MTFP and 30-Year Business Plan, and the report(s)	Kerry Prisco	February 2025	Full Council

		issued to Full Council for approval in February of each year.			
	R25. A review of all earmarked reserves should take place to ensure that the reason for establishing each reserve remains appropriate and in line with financial reporting requirements. Expected timescales for using each reserve should also be more clearly understood.	See R23.	Nicola Hix	Part of budget monitoring	Executive
	R26. Capital receipts and grant funding reserves should be used to fund capital expenditure in preference to borrowing.	See R6	Jason Vaughan	As part of financial strategy	Executive
	R27. Robust processes should be established to ensure that the use of existing reserves is controlled through the corporate finance function and not delegated to individual service departments.	Linked to R23 There is a central record of reserves held, purpose of reserves and forecast expected use. The MTFP will budget the expected use of reserves, as part of the approval papers. Monitoring of reserves and the approval to use is done through monthly budget monitoring. This is requested retrospectively in managing the monthly forecasts. Each approval requested within executive papers –	Nicola Hix	Part of budget monitoring	Executive

		any rejection applied in the following months forecast.			