Financial Statements 2022/23 Highlight Report and Going Concern Assessment

Committee considering report:	Governance Committee
Date of Committee:	26 June 2023
Portfolio Member:	Councillor Iain Cottingham
Date Portfolio Member agreed/sent report:	8 June 2023
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	GE4386

1 Purpose of the Report

This report is to inform members of the key highlights from the draft 2022/23 financial statements and summarise management's assessment of the Council's ability to function as a going concern; this determination supporting the preparation of the Statement of Accounts for 2022/23.

2 Recommendations

2.1 No recommendations are made within this report, members are requested to note:

(a) The usable reserve position of £47.5 million, inclusive of a £7.2 million minimum General Fund level, based on the draft financial statements for 2022/23.

(b) The increase in the minimum accruals level for revenue, previously set at £5k and now increased to £10k to align with limits on capitalisation. Minimum level increase was approved by the Council's s151 Officer.

(c) The going concern assessment, has concluded that the Council is a going concern as at the Balance Sheet date of 31 March 2023.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The financial statements have been prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014 and published by the revised 31st May deadline. The Balance Sheet shows an overall increase

	in net assets compared to the previous reporting period. The reserves have been significantly depleted, however, the minimum General Fund level has been set to enable the Council to response to unforeseen / unbudgeted events. The minimum General Fund level plus a balanced budget having been set for 2023/24 indicates there is no imminent risk to the going concern assertion. Joseph Holmes, s151 Officer, 8.6.2023.			
Human Resource:	Not applicable			
Legal:	The Council is required to ensure the annual financial statements are properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.			
Risk Management:	In accordance with the Code, the Council's Statement of Accounts is prepared assuming that the Council will continue to operate in the foreseeable future and that it is able to do so within the current and anticipated resources available. By this, it is meant that the Council will realise its assets and settle its liabilities in the normal course of business. The Council has set a minimum General Fund level of £7.2 million as part of the 2023/24 budget setting process.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				

A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes – executive Director for Resources, s151 Officer			

4 Executive Summary

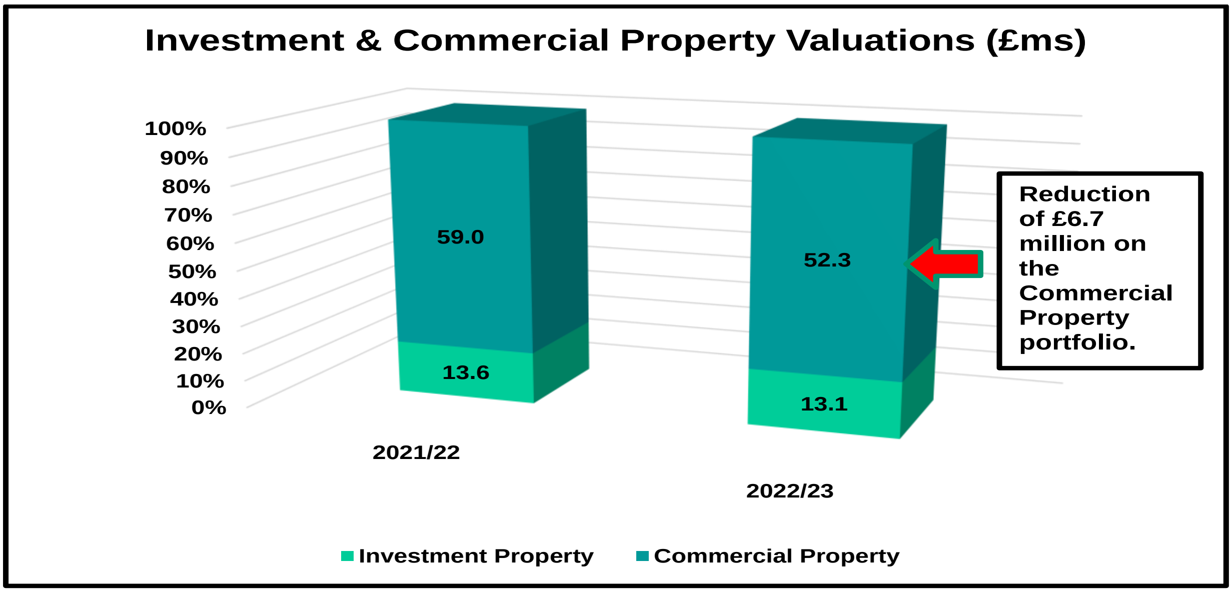
4.1 The financial statements are produced in compliance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014. The draft 2022/23 financial statement were published in accordance with a revised publication timetable of 31st May. Approximately 30%, of Councils (51 districts and 43 Upper Tier), achieved publication of draft financial statement for 2022/23 by the May deadline.

4.2 At the time of writing this report the 2020/21 and 2021/22 accounts remain open and subject to external audit sign off. On this basis, the opening balances brought into financial year 2022/23 remain draft and the closing balances as at the Balance Sheet date of 31.3.2023, are therefore provisional. There has been a significant decline nationally in the number of local government accounts including an audit opinion published by the deadline set by central government. For financial year 2020/21, only 9% of local government bodies received audit opinions in time to publish audited 2020/21 financial statements by the 30th September deadline. For financial year 2021/22, 12% of audits were completed with 632 audits outstanding at the revised November deadline. Delays to local audits result in local authority finance teams lacking reliable, audited figures on which to base forthcoming budgets, central government departments do not sufficient oversight of local authority finances and local residents are denied assurance that public monies are being spent appropriately. Delays can be partially attributed to the disruption caused by Covid pandemic, however, post abolition of the Audit Commission and the introduction of private firms into the external audit framework, the percentage of audits completed by the national deadline fell from 97% in 2015/16 to 57% in 2018/19.

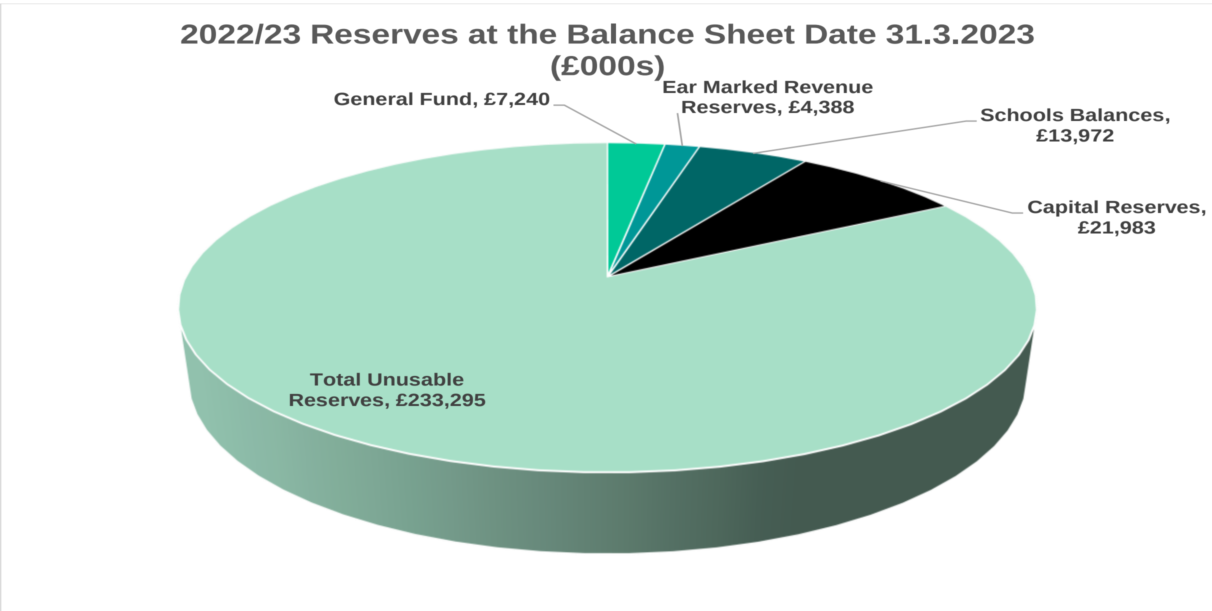
4.3 The Balance Sheet position as at 31.3.2023 demonstrates an increase in net assets to £280.9 million (£31.0 million as at 31.2.2022).

Assets £700.9 Million	Liabilities (£420.0) Million	Usable Reserves £47.6 Million	Unusable Reserves £233.3 Million
• Plant, Property & Equipment (PPE) & Intangible Assets • £573.2 Million	• Pension Fund Liability • £123.5 Million	• General Fund • £7.2 Million	• Unusable Pension Liability • £123.5 Million
• Investment Property • £65.4 Million	• Long Term Borrowing • £182.0 Million	• Usable Earmarked Revenue Reserves • £18.4 Million	• Other Unusable Reserves (e.g. Collection Fund and Dedicated Schools Grant) • (£356.8) Million
• Current Assets (e.g. cash and cash equivalents) • £62.3 Million	• Other Liabilities (e.g. creditors) • £114.5 Million	• Usable Capital Reserves • £22.0 Million	

4.4 The improvement has been driven by a significant decrease in the pension liability (£123.5 million as at 31.3.2023 compared to £382.6 million as at 31.3.2022). The liability has decreased due to actuarial assumptions regarding discount rates (for future cash flows) being revised. The Council is advised of the liability by Barnett Waddington LLP. Within the accounts the Council's total assets have decreased in value (£700.9 million as at 31.3.2023 compared to £712.3 million as at 31.3.2022), the main driver being a reduction in the valuation of the Council's investment property portfolio, details included in appendix B. The commercial property portfolio which forms part of the overall investment property portfolio, has seen a net decrease in value over the reporting period, driven by downturns on valuations for retail warehousing and office space. The commercial property portfolio provides annually, an approximate net income stream of £3.3 million (prior to financing costs including MRP), contributing to the cost of delivery core Council services.



4.5 As at the Balance Sheet date the Council holds usable reserves of £47.6 million (£77.3 million as at 31.3.2022), and unusable reserves of £233.3 million (£46.3 million deficit as at 31.3.2022). During the reporting period the Council deployed significant levels of earmarked revenue reserves in support of service delivery. The Council's General Fund is at the minimum level of £7.2 million. During the financial year £19.4 million of Earmarked reserves were released to support the in year revenue budget and the proposed 2023/24 revenue budget. Earmarked revenue reserves of £4.3 million, focused on insurance and Public Health are now held. £14.0 million of schools reserves are consolidated into the Council's Balance Sheet. Schools balances increased by £2.9 million over the reporting period, driven by an increase in balances for special schools. Nine primary schools reported deficit positions at the year end, an increase of three schools compared to 31.3.2022.



4.6 Currently a statutory override is in place for Dedicated Schools Grant (DSG) deficits. The override allows Local Authorities to transfer accumulated deficits from the General Fund to unusable reserves. A cumulative £4.8 million deficit on the DSG is currently held within the Council's unusable reserves. This deficit has increased by £1.7 million over the reporting period. The statutory override has been in place since the financial year beginning 1.4.2020 and has been extended to include the year ending 31.3.2026. Potential removal of the override does constitute a significant financial risk to the Council's General Fund. The Council is actively engaged in deficit recovery plans to move the Dedicated Schools Grant to a balanced position as at the year ending 31.3.2026. Adjustments for statutory overrides are held within unusable reserves. Unusable reserves are amounts set aside that the Council is unable to use to fund expenditure because they are unrealised or notional, i.e. they relate to accounting adjustments, primarily in respect of capital.

4.7 The significant reduction in revenue reserves, combined with a minimum General Fund level does place financial pressure on the Council. Robust cost management and focused delivery of planned revenue savings will be a key focus in financial year 2023/24. There remains a high degree of uncertainty regarding future funding levels for local government, the long awaited proposed Fair Funding review has not occurred. The Council projects its finances over the medium term to ensure it is in a sustainable position to deliver essential public services and finance the delivery of its corporate plans. The MTFS looks to a four year horizon; but delivery of the MTFS cannot occur through the Council alone. A significant proportion, 50%, of the Council's budget is delivered through partners in the private, public and voluntary sectors.

4.8 Due to strength of the overall Balance Sheet position and growth in net assets, it is concluded there is no impenitent risk to the going concern assertion. The longer term outlook is dominated by a range of factors; firstly, the macro-economic recovery from the Covid-19 pandemic and the impact that this has had, and will have on the UK economy including inflation and interest rates; secondly the impact on Government reform in Adult Social Care and other services such as planning policy which will alter financial planning assumptions, and thirdly, the long awaited fair funding review and proposed further business rates retention proposals for 2025-26 and beyond which should have a significant impact on the Council's finances and hopefully provide some longer term financial planning certainty.

5 Supporting Information

Introduction

5.1 Councils are required to annually produce a set of financial statements that comply with CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Accounts and Audit Regulations 2015. The statutory deadline for production and publication of the annual financial statements is 31st May.

5.2 Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), the Council's appointed external auditors are required to report whether, in their opinion, the Council's financial statements:

(a) Give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and

(b) Have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

5.3 Further to the production of the annual financial statements, the Council is requested by the external auditors Grant Thornton to undertake a going concern assessment as at the Balance Sheet date 31 March 2023. The concept of 'going concern' assumes that a Council, its functions and services, will continue in operational existence for the foreseeable future. This key assumption underpins the financial statements prepared under the Local Authority Code of Accounting Practice, and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an Authority was in financial difficulty, the prospects are thus that alternative arrangements may be made by Central Government either for the continuation of the provision of services that the Council supplies, or for assistance with the recovery of a deficit over a period of greater than one financial year.

5.4 Where the 'going concern' concept is not appropriate relating to the preparation of the financial statements, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be fully realisable at their book values, and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact upon an Authority's financial statements.

Background

5.5 At the time of writing this report, the 2020/21 and 2021/22 accounts remain open subject to external audit sign off. On this basis, the opening balances brought into financial year 2022/23 remain draft and the closing balances as at the Balance Sheet date of 31.3.2023, are therefore provisional.

5.6 Local government audit provides transparency and accountability to both taxpayers and local elected representatives. It provides local authorities with accurate and reliable information with which to plan long term finances. From 2018/19, local authorities have appointed external auditors (private firms) either directly or indirectly through a national framework PSAA (Public Sector Audit Appointments). The Department for levelling Up, Housing & Communities (DLUHC), has also sought to compress the time allowable for production of financial statements with the aim of encouraging more rigorous financial reporting. There has been a significant decline nationally in the number of local government accounts including an audit opinion published by the deadline set by central government. For financial year 2020/21, only 9% of local government bodies received audit opinions in time to publish audited 2020/21 financial statements by the 30th September deadline. For financial year 2021/22, 12% of audits were completed with 632 audits outstanding at the revised November deadline.

5.7 In respect of producing and publishing draft financial statements, for financial year 2022/23, the timetable was significantly reduced to 31st May. Approximately 30%, of Councils (51 districts and 43 Upper Tier), achieved publication of draft financial statement for 2022/23 by the May deadline. The majority of Councils have publication notices stating the intention to publish within eight weeks of the deadline.

Draft Financial Statements 2022/23

5.1 In respect of statutory changes which impact on the preparation of the 2022/23 accounts, no new accounting standard have been adopted. In order to address the delays in issuing audit opinions by external auditors, CIPFA completed a consultation on the code of accounting practice, consulting on a number of temporary proposals to reduce audit scope. The Financial Reporting Advisory Board (FRAB), approved a deferral of the IFRS 16 leases implementation. Under IFRS 16, (with the exception of leases of low value items and short term leases), where the Council is lessee to a contract it will need to recognise on the Balance Sheet a right of use asset, and corresponding lease liability. This will increase the Council's Capital Financing Requirement (CFR) and the Council will be required to make a Minimum Revenue Provision. The deferment approved by FRAB will result in IFRS 16 leases not becoming mandatory for local authorities until 2024/25. However, as part of the 2023/24 statements preparation we will need to include an assessment of the impact of accounting standards issued, not yet adopted.

5.2 The year end position of the Dedicated Schools Grant (DSG), is underwritten by the local authority. Due to the volume of Education Authorities experiencing significant DSG deficits, action was taken to protect the General Fund position from the impact of accumulated deficits. A statutory override allowing local authorities to reverse any deficit impact on the General Fund out to unusable reserves was introduced for financial year 2020/21. There remains a huge demand led pressure on funding, particularly in respect of High Needs expenditure. In light of increasing deficit positions, the statutory override for the treatment of the DSG deficit has been extended to cover the period 1st April 2020 to 31st March 2026. The cumulated deficit held within unusable reserves at the Balance Sheet date of 31.3.2023 is £4.8 million. The DSG deficit position remains a future risk to the Council's General Fund without robust deficit recovery plans or additional funding from central government.

5.3 In closing the accounts for 2022/23, the minimum accruals limit on revenue was increased from £5k to £10k to align with capitalisation de minimis. The change in accounting treatment generated a one off benefit of £1.5 million to the General Fund.

Proposals

There are no proposals made within this report.

6 Other options considered

Not applicable, this report is to note only.

7 Conclusions

7.1 The financial statements are produced in compliance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014. The 2022/23 were published by the 31st May deadline and remain draft and subject to change until the Council's appointed external auditor provides an audit opinion.

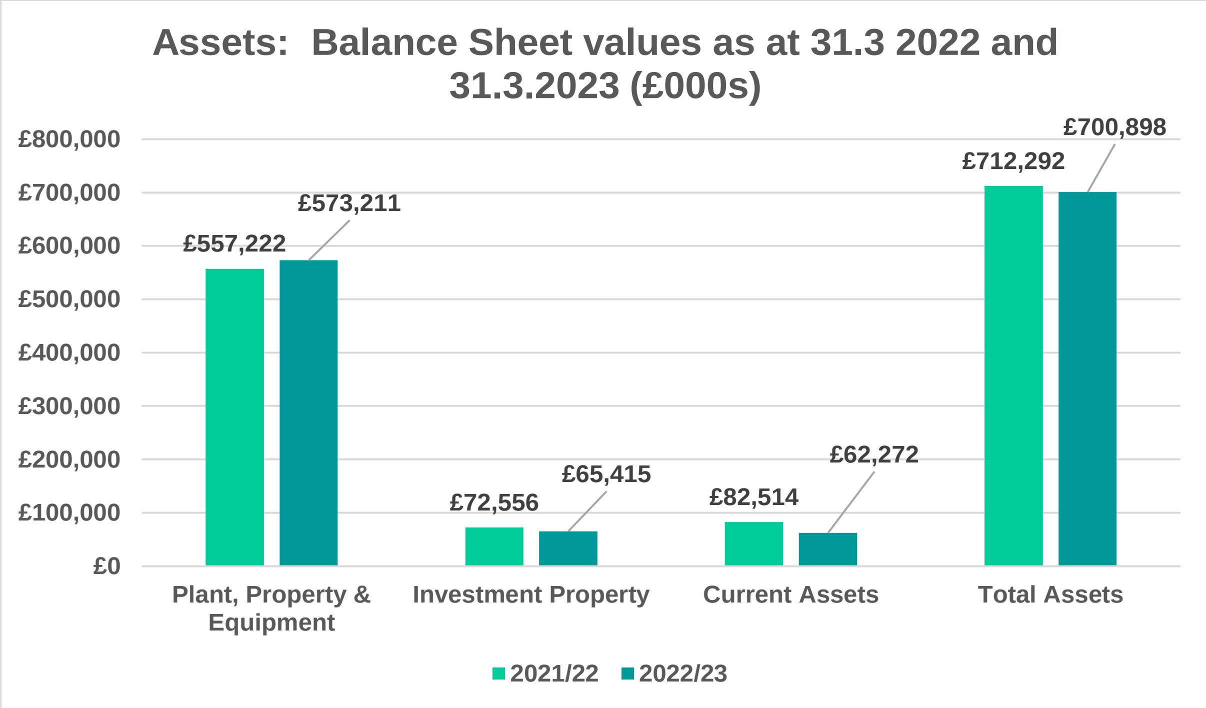
The draft Balance Sheet as at 31.3.2023:

Assets £700.9 Million	Liabilities (£420.0) Million	Usable Reserves £47.6 Million	Unusable Reserves £233.3 Million
• Plant, Property & Equipment (PPE) & Intangible Assets • £573.2 Million	• Pension Fund Liability • £123.5 Million	• General Fund • £7.2 Million	• Unusable Pension Liability • £123.5 Million
• Investment Property • £65.4 Million	• Long Term Borrowing • £182.0 Million	• Usable Earmarked Revenue Reserves • £18.4 Million	• Other Unusable Reserves (e.g. Collection Fund and Dedicated Schools Grant) • (£356.8) Million
• Current Assets (e.g. cash and cash equivalents) • £62.3 Million	• Other Liabilities (e.g. creditors) • £114.5 Million	• Usable Capital Reserves • £22.0 Million	

7.1 As at 31.3.2023, the Council's net assets summed £280.9 million (£31 million as 31.3.2022). A key factor in the increase in net assets between 2021 and 2022 is the reduction in the defined benefit pension liability, the total amount payable decreasing from £382.6 million (31.3.2022) to £123.5 million (31.3.2023).

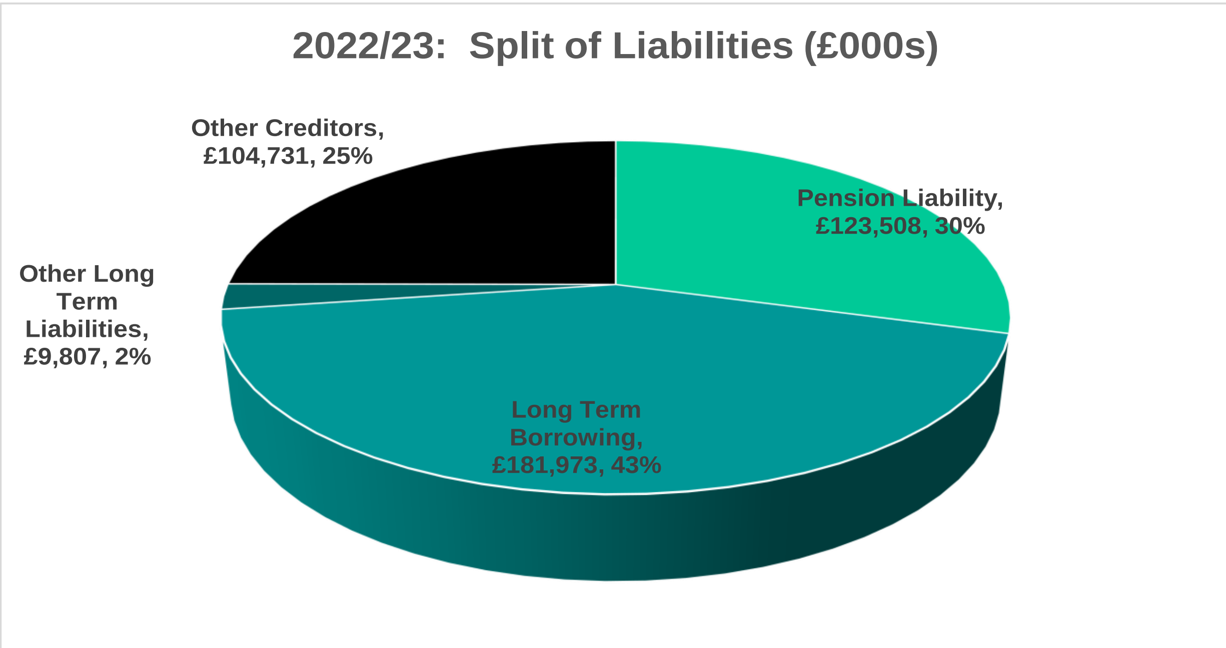
7.2 The Council's total assets have decreased from £712.3 million (31.3.2022) to £700.9 million as at 31.3.2023. The decrease is primarily attributable to a decline in Investment property values from £72.6 million (31.3.2022), to £65.4 million as at 31.3.2023. The movement in Investment Property values is detailed in appendix B.

7.3 Year-end current assets (inclusive of cash balances held by the Council) decreased from £82.5 million (31.3.2022) to £62.3 million as at 31.3.2023. The key factors driving the overall decrease are year-on-year reductions in the level of external investments and cash balances held from £37.8 million (31.2.2022) to £20.7 million as at 31.3.2023. The Council operated a strategy during 2022/23 of financing capital through internal borrowing (i.e. cash balances) in order to reduce interest rate risk during a rising interest rate environment. The effect of capital expenditure in year can be noted in the increase in the value of operational plant, property and equipment as the Council continues to invest in its asset base through the annual capital programme.



7.4 The Council has utilised draft asset valuations provided by the external valuers as at 31.12.2022, due to delay in availability of March valuations. Once all March based valuations are received an exercise will be undertaken to review and identify any significant variations in preparation for the external audit.

7.5 The Council had total liabilities as at 31.3.2023 of £420 million. 73% of the Council's liabilities relates to the pension liability and long term borrowing undertaken in support of historic capital programmes.

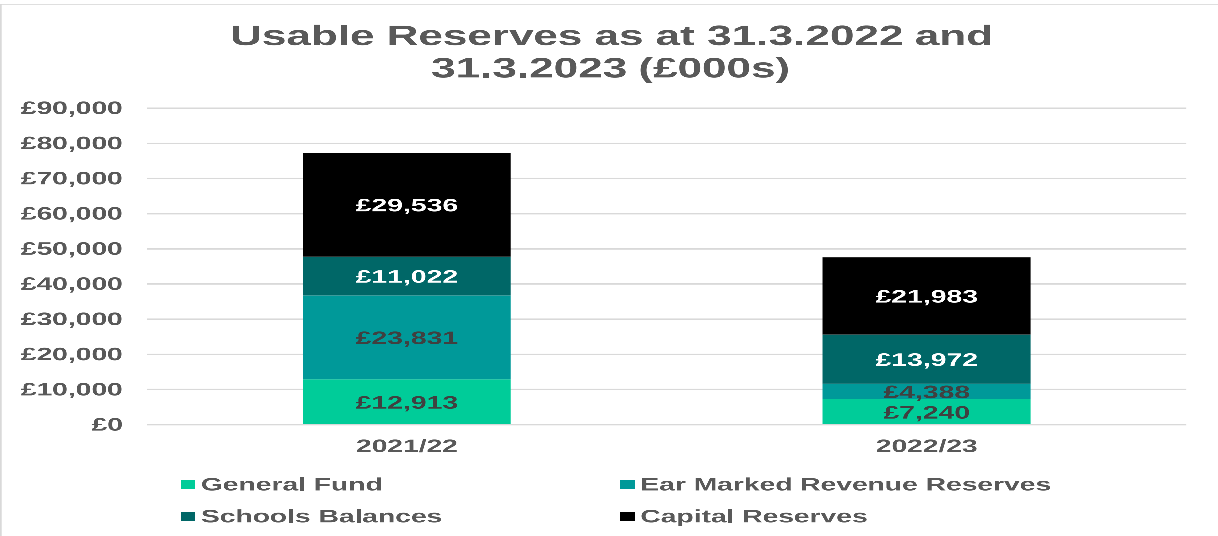


7.6 The Balance Sheet position as at 31.3.2023 is a decrease in liabilities compared to £681.3 million as at 31.3.2022. The change has been driven by the reduction in the pension liability and reduction in long term borrowing. Due to the rising interest rate environment in 2022/23, no additional long-term borrowing was undertaken in support of the capital programme. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. In keeping with this objective, with high cost long-term rates it was considered to be more cost effective in the near term to use borrowed rolling temporary / short-term loans and internal resources to finance capital during the period.

7.7 The pension liability in the Balance Sheet is based on actuarial assumptions produced by Barnett Waddingham LLP. The liability assessment as at 31.3.2023 includes a number of variables, taking into account estimates of return on pension investments, assumed changes in inflation and mortality, and also the "discount rates" modelled on the defined benefit obligation. Such "discount rates" being a method used to discount future cash flows to their present value and which are determined by the actuary with reference to corporate bond yields ('yield' being a bond's coupon [interest] rate, divided by its market price). The overall reduction in the net pension liability forecast is primarily reflective of a change in actuarial assumptions for discount rates. All else being equal, a higher discount rate will result in a lower value being place on the defined benefit obligation and an improvement in the overall position.

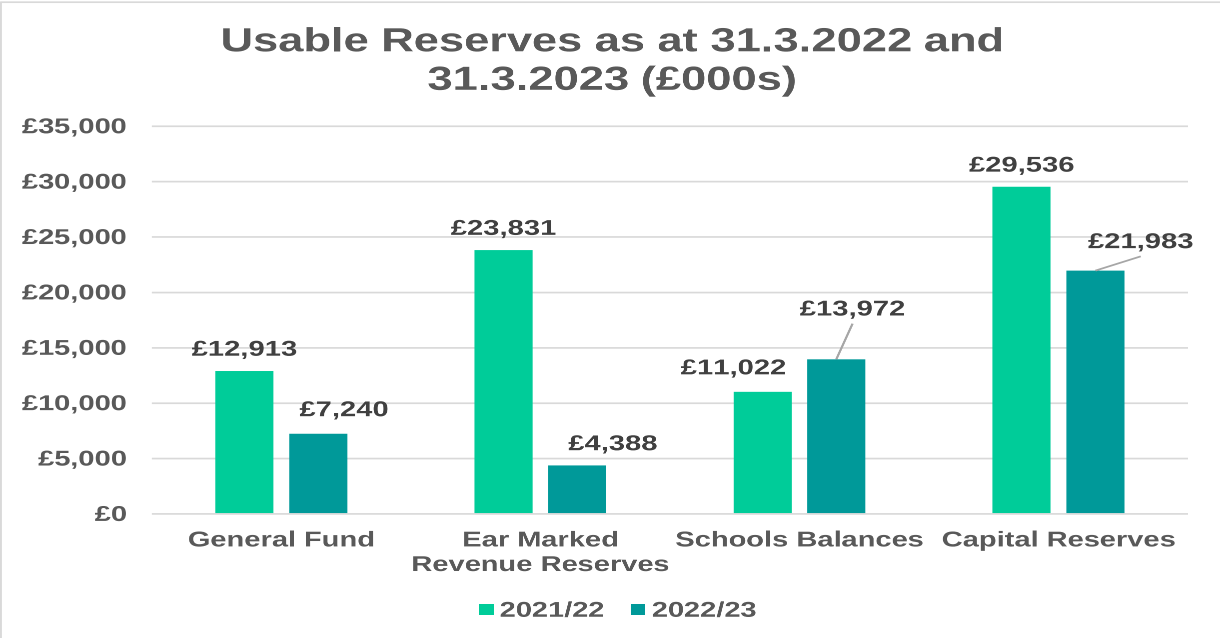
7.8 During the reporting period the Council deployed significant levels of earmarked revenue reserves in support of service delivery. At the Balance Sheet date the Council held usable reserves of £47.6 million (£77.3 million as at 31.3.2022) and unusable reserves of £233.3 million (£46.3 million deficit as at 31.3.2022).

7.9 Usable reserves declined by £29.7 million over the reporting period. The reduction in usable reserves has been driven by, firstly pressure on the revenue budget and secondly deployment of usable capital reserves in support of the capital programme and transformation agenda. As at the Balance Sheet date the Council's General Fund was at the minimum level of £7.2 million. During the financial year £19.4 million of Earmarked reserves were released to support the in year revenue budget and the proposed 2023/24 revenue budget. As at 31.3.2023, earmarked revenue reserves of £4.3 million, focused on insurance and Public Health are now held.



7.10 In respect of usable capital reserves, at the Balance Sheet date the Council held £1.5 million of unapplied capital receipts and £20.5 million of unapplied external funding (Community Infrastructure Levy, grants without conditions). Capital sums are held for financing of future capital projects and forecast to be deployed in financial year 2023/24. £1.4 million of capital receipts held are to be deployed in support of the Council's transformation agenda under the approved capital Strategy and the Flexible use of capital Receipts Policy.

7.11 As part of the production of the financial statements, school balances relating to all those schools under the control of the Education Authority are consolidated into the accounts. Over the reporting period schools balances increased from £11 million as at 31.3.2022 to £13.9 million as at 31.3.2023. The increase in balances relates primarily to special schools. Over the reporting period nine schools ended the financial year with deficit positions, an increase from six schools at the preceding reporting period.



7.12 Unusable reserves are amounts set aside that the Council is unable to use to fund expenditure because they are unrealised or notional, i.e. they are not cash backed and relate to accounting adjustments. In respect of unusable reserves of £233.3 million held as at 31.32023, the year on year move in reserves primarily relates to the decrease in the pension fund liability (£382.6 million at 31.3.2022 v £123.5 million at 31.3.2023), and a reduction in the Collection Fund deficit (£9.7 million at 31.3.2022 v £5.0 million surplus at 31.3.2023).

7.13 In conclusion, net assets have increased to £280.9 million compared to £31.0 million as at 31.3.2022. The improvement in the Balance Sheet is primarily the result of a significant reduction in the Pension Fund liability. Reserves overall (usable plus unusable) are positive compared to the prior reporting period, although usable reserves have been significantly depleted and the Council now holds minimal funds to respond to future significant unplanned / unbudgeted events.

8 Appendices

8.1 Appendix A – Directors Narrative Statement (extract from financial statements 2022/23)

8.2 Appendix B – Investment Property Revaluation Movements as at 31.3.2023.

8.3 Appendix C – Going Concern Assessment as at 31.3.2023

Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	☐
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	X

Officer details:

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Appendix A

Executive Directors Narrative Statement 2022/23

1. Overview

During 2022/23 inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, has presented a significant number of financial challenges for the Council in supporting residents and local businesses.

The Council's outturn position was a net expenditure figure of £149.3 million against an original budget of £143.8 million, generating an overspend position of £5.4 million. During the financial year £19.4 million of Earmarked reserves were released to support the in year revenue budget and the proposed 2023/24 revenue budget. As at the Balance Sheet date the Council's General Fund was at the section 151 minimum level of £7.2 million. After deployment of significant reserves in 2022/23, the Council now holds (including the General Fund), usable reserves of £47.6 million (£77.3 million as at 31.3.2022). Robust cost management and focused delivery of planned revenue savings will be a key in financial year 2023/24.

The Council continues to pride itself on ensuring services deliver high outcomes and offer value for money, sound and prudent financial management supports this objective. The Council projects its finances over the medium term to ensure it is in a sustainable position to deliver essential public services and finance the delivery of its corporate plans. The Medium Term Financial Strategy (MTFS), looks to a four year horizon; enough to provide some stability over an increasingly volatile financial future, but short term enough so that the first year represents the budget proposals for 2023-24, and for the next three years there are a variety of themes included which form the basis of the future savings areas. The MTFS also includes information on financing the capital strategy and how the scale and profile of this strategy has an impact on the overall financial position of the Council. Key planning themes in the MTFS include:

- That the fair funding review and business rate baseline reset does not occur until 2025-26 at the earliest (this has been confirmed by Government) and it is assumed that these do not take place during the life of the MTFS – this assumption will be revised in future years when Government plans are clearer
- Adult Social care (ASC) funding remains in the longer term with a nil impact on WBC from the proposed care reforms in future years
- New Homes Bonus is removed but replaced with a funding system that delivers equivalent levels of reward to 2023-24 in future years – Government are due to release information before the 2024-25 finance settlement
- The assumed permitted Council Tax increases remain at 2.99% and ASC Council Tax precept levels at 2% - any authority proposing an increase above these levels must hold a local referendum
- Inflation remains at 2% in the longer term – forecasts are that for 2024-25 inflation could be negative

The MTFS includes cost avoidance proposals of £5.8 million, £1.8 million of income generation, service transformation of £0.6 million, service reform of £0.8 million, disinvestment of £0.1 million and reserve usage of £1.8 million. The MTFS considers investment as well as savings. Investment set aside over the next four years amounts to £15 million. This includes a wide range of areas and remains in line with the Council Strategy ambitions – i.e. investment to achieve the Strategy, continue to build on our strengths and investment in infrastructure to deliver the Council Strategy and other supporting strategies.

Joseph Holmes

Executive Director for Resources, s151 Officer

Date: May 2023

2. Council Performance Achievements

Performance for 2022/23 showed that delivery of our Core Business activities remained strong despite some challenges relating to staff retention and recruitment evident across all areas of work. Particularly strong performance was achieved in relation to: countryside and open spaces, timeliness of providing benefits, our culture, leisure and library services, economic development support for businesses, allocation of school places according to parents' preferences, waste management (including recycling) and the collection of business rates.

Improvement activity through the Council Strategy priorities for improvement continued to progress, with the majority of measures targeted for this year being achieved. Areas of achievement to note include: people who feel safe and had their concerns met after having used our Adult Social Care Services, successful outcomes from early response support for parents and children and number of young people (including with special needs) involved in work experience.

The Influencer measures indicated that the district continued to fare well. The high demand on our services remained elevated due to Covid-19 pressures. In some cases demand started to decrease compared to the previous periods, but the main social care demand measures are still increasing.

3. Financial Performance

The 2022/23 net revenue budget of £143.8 million was set in March 2022. The budget was built with a Council Tax requirement of £110.1 million, requiring a Council Tax increase of 1% and an Adult Social Care precept of 3%, effectively raising £1.1 million and £3.2 million respectively as additional local taxation. A balanced budget was achieved through planned utilisation of £4 million of reserves and a cost reduction programme of £5.3 million.

During 2022/23 inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, has resulted in UK interest rates having been volatile right across the curve, from Bank Rate through to 50-year gilt yields. CPI inflation picked up to what should be a peak reading of 11.1% in October 2022, although hopes for significant falls from this level are dependent on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. The expectation was the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%. The economic environment during 2022/23 has presented a significant number of financial challenges for the Council in supporting residents and local businesses.

The Council's outturn position consisted of £135.3 million of expenditure on provision of direct services with a further £14.0 million of capital financing costs (i.e. the charge to revenue made in respect of funding for borrowing undertaken to finance the capital programme). In effect an overall outturn net expenditure figure of £149.3 million against an original budget of £143.8 million, generating an overspend position of £5.4 million.

During 2022/23 key inflationary pressures were realised across services with the main impacts felt within Adult Social Care where 73% of the service is commissioned from external providers. The Council took steps within the year to mitigate the impact of rising inflation through agreeing a 5.6% standard increase with external providers. The number of clients accessing long term support services also increased above forecast levels during the year placing, 1777 clients were in receipt of support packages at the yearend.

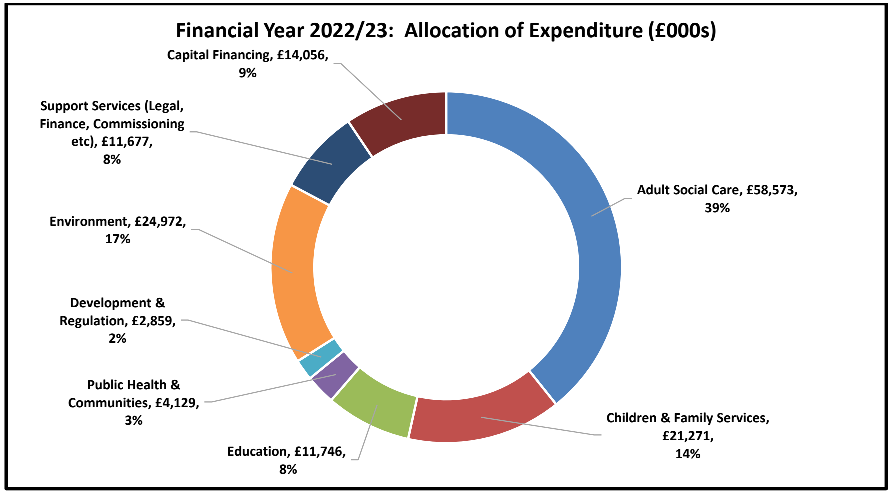


Chart 1: 2022/23 expenditure by Service

The 2022 Local Government Pay Award was agreed at £1.9k per employee which equated to an average 5% increase, creating an additional unbudgeted pressure of approximately £1.8 million. 41% of the Council net budget relates to employee pay. The Council is a heavily people placed organisation with approximately 600 corporate employees and 1700 across the wider Council estate (including schools).

The Council still continues to feel the impacts of the Covid pandemic. From an income perspective, car parking / season ticket income has significantly reduced compared to pre Covid pandemic levels as the trend for online shopping has not abated and town centres continue to experience reduced footfall. Levels of Business Rates remain lower than pre pandemic levels. The Government has provided a number of section 31 reliefs to mitigate the impacts on Local Authorities.

Capital financing accounts for 9% of total revenue expenditure incurred. The Council is required to make prudent provision for capital financing costs under the Prudential Code (updated in 2021). Capital financing is a combination of direct financing costs (i.e. repayment of long term debt) and indirect costs (i.e. Minimum Revenue Provision which is effectively a charge to the revenue budget for repaying external debt). During 2022/23 £39.5 million of capital expenditure was incurred on approved projects across the district in support of the Council Strategy.

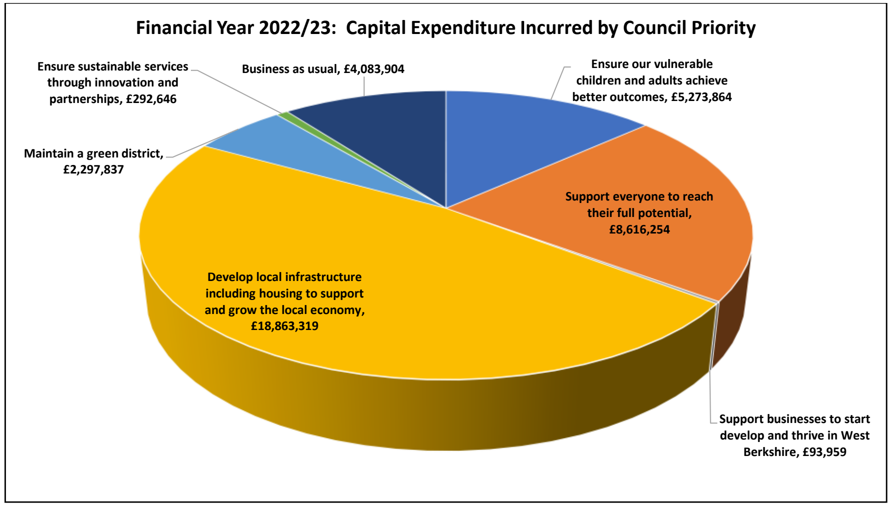


Chart 2: 2022/23 Expenditure by Council Priority

However, capital is financed a year in arrears, therefore cost associated with delivery of the 2022/23 capital programme will be incurred in financial year 2023/24. Capital financing incurred in 2022/23 relates to expenditure incurred in historic financial years. Recent economic instability has been reflected in significant increases to Local Government borrowing from the PWLB (Public Works and Loans Board), with rates for a 25 year annuity loan now on average at near 5% compared to a historic average of 2.5%. In a rising interest environment, the Council will face risks of increased cost on any new external borrowing undertaken to support delivery of planned capital works, in addition to general cost inflationary pressures. The capital programme approved by Council Committee in March 2022 was set with the expectation to undertake £14.5 million of new long term borrowing alongside £8.1 million of short term borrowing during 2022/23. During the current financial year officers have sought to mitigate risk through a strategy of not undertaking long term borrowing in respect of PWLB financing and, instead focusing on supporting delivery of the capital programme through short term borrowing and cash balances. The strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, has reduced risk and keep interest costs low.

Financial Context – Balance Sheet Review

As at the Balance Sheet date the Council holds total assets of £700.9 million (£712.3 million as at 31.3.2022), liabilities of £420.0 million (£681.3 million as at 31.3.2022), usable reserves of £47.6 million (£77.3 million as at 31.3.2022), and unusable reserves of £233.3 million (£46.3 million as at 31.3.2022).

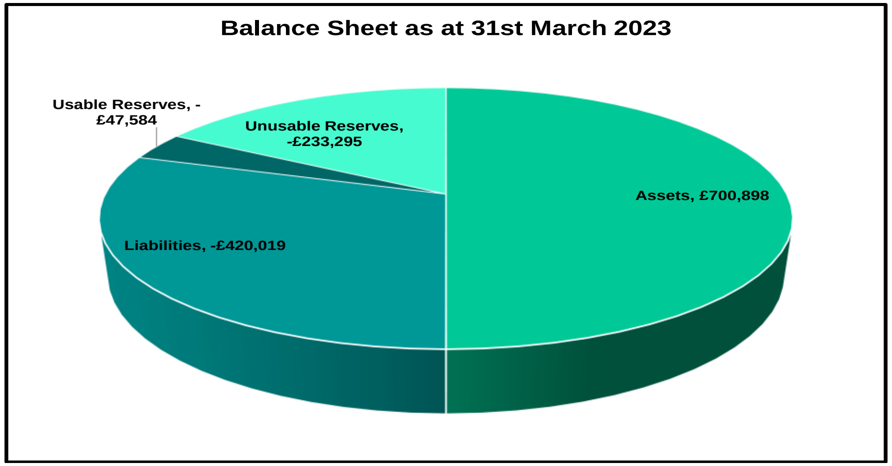


Chart 3: Balance Sheet Breakdown as at 31.3.2023

Assets £700.9 Million	Liabilities (£420.0) Million	Usable Reserves £47.6 Million	Unusable Reserves £233.3 Million
• Plant, Property & Equipment (PPE) & Intangible Assets • £573.2 Million • Investment Property • £65.4 Million • Current Assets (e.g. cash and cash equivalents) • £62.3 Million	• Pension Fund Liability • £123.5 Million • Long Term Borrowing • £182.0 Million • Other Liabilities (e.g. creditors) • £114.5 Million	• General Fund • £7.2 Million • Usable Earmarked Revenue Reserves • £18.4 Million • Usable Capital Reserves • £22.0 Million	• Unusable Pension Liability • £123.5 Million • Other Unusable Reserves (e.g. Collection Fund and Dedicated Schools Grant) • (£356.8) Million

Table 1: Summary Balance Sheet as at 31.3.2023

The Council's assets have reduced in value over the financial year, primarily in the value of investment property (£65.4 million as at 31.3.2023 and £72.6 million as at 31.3.2022). The Council's investment portfolio is split between general investment property of £13.1 million and a commercial property portfolio of £52.3 million.

The commercial property portfolio has seen a net decrease in value over the reporting period, driven by downturns on valuations for retail warehousing and office space. The commercial property portfolio provides annually, an approximate net income stream of £3.3 million (prior to financing costs including MRP), contributing to the cost of delivery core Council services.

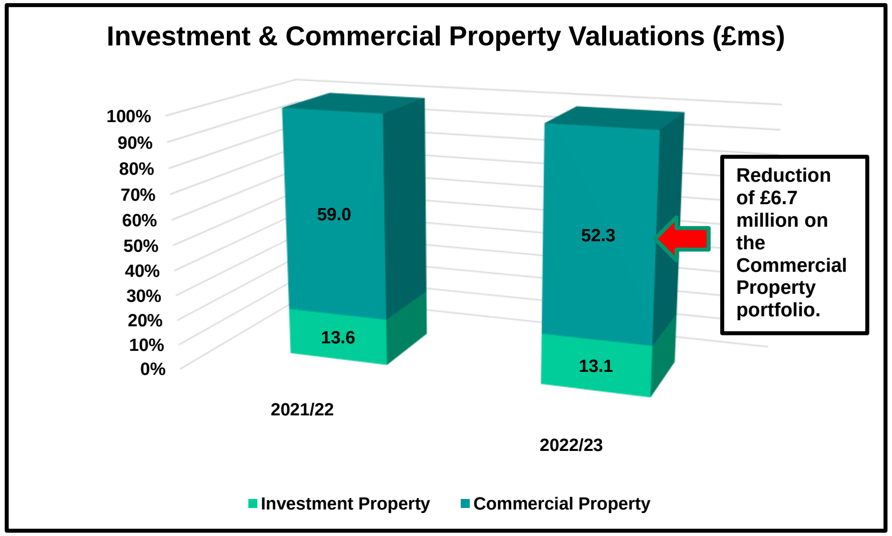


Chart 4: Investment and Commercial Property

Names and address of property	Property type	Valuation at 31 March 2021 £'000	Valuation at 31 Dec 2022 £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3765	4,155
79 Bath Road, Chippenham	Retail Warehouse	11775	9,250
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1800	1,675
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	6300	5,825
303 High Street and 2 Waterside South, Lincoln	Retail	2950	2,900
3&4 The Sector, Newbury Business Park	Office	18010	14,950
Sainsbury's, High Street, North Allerton	Retail	7185	6,835
Ruddington Fields Business Park, Mere Way, Nottingham	Office	7200	6,700
Valuation per draft 2022/23 Statement of Accounts		**58,985**	**52,290**

Directly Owned Property - Purchase not funded by borrowing ["Investment Property"]

Names and address of property	Property type	Valuation at 31 March 2021 £'000	Valuation at 31 Dec 2022 £'000
The Stone Building, The Wharf, Newbury	Café	31	25
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	40	35
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1800	1,750
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1100	1,000
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70	70
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	400	375
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	565	520
London Road Industrial Estate, Newbury	Industrial	9565	9,350
Valuation per draft 2022/23 Statement of Accounts		**13,571**	**13,125**

Table 2: Valuations by Property

During the reporting period the Council deployed significant levels of earmarked revenue reserves in support of service delivery. At the Balance Sheet date the Council held usable reserves of £47.6 million (£77.3 million as at 31.3.2022) and unusable reserves of £233.3 million (£46.3 million as at 31.3.2022).

As at the Balance Sheet date the Council's General Fund was at the minimum level of £7.2 million. During the financial year £19.4 million of Earmarked reserves were released to support the in year revenue budget and the proposed 2023/24 revenue budget. Earmarked revenue reserves of £4.3 million, focused on insurance and Public Health are now held. The significant reduction in revenue reserves, combined with a minimum General Fund level does place financial pressure on the Council. Robust cost management and focused delivery of planned revenue savings will be a key focus in financial year 2023/24.

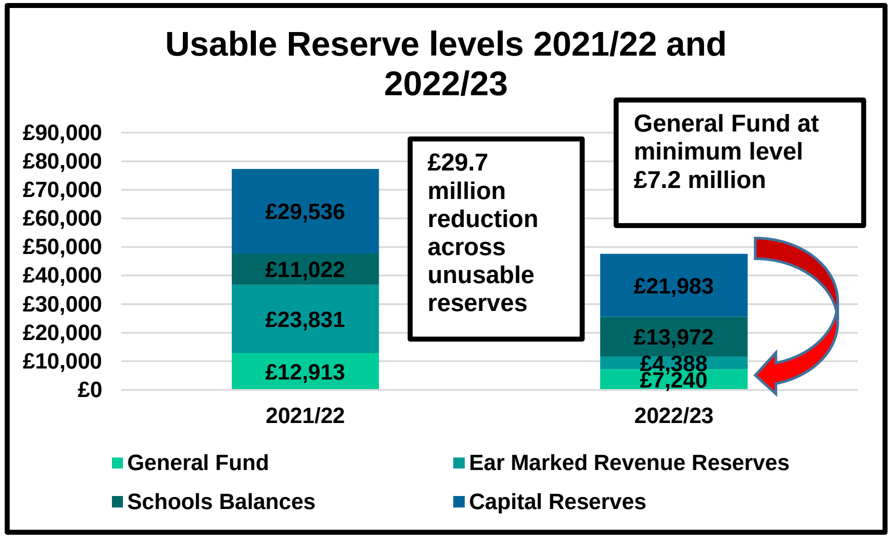


Chart 5: Usable and Unusable Reserves as at 31.3.2023

At the Balance Sheet date, £14.0 million of schools reserves are consolidated into the Council's balance Sheet. Schools balances increased £2.9 million over the reporting period, driven by an increase in balances for special schools. Nine primary schools reported deficit positions at the year end, an increase of three schools compared to 31.3.2022.

Usable capital reserves: At the Balance Sheet date the Council held £1.5 million of unapplied capital receipts and £20.5 million of unapplied external funding (Community Infrastructure Levy, grants without conditions). Capital sums are held for financing of future capital projects and forecast to be deployed in financial year 2023/24. £1.4 million of capital receipts held are to be deployed in support of the Council's transformation agenda under the approved capital Strategy and the Flexible use of capital Receipts Policy.

In respect of unusable reserves of £233.3 million, the year on year move in reserves primarily relates to the decrease in the pension fund liability (£382.6 million at 31.3.2022 v £123.5 million at 31.3.2023), and a reduction in the Collection Fund deficit (£9.7 million at 31.3.2022 v £5.0 million surplus at 31.3.2023). Unusable reserves are amounts set aside that the Council is unable to use to fund expenditure because they are unrealised or notional, i.e. they are not cash backed and relate to accounting adjustments.

Currently a statutory override is in place for Dedicated Schools Grant (DSG) deficits. The override allows Local Authorities to transfer accumulated deficits from the General Fund to unusable reserves. A cumulative £4.8 million deficit on the DSG is currently held within the Council's unusable reserves. This deficit has increased by £1.7 million over the reporting period. The statutory override has been in place since the financial year beginning 1.4.2020 and has been extended to include the year ending 31.3.2026. Potential removal of the override does constitute a significant financial risk to the Council's General Fund. The Council is actively engaged in deficit recovery plans to move the Dedicated Schools Grant to a balanced position as at the year ending 31.3.2026.

Future Challenges, Medium Term Financial Planning (MTFS)

There remains a high degree of uncertainty regarding future funding levels for local government, the long awaited proposed Fair Funding review has not occurred, Local Authorities currently plan on an annual basis. The Council prepares a detailed four year Medium-Term Financial Strategy, which models risks and assists in identifying the corrective actions required to mitigate those risks. The Council remains aware of the need to balance budgets in forthcoming financial years but is mindful of future funding uncertainties in addition to the wider impacts of current fiscal instability and legacy impacts of the Covid-19 pandemic upon service delivery.

The Council projects its finances over the medium term to ensure it is in a sustainable position to deliver essential public services and finance the delivery of its corporate plans. The MTFS looks to a four year horizon; enough to provide some stability over an increasingly volatile financial future, but short term enough so that the first year represents the budget proposals for 2023/24, and for the next three years there are a variety of themes included which form the basis of the future savings areas. The MTFS also includes information on financing the capital strategy and how the scale and profile of this strategy has an impact on the overall financial position of the Council.

The delivery of the MTFS cannot occur through the Council alone. A significant proportion, 50%, of the Council's budget is delivered through partners in the private, public and voluntary sectors. The Council's proposals for future financial stability will involve all of these partners including where there are proposals to invest in infrastructure, deliver core services and transform how the Council delivers its services in the future.

The longer term outlook is dominated by a range of factors; firstly, the macro-economic recovery from the Covid-19 pandemic and the impact that this has had, and will have on the UK economy including inflation and interest rates; secondly the impact on Government reform in Adult Social Care and other services such as planning policy which will alter financial planning assumptions, and thirdly, the long awaited fair funding review and proposed further business rates retention proposals for 2025-26 and beyond which should have a significant impact on the Council's finances and hopefully provide some longer term financial planning certainty. Key planning themes in the MTFS include:

- That the fair funding review and business rate baseline reset does not occur until 2025-26 at the earliest (this has been confirmed by Government) and it is assumed that these do not take place during the life of the MTFS – this assumption will be revised in future years when Government plans are clearer

- Adult Social care (ASC) funding remains in the longer term with a nil impact on WBC from the proposed care reforms in future years

- New Homes Bonus is removed but replaced with a funding system that delivers equivalent levels of reward to 2023-24 in future years – Government are due to release information before the 2024-25 finance settlement

- The assumed permitted Council Tax increases remain at 2.99% and ASC Council Tax precept levels at 2% - any authority proposing an increase above these levels must hold a local referendum

- Inflation remains at 2% in the longer term – forecasts are that for 2024-25 inflation could be negative

The MTFS includes cost avoidance proposals of £5.8 million, £1.8 million of income generation, service transformation of £0.6 million, service reform of £0.8 million, disinvestment of £0.1 million and reserve usage of £1.8 million. There is a gap between proposals at present and the total savings requirement in the MTFS, but this highlights that proposals are being considered in advance of their requirement to ensure greater medium term financial planning. At present there is a requirement of £10.8 million of which at least £3.7 million has been identified in proposals for future budgets.

The MTFS considers investment as well as savings. Investment set aside over the next four years amounts to £15 million. This includes a wide range of areas and remains in line with the Council Strategy ambitions – i.e. investment to achieve the Strategy, continue to build on our strengths and investment in infrastructure to deliver the Council Strategy and other supporting strategies.

Appendix B

Investment Property Revaluation Movements as at 31.3.2023

Directly Owned Property - Purchase funded via borrowing ["Commercial Property"]

Names and address of property	Property type	Valuation at 31 March 2021 £'000	Valuation at 31 Dec 2022 £'000	Movement £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3765	4,155	390
79 Bath Road, Chippenham	Retail Warehouse	11775	9,250	-2,525
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1800	1,675	-125
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	6300	5,825	-475
303 High Street and 2 Waterside South, Lincoln	Retail	2950	2,900	-50
3&4 The Sector, Newbury Business Park	Office	18010	14,950	-3,060
Sainsbury's, High Street, North Allerton	Retail	7185	6,835	-350
Ruddington Fields Business Park, Mere Way, Nottingham	Office	7200	6,700	-500
Valuation per draft 2022/23 Statement of Accounts		**58,985**	**52,290**	**-6,695**

Directly Owned Property - Purchase not funded by borrowing ["Investment Property"]

Names and address of property	Property type	Valuation at 31 March 2021 £'000	Valuation at 31 Dec 2022 £'000	Movement £'000
The Stone Building, The Wharf, Newbury	Café	31	25	-6
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	40	35	-5
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1800	1,750	-50
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1100	1,000	-100
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70	70	0
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	400	375	-25
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	565	520	-45
London Road Industrial Estate, Newbury	Industrial	9565	9,350	-215
Valuation per draft 2022/23 Statement of Accounts		**13,571**	**13,125**	**-446**

Total Investment Property Valuations / Movement	72,556	65,415	-7,141

Appendix C

Going Concern Assessment as at the Balance Sheet Date 31.3.2023

The Council is required by request from the appointed external auditor to complete a going concern assessment as at the Balance Sheet date 31.3.2023. Paragraphs 4 and 6 of ISA (UK) 570 states the following:

> 4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements, as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial framework does not include an explicit requirement to do so;
>
> 6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a 'going concern'.

The concept of 'going concern' assumes that a Council, its functions and services, will continue in operational existence for the foreseeable future. This key assumption underpins the financial statements prepared under the Local Authority Code of Accounting Practice, and is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an Authority was in financial difficulty, the prospects are thus that alternative arrangements may be made by Central Government either for the continuation of the provision of services that the Council supplies, or for assistance with the recovery of a deficit over a period of greater than one financial year.

Where the 'going concern' concept is not appropriate relating to the preparation of the financial statements, particular care would be needed in the valuation of assets, as inventories and property, plant and equipment may not be fully realisable at their book values, and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept would potentially have a fundamental impact upon an Authority's financial statements.

In order to complete the assessment the following critical areas were reviewed:

(a) The Council's current financial position;

(b) The Council's projected financial position;

(c) The Council's Balance Sheet;

(d) The Council's projected cash flow;

(e) The Council's governance arrangements;

(f) The regulatory and control environment applicable to the Council as a local authority.

Going Concern Assessment as at 31.3.2023

Financial Position at Outturn

The Council's outturn position consisted of £135.3 million of expenditure on provision of direct services with a further £14.0 million of capital financing costs. In effect an overall outturn net expenditure figure of £149.3 million against an original budget of £143.8 million, generating an overspend position of £5.4 million. During the reporting period the Council deployed significant levels of earmarked revenue reserves in support of service delivery. At the Balance Sheet date the Council held usable reserves of £47.6 million (£77.3 million as at 31.3.2022), inclusive of a £7.2 million minimum General Fund position. Within the Council's unusable reserves there is a £4.7 million liability relating to the Dedicated Schools Grant. Currently under a statutory override the deficit does not impact on the Council's General Fund, the statutory override has been extended to 31.3.2026.

Forecast Financial Position

The Council has Council has set a balanced budget for financial year 2023/24. The budget was set with a Council Tax requirement of £117.5 million, requiring a Council Tax increase of 2.99% and an Adult Social Care precept of 2%. The Council Tax increases raising £3.3 million, and the precept raising a further £2.2 million, and an increased tax base raising a further £1.8 million. With a 4.99% Council tax increase, the budget is balanced, after using £1.8m of reserves. The minimum General Fund level has been set at £7.2 million.

The Medium Term Financial Strategy (MTFS) which looks at finances in the longer term, includes cost avoidance proposals of £5.8 million, £1.8 million of income generation, service transformation of £0.6 million, service reform of £0.8 million, disinvestment of £0.1 million and reserve usage of £1.8 million. There is a gap between proposals at present and the total savings requirement in the MTFS, but this highlights that proposals are being considered in advance of their requirement to ensure greater medium term financial planning. At present there is a requirement of £10.8 million of which at least £3.7 million has been identified in proposals for future budgets. The MTFS considers investment as well as savings. Investment set aside over the next four years amounts to £15 million.

There remains a high degree of uncertainty regarding future funding levels for local government, the long awaited proposed Fair Funding review has not occurred. Inflationary pressures presenting in financial year 2022/23 continue to be felt into 2023/24, with CPI at 10.1% in March 2023. UK interest rates having been volatile right across the curve, from Bank Rate through to 50-year gilt yields, impacting on the Council's cost of capital financing. The Council has in place an approved ten year capital programme of £393.7 million, of which £186.2 million is proposed to be funded from Council debt i.e. borrowing. At the time of budget setting Public Works and Loan Board (PWLB) rates for a 25 annuity was approximately 4.3%, in a raising interest rate environment, an future increases will put delivery of the programme at risk.

In conclusion, the economic environment, paired with the minimum General Fund position as at 31.3.2023 will require robust cost management and focused delivery of planned revenue savings as key in financial year 2023/24.

Balance Sheet as at 31.3.2023

As at the Balance Sheet date the Council holds total assets of £700.9 million (£712.3 million as at 31.3.2022), liabilities of £420.0 million (£681.3 million as at 31.3.2022), usable reserves of £47.6 million (£77.3 million as at 31.3.2022), and unusable reserves of £233.3 million (£46.3 million deficit as at 31.3.2022).

Balance Sheet as at 31.3.2023
Net Assets as at 31.3.2023

Assets held at the Balance Sheet date	£
Plant, property and equipment	£570,531,037
Intangible assets	£2,679,971
Investment property	£65,414,975
Current assets (e.g. cash and cash equivalents)	£62,272,330
Total Assets	£700,898,314
Liabilities at the Balance Sheet date	£
Pension Fund Liability	-£123,508,000
Long Term Borrowing	-£181,973,211
Other liabilities	-£114,538,123
Total Liabilities	-£420,019,334
Net Assets (Assets plus Liabilities)	£280,878,980

Reserves as at 31.3.2023

Usable Reserves	£
General Fund	-£7,240,202
Ear Marked Revenue Reserves	-£4,388,223
Schools Balances	-£13,971,989
Capital Reserves	-£21,983,126
Total Usable Reserves	-£47,583,540
Unusable Reserves	£
Pension Liability (deficit)	£123,508,000
Collection Fund	-£5,064,742
Dedicated Schools Grant (deficit)	£4,760,995
Accumulated Absence (deficit)	£4,552,302
Capital Reserves (inc Revaluation)	-£361,051,995
Total Unusable Reserves	-£233,295,441
Net Reserves (Usable plus Unusable)	-£280,878,980

The Council's total assets have decreased from £712.3 million (31.3.2022) to £700.9 million as at 31.3.2023. The decrease primarily attributable to a decline in Investment Property values from £72.6 million (31.3.2022), to £65.4 million as at 31.3.2023.

Year-end current assets (inclusive of cash balances held by the Council) decreased from £82.5 million (31.3.2022) to £62.3 million as at 31.3.2023. The key factors driving the overall decrease are year-on-year reductions in the level of external investments and cash balances held from £37.8 million (31.2.2022) to £20.7 million as at 31.3.2023.

The Balance Sheet position as at 31.3.2023 demonstrates a decrease in liabilities compared to £681.3 million as at 31.3.2022. The change has been driven by the reduction in the pension liability and reduction in long term borrowing.

During the reporting period the Council deployed significant levels of earmarked revenue reserves in support of service delivery. At the Balance Sheet date the Council held usable reserves of £47.6 million (£77.3 million as at 31.3.2022) and unusable reserves of £233.3 million (£46.3 million deficit as at 31.3.2022).

In respect of reserves, usable reserves declined by £29.7 million over the reporting period. The reduction in usable reserves has been driven by, firstly pressure on the revenue budget and secondly deployment of usable capital reserves in support of the capital programme and transformation agenda. As at the Balance Sheet date the Council's General Fund was at the minimum level of £7.2 million. As at 31.3.2023, earmarked revenue reserves of £4.3 million, focused on insurance and Public Health are now held. In respect of unusable reserves of £233.3 million held as at 31.32023, the year on year move in reserves primarily relates to the decrease in the pension fund liability (£382.6 million at 31.3.2022 v £123.5 million at 31.3.2023), and a reduction in the Collection Fund deficit (£9.7 million at 31.3.2022 v £5.0 million surplus at 31.3.2023). The surplus on the Collection Fund is anticipated to be a financial benefit to the Council in future financial years.

In conclusion, net assets have increased to £280.9 million compared to £31.0 million as at 31.3.2022. The improvement in the Balance Sheet is primarily the result of a significant reduction in the Pension Fund liability. Reserves overall (usable plus unusable) are positive compared to the prior reporting period, although usable reserves have been significantly depleted and the Council now holds minimal funds to respond to future significant unplanned / unbudgeted events.

Projected Cash Flow

The Council maintains and updates short-term and long-term cash flow projections to support service delivery. The Council maintains long-term borrowing commitments to support the capital programme and the Property Investment Strategy. Borrowing is predominately undertaken from PWLB.

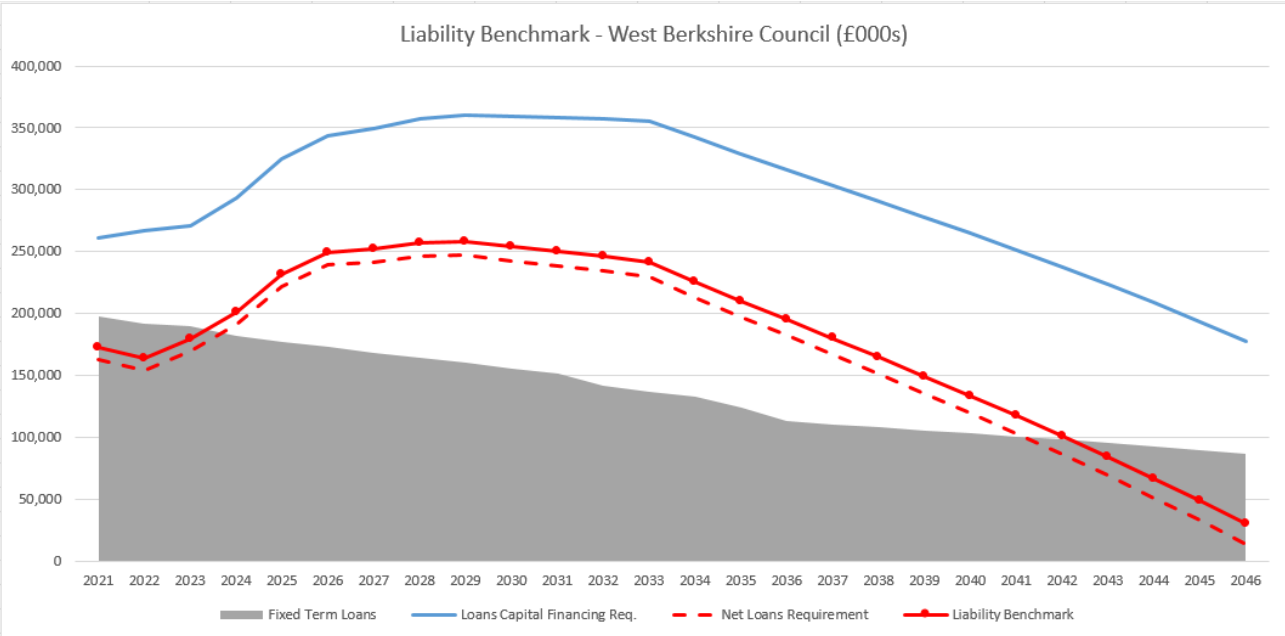
As at the Balance Sheet date the Council held £20.6 million of cash, cash equivalents and longer term external investments compared to £37.8 million as at 31.2.2022. Currently due to the risking interest rate environment a strategy of not undertaking long term borrowing in respect of PWLB financing and, instead focusing on supporting delivery of the capital programme through short term borrowing and cash balances has been implemented. The strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, has reduced risk and keep interest costs low.

In respect of longer term planning, during 2022/23 the Council adopted the Liability Benchmark. Based on the 2022/23 capital outturn the Council expected to undertake additional borrowing of £9.5 million in 2023/24 with a further £44.0 million in 2024/25 based on the approved 23/24 capital programme.

Capital Financing requirement	**31.3.2023**	**31.3.2024**	**31.3.2025**
	Actual	**Forecast**	**Forecast**
	£000s	£000s	£000s
Capital Financing requirement	279,472	301,877	331,740
Less other debt liabilities	-10,670	-9,807	-8,892
Loans Capital Financing Req.	268,802	292,071	322,849
Less: Existing External Borrowing	-189,891	-181,973	-177,242
Internal Borrowing	**78,911**	**110,098**	**145,607**
Less: Balance Sheet Resources	-99,581	-100,581	-101,581
Investments / (New Borrowing)	**20,670**	**-9,516**	**-44,026**

It should be noted that the Balance Sheet resources assumption are based on draft 2022/23 accounts, taking into consideration the current balances of usable reserves (£45.2 million) and working capital (debtors and creditors of £54.6 million). The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Liability Benchmark	**31.3.2023**	**31.3.2024**	**31.3.2025**
	Actual	**Forecast**	**Forecast**
	£000	£000	£000
Loans Capital Financing Req.	268,802	292,071	322,849
Less: Balance Sheet Resources	-99,581	-100,581	-101,581
Net Loans Requirement	169,221	191,489	221,267
Plus liquidity allowance	10,000	10,000	10,000
Liability Benchmark	179,221	201,489	231,267



Based on the Council's CFR and the liability benchmark, the Council is long term borrower. Based on the capital outturn position, the Council, currently is in an over borrowed position. However, as set out in the Investment and Borrowing Strategy for 2023/24 (as approved by Council in March 2023), the Council is currently utilising cash flows to maintain an internally borrowed position, resulting in the external borrowing levels reducing against the Liability Benchmark.

Borrowing v Benchmark	31.3.2023 Actual £000	31.3.2024 Forecast £000	31.3.2025 Forecast £000
Existing External Borrowing	189,891	181,973	177,242
Liability Benchmark	179,221	201,489	231,267

Governance Arrangements

The Council has approved and adopted a code of corporate governance in its Annual Governance Statement, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

The governance framework comprises the systems and processes, and culture and values established by the Council. The framework is directed and controlled, with a wide range of service activities delivered to the Authority's community. The framework enables the Council to monitor the achievement of its strategic objectives, and to consider whether these objectives have led to the delivery of appropriate, financially cost-effective services.

The system of internal control is a significant part of that framework, and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based upon an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of all managers within West Berkshire Council who have responsibility for the development and maintenance of the wider governance environment.

The governance framework was in place at the Council for the year ending 31 March 2023, and at the beginning of the financial year commencing 1 April 2022. The detailed review process is outlined in the Annual Governance Statement pages within the Council's 2022/23 Statement of Accounts. This framework was deemed fit-for-purpose in respect of 2022/23, and will continue to be reviewed as part of the control framework for 2023/24.

Regulatory and Control Framework

The Council operates within a highly legislated and controlled environment. The Council is required to set a balanced budget each financial year, taking into account the robustness of budget estimates and the adequacy of financial reserves. In addition to the legal framework established and Central Government control, other factors must be taken into account, these including the oversight role undertaken by external audit and the statutory requirements for compliance with best practice and guidance issued by CIPFA and other relevant bodies.

Conclusion

The assessment of the overall strength of the Council's financial position, is that currently there is not an imminent risk to the going concern assertion. Longer term robust cost management and focused delivery of planned revenue savings will be key.