Appendix Eii)

Adequacy of Reserves and Robustness of Budget Estimates
s151 Officer Statement

1. Section 25 of the Local Government Act 2003 requires the Section 151 Officer, Executive Director (Resources) to formally report to Council as part of the tax setting report his view of the robustness of estimates and the adequacy of reserves. The Council is required to take these views into account when setting the Council Tax at its meeting on 2 March 2021.

2 Adequacy of Reserves

2.1 This statement focuses upon the unallocated general reserve and excludes schools' budgets and schools' unspent balances, which will be reviewed by the schools funding forum when Governing Bodies have submitted their budgets. The minimum prudent level of reserves that the Council should maintain is a matter of judgement and cannot be judged merely against the current risks facing the Council as these can and will change over time.

2.2 The consequences of not keeping a prudent minimum level of reserves can be serious. In the event of a major problem or a series of events, the Council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

2.3 CIPFA (Chartered Institute of Public Finance and Accountancy) have issued a notification from the LAAP (Local Authority Accounting Panel) stating that there should be no imposed limit on the level or nature of balances required to be held by an individual Council (except under section 26 where this has been imposed by ministers). West Berkshire Council policy had consistently kept a prudent historic minimum level of balances of 5% of net revenue expenditure (NRE); this analysis has been updated for more specific demand and general risks with a minimum level set out for the 2022-23 budget, see further below.

It is recommended that general reserve balances be set at a minimum of £7m.

Before the 2021-22 outturn is completed, the general reserves stood at just over £10m based on estimated use of reserves for the 2021-22 budget and in year movements, and this ensures that the Council has a sufficient level of reserves to support it in the immediate future. These reserves are expected to reduce to just over £8m by the end of the 2022-23 financial year.

3 Robustness of Estimates

3.1 <u>The treatment of inflation and interest rates</u>

The 2022-23 pay award for staff has been estimated in at the Government's prevailing inflation rate target of 2%; there remains a risk around the assumptions for the 2021-22 pay award. This was originally assumed to be 0% for those earning over £24,000 in line with the Chancellor of the Exchequer's announcements on public sector pay. There have been subsequent negotiations between the Local Government employers and unions, with an offer made of 1.75%. The 1.75% offer has not been accepted by the unions and at the time of preparing this budget is the current position. This offer has been assumed in the base budget build as the latest

information available. Any pay award above the assumptions would need to be funded from reserves. Non pay related budgets have been inflated at the contractually committed rate of inflation or where services can demonstrate a requirement to do so to maintain service delivery levels. Interest rates for 2022-23 have been assumed to remain at current levels (0.25%) for new long term borrowing; the Investment Strategy also on this agenda covers this in more detail. Increases to fees and charges have been set in line with inflation where appropriate based on the October 2021 level of CPI in the main (4.2%).

Social Care provide costs remain an area of significant financial pressure. The budget takes into account some inflationary pressures, and t some relief in the form of Adult Social Care workforce reform grant as well as other ASC grants, though details on these have not been released for 2022-23 yet. This will remain an area of financial pressure; workforce costs, with the living wage and wider inflationary pressures on a social care market already under pressure, especially with Covid impacts, remains a high risk. There is a specific ASC risk reserve to support the service and allow for future base budget adjustments to be made if further pressures emerge.

3.2 Efficiency savings, productivity gains and Adult Social Care reform

The budget contains proposals to deliver £5.5m of savings or income. The Medium Term Financial Strategy (MTFS) includes a four year savings or income programme to ensure that future revenue budgets remain in financial balance to ensure the Council has adequate resources to deliver its Council Strategy outcomes.

The forthcoming Adult Social Care reforms 'build back better' do present a challenge to the authority's future financial arrangements. Though in place for the 2023-24 financial year, there is an impact on the 2022-23 budget with preparations to be made for these changes. The Government have provided some funding (£0.3m) to help in preparations for this, but based on forecasts, this is unlikely to be sufficient for the future; this is discussed further at the end of this appendix looking beyond 2023.

3.3 Budget and Financial management and the impact of Covid-19

West Berkshire has an excellent record of budget and financial management. The level of under and overspends in recent years is as follows:

Year	Over/ -under spend £m	% of net budget
2011/12	-0.49	0.39%
2012/13	-0.62	0.50%
2013/14	-0.45	0.37%
2014/15	0.03	0.02%
2015/16	0.12	0.10%
2016/17	0.01	0.01%
2017/18	0.28	0.23%
2018/19	-0.08	0.15%
2019/20	-1.50	-1.16%
2020/21	*-4.60*	*-3.54%*
2021/22 est	*-0.10*	*-0.08%*

This level of control is achieved by significant management and policy action to ensure that spending is kept within budgets each year. All relevant reports to the Executive have their financial effects identified and Operations Board keeps any emerging budget pressures under review during the year. Quarterly Performance reports are received by Corporate Board, Operations Board, the Executive, and the Overview and Scrutiny Management Commission. These reports detail both budgetary and performance indicators. A traffic light system of indicators is used.

The Council has a number of demand led budgets. The Council has historically been able to manage changes to demand to ensure a sound financial standing at the end of the financial year.

Covid-19 has had a significant impact on the Council's financial position. Government funding in 2021-22 year has continued with a one off non-ringfenced grant and one quarter of partial compensation for income losses. There have also been some extra specific grants e.g. Contain Outbreak Management Funds (COMF) and Business Grants, but no further new funding is expected for the 2022-23 budget.

There has also been a significant impact on business rates. In 2020-21 the Council passported almost £40m of business rates reliefs to businesses across the district, with further business rates relief provided in 2021-22 as well as for the future financial year. The accounting for this will mean a significant move through reserves on the NNDR1 (government return for business rates) and on the collection fund. The collection of the residual business rates in 2020-21 and 2021-22 remained constrained and the estimates in the NNDR1 reflect this. The Council is spreading the Collection Fund deficit (for business rates and Council Tax) over a three year period, and so the estimates assumed for collection fund deficits will have ramification for future financial years as well. Significant uncertainty remains around, especially on business rates but to a lesser extent Council Tax, the amount of tax collected and what will need to be written off in future years.

3.4 Adequacy of insurance and risk management

Strategic risk management is being embedded throughout the Council to ensure that all risks are identified, ameliorated and managed appropriately. The Council's insurance arrangements are a balance of external insurance premiums and internal funds to self-insure some areas. As well as an internal risk manager the Council also make use of an external consultant to advise on the level of funds required to underpin those risks not externally insured.

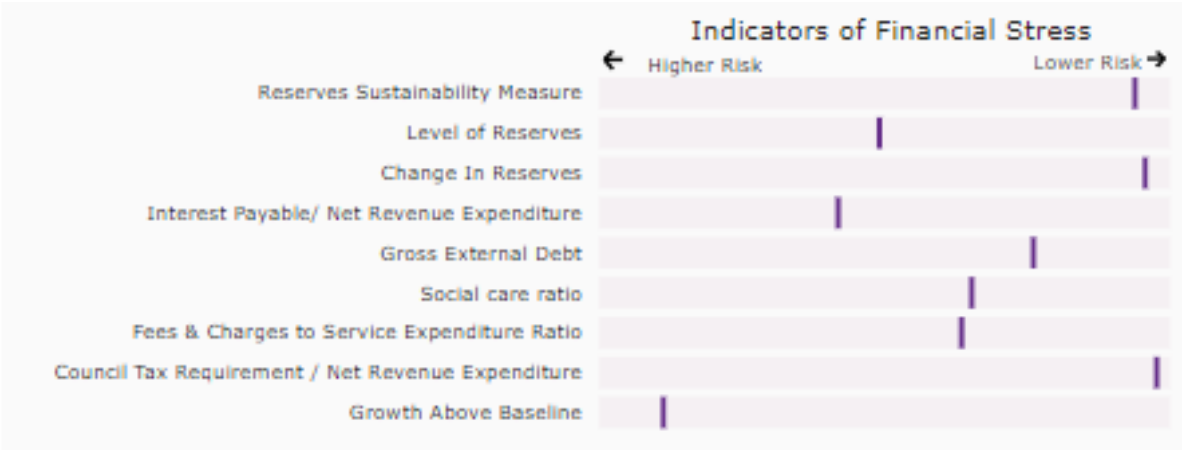
3.5 Overall financial standing of the authority

West Berkshire Council borrows money to support the Council's capital programme. It has calculated its capacity for borrowing within the provisions of the prudential framework and budgeted accordingly. The assumed Council Tax collection rate is 99.6% and this is an achievable if demanding target. Each 1% uncollected amounts to approximately £1m and any surplus or deficit on the collection fund is apportioned between the Council and its major precepting bodies the Royal Berkshire Fire and Rescue Authority, and the Thames Valley Police Authority.

The Council can increase Council Tax (including the ASC precept) by 5.99% in the current year but is proposing to do so by only 4%. The Government have not clarified

the carry forward rules, but imply that there will be no carry forward of unused flexibilities from 2022-23 budget setting into the future (unlike the 3% flexibility carried forward from 2021-22 to 2022-23). By not taking 2% of a Council Tax rise, the Council is forgoing £2m of additional income which would support future budgets and provide additional protection against future financial uncertainties and / or Government reforms, as well as providing additional funding for Council services.

As part of the consideration of the financial standing of the Council, CIPFA have released a financial resilience index. The indicators included are relatively small in number, they do provide a comparative (versus other unitary councils) snapshot of the previous year's position. The summary below (for 2019-20) is highlighting that the Council's reserve position has continued to strengthen and improve its financial resilience, as well as see comparable levels of debt financing and social care rations as other unitary authorities. As part the above, general fund reserves are above the minimum level set out. The below also highlights some risk around taxbase growth and this has been adjusted for across the financial papers in this budget cycle.



4 Maintaining balances

4.1 The balance of the in year budgetary position against the proposed budget will be managed against the General Reserve and service specific reserves. If budget pressures emerge then it is first for the Service to contain, then the Directorate and finally a corporate issue. If there is still a pressure at year end then General Reserves and service specific reserves will reduce. If the General Reserve falls below the minimum recommended level, it would need to be replenished to restore the minimum level. This helps ensure that the Council is in a position to maintain its service provision without drastic actions.

4.2 If an event occurs that is so serious it depletes the Council reserves to below the limit set, then the Council will take appropriate measures to raise general fund reserves to the recommended level in as soon a timeframe as possible without undermining service provision.

5 Future risks

5.1 The analysis above, is solely focussed on what the current position and looking to the 2022-23 budget. Major pressures are emerging though on the some of the underlying assumptions that will be made beyond 2022-23. There are three key areas of focus and increasing concern:

- Adult Social Care Reform – initial reviews put the additional cost at many millions of pounds of additional cost; the Government have yet to release the exact funding that the Council will receive for future years, including through the new levy, but this will require substantial new investment from Government and likely beyond the increase in the future on the social care grant and the ASC precept. Additional new funding will be available (£600m nationally in 23-24 and 24-25). The Government has issued guidance from the Department for Health and Social Care (DHSC), [1] about the four funding conditions for local authorities to prepare their ASC markets for reform as well as three conditions for receiving further grant from 2023-24; a cost of care exercise, a provision market sustainability plan and a spend report. Returns are due in September 2022 and guidance has yet to be released.

- Government funding reforms – the 2022-23 Local Government Finance Settlement included a new grant 'services grant' that was allocated much more towards deprivation. The Government have also implied a wholesale change to Local Government funding through a review in 2022 for 2023-24. If funding is allocated based on deprivation levels West Berkshire will lose out comparatively. Given the ASC reforms above, and that many costs the council faces are based on more generic cost factors e.g. planning and waste services costs are much more representative of population levels and local wage costs, this reform could have a significant impact on the Councils future funding. The Government have previous focussed on a business rates reset as well which would see an immediate £4m+ loss to the Council with no transitional scheme in place.

- High Needs Block Deficit – at present the Council is allowed, along with all other upper tier Councils, to treat any overspends on the High Needs Block (HNB) within the Dedicated Schools Grant (DSG) as an accumulated deficit that does not count towards the General Fund reserve until 2022-23. This accounting rule changes in 2023-24 and this would see an immediate reduction in the Council's General Fund reserve of the equivalent deficit amount (estimated at approximately £3m). The local taxpayer would be funding directly school specific spend. Unless either extra funding is found from Government or this accounting treatment is extended, the Council would likely need to contribute more money to General Fund reserves in 2023-24.

Joseph Holmes
Executive Director (Resources)
January 2022

[1] https://www.gov.uk/government/publications/market-sustainability-and-fair-cost-of-care-fund-2022-to-2023/market-sustainability-and-fair-cost-of-care-fund-purpose-and-conditions-2022-to-2023)