

**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 2023.

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 this analysis has been updated for more specific demand and general risks with a minimum level set out for the 2023-24 budget, see further below. An updated LAAP bulletin is expected to be issued post release of these papers to the Executive.

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

Before the 2022-23 outturn is reported, the general reserves stood at just over £8.9m based on estimated use of reserves for the 2022-23 budget, 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 £7.25m by the end of the 2022-23 financial year largely due to the in-year use of reserves forecast at Q3.

As can be seen from the previous appendix (Ei) the forecast is for almost all other earmarked reserves and risk reserves to be eradicated for use for the 2022-23 in year budget position or support the 2023-24 budget. This puts even greater importance on ensuring the adequacy of a minimum level of reserves as any that have been build up in recent years have been used to support the 2022-23 budget at both budget setting and due to the in-year overspend.

Any improvement in the 2022-23 in-year position by outturn will be used to replenish any risk reserves and these risk reserves will be an area to enhance in future financial years to improve the Council's financial resilience.

3 Robustness of Estimates

3.1 The treatment of inflation and interest rates

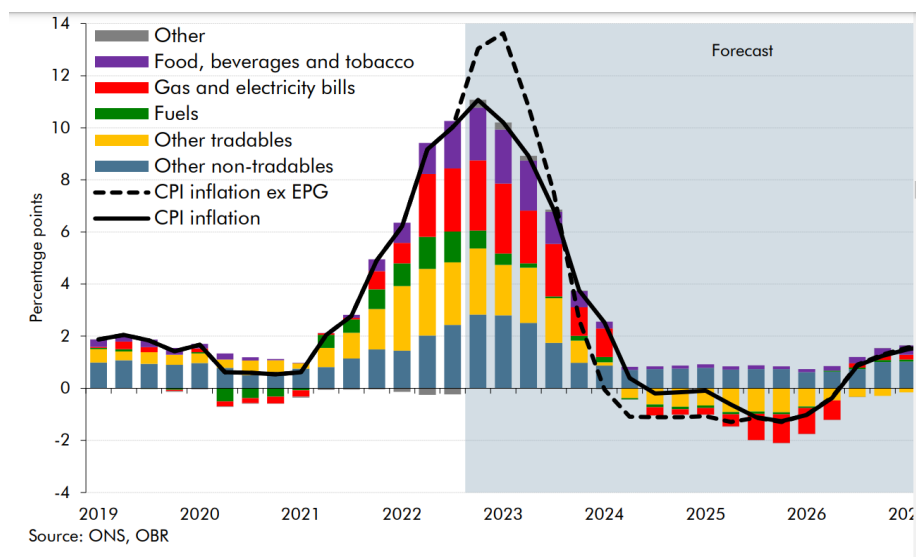
The 2023-24 pay award for staff has been estimated at the Government's prevailing inflation rate target of 3.5%. The 2022-23 pay award has been provided at a flat rate of £1,925 and this has been included in the pay budgets for 2023-24, with the additional 3.5% for 2023-24. At the time of writing there is no certainty over the pay award for the forthcoming financial year, and with inflation forecast to drop significantly during 2023-24 it is assumed that the pay award will revert back to the prevailing rate of inflation. Any pay award above the assumptions of 3.5% would need to be funded from the general fund reserves during 2023-24.

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. The impact of the war in Ukraine, together with higher inflation, higher interest rates, and uncertainty in the economic outlook, on capital financing is detailed in the Investment & Borrowing Strategy. Increases to fees and charges have been set in line with inflation where appropriate based on the October 2022 level of CPI in the main (11.1%).

Due to the significant pressures the Council has faced during 2022-23 from rising demand, residual covid-19 impacts and a major increase in inflation, almost all risk reserves are forecast to be depleted, most notably in Adult Social Care and Children's Social Care. This puts even greater focus on in year budget monitoring in the future as there is very little in reserves above the minimum level set, and the focus for 2023-24 will be to ensure that the historic strong financial stewardship is continued to enable a break even position as at 31.3.2024.

Social Care provider costs remain an area of significant financial pressure. The budget takes into account inflationary pressures from 2022-23 into 2023-24. This service has seen the greatest overspend forecast during 2022-23, driven by increased complexity of demand and inflation, leading to significant average unit cost pressures rising by over 10%. A further inflationary pressure of 3.5% has been assumed for adult social care providers in the budget, along with detailed modelling of expected client numbers for 2023-24. The Government has delayed the major Adult Social Care reforms to 2025 at the earliest, but has provided additional funding for social care more widely, as well as for Adult Social Care hospital discharges. This later funding has been included in the ASC budget through the Better Care Fund for West Berkshire's element of £0.1m with further funding due through the BOB ICS of £0.2m that has not been included in budgets.

Office of Budget Responsibility (OBR) inflation forecasts as at November 2022



Overall inflation levels have risen significantly since March 2022. The October CPI figure stood at 11.1%, and this is the basis for future fees and charges increases proposed in the budget; there is a risk of reducing overall income through these price increases, though they reflect the overall cost base rises the Council is facing through its own contracts. The main risk area, beyond ASC noted above, is in respect of energy price inflation. There is an additional £1.76m in the 2023-24 budget for energy inflation, though this may or may not be partially mitigated through any central Government schemes to support certain areas of business and the public sector.

3.2 Efficiency savings, productivity gains and Government reform

The budget contains proposals to deliver £9.1m 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.

Government reforms continue to have an impact on the budget, with an assumption in the 2023-24 budget of the implementation of the levelling up Bill to enable the Council to have greater control over setting planning fees.

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:

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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	-0.20	-0.15%
2022/23 est	-1.00	-0.77%

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 support of Covid-19 impacts has been totally removed now, though the impact on the Council's budget remains. For example, £750k is being included in the budget for lost car parking income due to a decrease in the number of car parking places being used and the number of season tickets being taken by businesses. There is also a significant pressure on leisure costs and decreasing income since the pandemic as usage is lower than pre-pandemic levels.

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, 2022-23 being the last year of this spreading. 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, especially due to the national Revaluation of Business Rates in 2023 which has seen a significant increase in the total business rates bill for businesses across the district. There will be some movements through reserves to pay for the 2022-23 forecast deficit on

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business rates which has improved and will see a collection fund benefit move through during 2023-24.

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 99.7% and this is an achievable if demanding target. Each 1% uncollected amounts to approximately £1.1m 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 4.99% in the current year and is proposing to do so for 2023-24.

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 2021-22) is highlighting that the Council's reserve position is, compared to others Councils, lower. The Council has less comparable levels of debt and lower social care ratios versus other unitary authorities. The Council spends a comparably high level of revenue expenditure on interest repayment, though this is in part reflective of the Council's commercial property portfolio and ensuring suitable financing of this. As part the above, general fund reserves are just above the minimum level set out in this appendix and appendix Ei. 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

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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.

	2018-19	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m	£m
General Fund	8.22	8.03	12.10	12.91	7.25

- 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.
- 4.3 Due to the significant pressures on the Council's budget in 2022-23 and in 2023-24, almost all earmarked reserves except for the minimum level of General Fund balance of **£7m** have been deployed either in 2022-23 or are expected to be in 2023-24. If the Council's financial position by Quarter Four of 2022-23 improves, this will release the pressure on reserves. It is expected that, compared to other Councils, West Berkshire size of reserves will have declined in respect of 2022-23. Though the Council expects to have the minimum level of reserves set aside in the General Fund for year end in 2022-23, having no buffer through other earmarked reserves does increase the risk of the general fund reserve being further depleted, whilst also ensuring the need for all budget holders to exercise the maximum in financial control and stewardship of funds to protect the General Fund reserve in 2023-24.

5 Future risks

- 5.1 The analysis above, is solely focussed on what the current position and looking to the 2023-24 budget. Major pressures are emerging though on the some of the underlying assumptions that will be made beyond 2023-24. There are three key areas of focus and concern:
- Per the above, the declining overall reserve position and the need to maintain the utmost financial control for the financial years ahead to ensure that the Council does not go below its minimum level of General Fund reserve is the key risk for the budget ahead and beyond.
 - The post 2025 financial position. The short term funding mechanisms put in place by Government provide an overall 11% increase in core spending power over the next two years to Councils as a whole. This is welcome, but in year inflation is 11.1% and so this funding boost will be eroded before the end of the two years. The issue the Council needs to be most aware of in the latest Government spending plans is the post 2025 funding. This is forecast to be a real terms cut to 2028¹ and Government reform of business rates baselines, overall funding and utilising updated census figures are all likely to be detrimental to the Council's financial position.

¹ <https://ifs.org.uk/articles/english-councils-core-spending-power-set-grow-11-real-terms-over-next-two-years>

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- 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 was due to change in 2023-24 and this would have seen an immediate reduction in the Council's General Fund reserve of the equivalent deficit amount (estimated at approximately £6m). This accounting treatment has now been extended to 2025-26 but raises further the importance of proposals to address this deficit in future Council activity.

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January 2023