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cc: Joseph Holmes, Executive Director – Resources and S151 Officer

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Dear Nigel

West Berkshire Council – Financial Sustainability

Following recent conversations between Grant Thornton and the Council, I am writing to express our concern over the Council's arrangements in place for securing financial sustainability.

Background

In our Auditor's Annual Report on West Berkshire Council for 2020-21, presented to Governance and Ethics Committee on 25 September 2023, we made the following statement:

"The Council is currently managing a challenging financial position as detailed within the 2023-24 Revenue Financial Performance Quarter One Report considered by the Scrutiny Commission on 14 September 2023. This report outlined a forecast overspend of £6.3m for 2023-24 and detailed new Council measures, including the introduction of spending controls and the formation of a financial review panel to closely assess ongoing Council spending. The Council's current financial challenges present risk to the financial sustainability of the Council. We consider the Council needs to place a significant focus on the development of wider plans, during 2023-24, to manage the financial challenges it faces. This is an area that will be followed up in more detail within our 2021-22 and 2022-23 Auditor's Annual Report."

The above is set out as a concern in relation to the Council's financial sustainability, and flags that we will carry out further review. On this basis we have identified there to be a potential significant weakness in the Council's financial planning arrangements, which was communicated to management on 20 September 2023 and to those charged with governance verbally, at Governance Committee on 25 September 2023. The Value for Money (VfM) work we are currently undertaking at the Council will feed into our Auditor's Annual Report for the joint years of 2021-22 and 2022-23 which is planned to be issued in January 2024. We met with your Section 151 officer on 26 September 2023 to confirm our approach for the 2021-22 and 2022-23 VfM work.

Initial findings

Our early VfM work already highlights concern that financial sustainability is a potential risk of significant weakness for the Council.

- The forecast position at 2023-24 quarter 1 is for a £6.3m overspend. The estimated overspend is net of £0.9m of earmarked reserves support and with the Council assuming delivery of £3.6m of mitigations planned. If mitigations do not work the current worst case outcome would be £9.9m deficit.
- We see that much of the forecast overspend sits with the People directorate, c£5.8m. Spend for children in care at the Council has increased significantly with numbers of children increasing from 166 in April 2022 to 209 in June 2023, with a small amount of cases accounting for high levels of spend.
- The unearmarked General Fund balance is at £7.2m, with the Council's minimum recommended level of General Fund reserves being £7m. If the £6.3m overspend remains at year end the General Fund balance would fall to £0.9m. The level of earmarked reserves is also low, expected to be £4.48m following application of £0.9m to support the in-year deficit.
- The minimum level of General Fund balance recommended by the S151 officer is £7m and if this is significantly reduced impact on future budget setting would require focus on greater budget savings, above initial forecasts for 2024-25, to replenish reserve levels going forward, in conjunction with already challenging savings targets planned for 2024-25.
- The 2023-24 Revenue Financial Performance Quarter One Report considered by the Scrutiny Commission on 14 September 2023 outlines specific spending controls in place from July 2023 to reduce financial pressures. These include:
 - Greater scrutiny and approval of expenditure over £1,000.
 - Review of action plans by overspending services to provide further mitigations to reduce overspends.
 - Review of the flexible use of capital receipts and seek to raise funding through capital receipts to fund eligible transformation spend.
 - Greater in-year budget monitoring review of overspending services.

Spending controls are to be overseen by the Financial Review Panel (FRP) consisting of the Chief Executive, Executive Director Resources, Service Director Transformation, Heads of Finance & Property, Legal and HR representatives, plus the Leader, Deputy Leader, and Portfolio Holder for Finance.

- Direction is also given to Council services whereby all spend up to £1,000 can only be approved if it is statutory or unavoidable, approved by Head of Service or Executive Director as appropriate. With spend over £1,000 to be reviewed by a Spending Review Panel for approval, the Panel consisting of the Chief Executive, Executive Director Resources, and the Heads of Finance & Property. There is also a recruitment pause with any exceptions to be reviewed by the FRP.
- In 2022-23 the Council delivered 77% of £5.3m planned savings. For 2023-24 the budgeted savings requirement is c£4m higher at £9.1m, of which 48% was achieved at the end of 2023-24 quarter 1.
- The Council is currently not proposing to request a capitalisation directive, but this is not being ruled out until the current in-year position is brought closer to break even.

The current position

In our meeting on 20 September your S151 officer informed us that the Council met with the Department for Levelling Up, Housing and Communities to inform the Department of the Council's financial position. At this stage there is no intention to issue a section 114 notice or request a capitalisation directive.

The Council has a plan in place to address the forecast in-year deficit and management is confident that they can achieve a position close to break even by the end of the 2023-24 financial year by implementing the proposed spending controls. It is vital that the Council is able to deliver proposed mitigations and close monitoring of the financial position will be crucial in managing the identified in-year deficit. We will continue to monitor the progress made by the Council on this matter as we continue our VfM work. As part of our work, we will consider what actions if any, we take as auditors under the Local Audit and Accountability Act 2014.

Yours sincerely

Sophia Brown

Sophia Brown, Key Audit Partner

For Grant Thornton UK LLP