

**Adequacy of Reserves and Robustness of Budget Estimates (Section 25 statement)**

**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 the 29<sup>th</sup> February 2024. CIPFA has recently published a statement on how the section 25 statement has evolved and this document is cognisant of the work completed by CIPFA [CIPFA Insight reports | CIPFA](#) .

**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, or having to issue a section 114 report.

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, and this analysis has been updated for more specific demand and general risks with a minimum level set out for the 2024-25 budget, see further below.

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

Before the 2023-24 outturn is reported, the general reserves stood at just over £7.2m based on estimated use of reserves for the 2023-24 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 £4m by the end of the 2023-24 financial year due to the in year budget monitoring forecasts at Quarter Three.

As can be seen from the previous appendix (Fi) the forecast is for almost all other earmarked reserves and risk reserves have been eradicated. 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 2023-24 budget at both budget setting and due to the in-year overspend.

Any improvement in the 2023-24 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; at present it is looking highly unlikely that this will be the case.

### **3 Robustness of Estimates**

#### **3.1 The treatment of inflation and interest rates**

The 2024-25 pay award for staff has been estimated at just above the forecast prevailing inflation rate of 2.5%. The 2023-24 staff pay award was announced in November 2023 and was slightly above the 3.5% assumption (the final pay award was 3.88% rising to higher percentages below certain grades); this has been adjusted for in the budget for 2024-25.

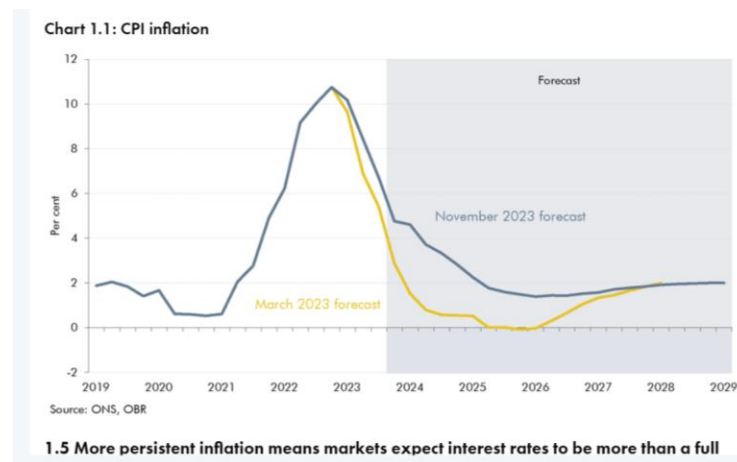
Non pay related budgets have been inflated at the contractually committed rate of inflation or where services can demonstrate a requirement to do so to maintain service delivery levels. The impact of higher inflation (which have decreased significantly during the 2023-24 financial year), higher interest 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 September 2023 level of CPI in the main (6.7%).

The large overspend in the 2022-23 financial year has eradicated almost all of the specific earmarked reserves and risk reserves that the Council held; this clearly has reduced the Council's financial resilience at a time of substantial pressure on Councils finance across the country and here in West Berkshire. 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 2024-25 will be to ensure that the historic strong financial stewardship is continued to enable a break even position as at 31.3.2025.

Social Care provider costs remain an area of significant financial pressure. The budget takes into account inflationary pressures from 2023-24 into 2024-25. These services have seen the greatest overspend forecast during 2023-24, driven by increased complexity of demand and inflation, leading to significant average unit cost pressures. During 2023-24, it has been children's social care costs that have risen substantially and crucially where demand has had a major increase. The main budget papers included the children's (and adult's) social care models.

A further inflationary pressure of 2.5% has been assumed for adult social care providers in the budget, along with detailed modelling of expected client numbers for 2024-25. 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 £1.4m that has been included in budgets.

## Office of Budget Responsibility (OBR) inflation forecasts as at November 2023



Overall inflation levels have risen significantly since early 2022, but the inflation model above assumes a decrease down to the Government's target for the Bank of England of 2% by the end of the 2024-25 financial year. This substantial inflationary pressure over the period 2021-23 has increased costs to the Council and, though inflation is falling, this means a new, and much higher cost base, has been established for the Council's contracts and procurement arrangements.

The September CPI figure stood at 6.7%, and this is the basis for future fees and charges increases proposed in the budget; there is a of 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 social care noted above, is in respect of energy price inflation. There has been a saving compared to the 2023-24 budget for energy inflation, though recent history has shown significant shocks to the wholesale energy markets that have had a large financial cost to the Council.

### 3.2 Efficiency savings, productivity gains and Government reform

The budget contains proposals to deliver £14.5m of ongoing savings or income and just over £2m of one-off savings. 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. The Autumn Statement provided some ability to increase planning fees for major applications to ensure full cost recovery, though the bulk of Government financial reforms or 'fair funding reforms' have been assumed to not impact on this budget as confirmed by the 2024-25 Local Government Finance Settlement.

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

West Berkshire has an excellent record of budget and financial management, though the 2022-23 outturn showed a significant overspend for the first time, and major financial pressures continue to impact the Council for 2023-24. The level of under and overspends in recent years is as follows:

Year	Over/ -under spend £m	% of net budget
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	4.70	3.62%
2023/24 est	3.20	2.46%

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 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, 2022-23 was a clear outlier to this historical performance.

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 spread 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. The impact of the pandemic should now have all moved through the Council's collection fund, though collection rates of Council Tax are being reduced (as at October 2023 by approximately a 0.66% in year reduction) through the cost of living impacts on our

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residents. It is expected that the overall Council Tax collection rate will be achievable over a four year period.

### 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 2024-25.

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 2022-23) is highlighting that the Council's reserve position is, compared to others Councils, much lower. Other analysis from, for example OFLOG (Office of Local Government) supports the analysis below and highlights West Berkshire as having some of the lowest reserves as a percentage of revenue spend nationally; this was before the 2022-23 outturn. The revenue budget includes an increase in reserves of £1.9m, and the MTFs has a rise throughout of £6m to bring reserves back above the minimum level and increase these further to improve financial resilience.

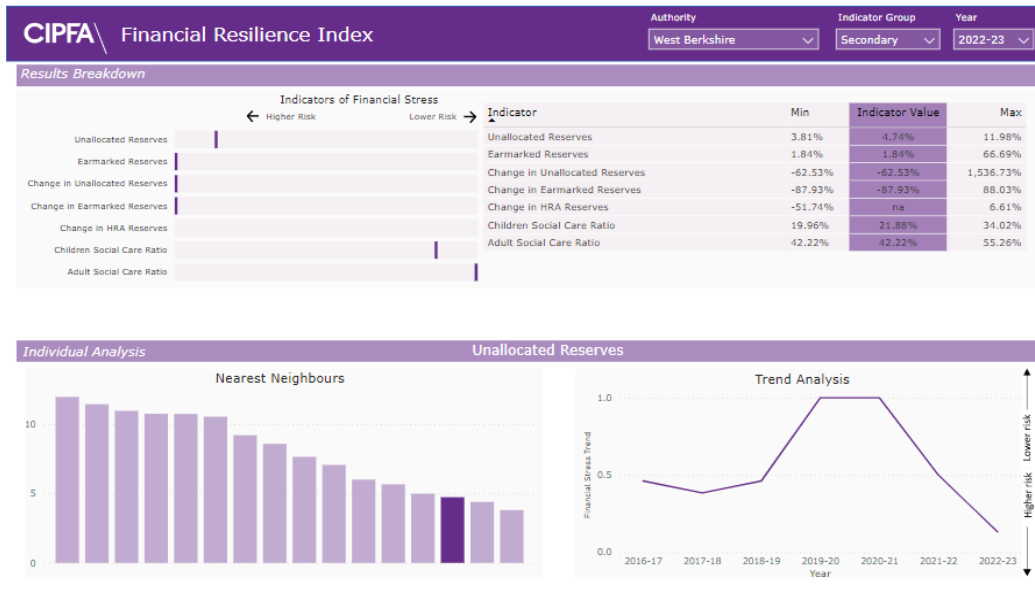
Specifically on the reserves position it shows that the Council has the lowest level of earmarked reserves against comparator Councils and in respect of the unallocated reserves, far lower levels than other Councils.

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. Some of the savings proposals for 2024-25 are seeking to reduce this as the Council has much higher levels of capital financing than comparator Councils.

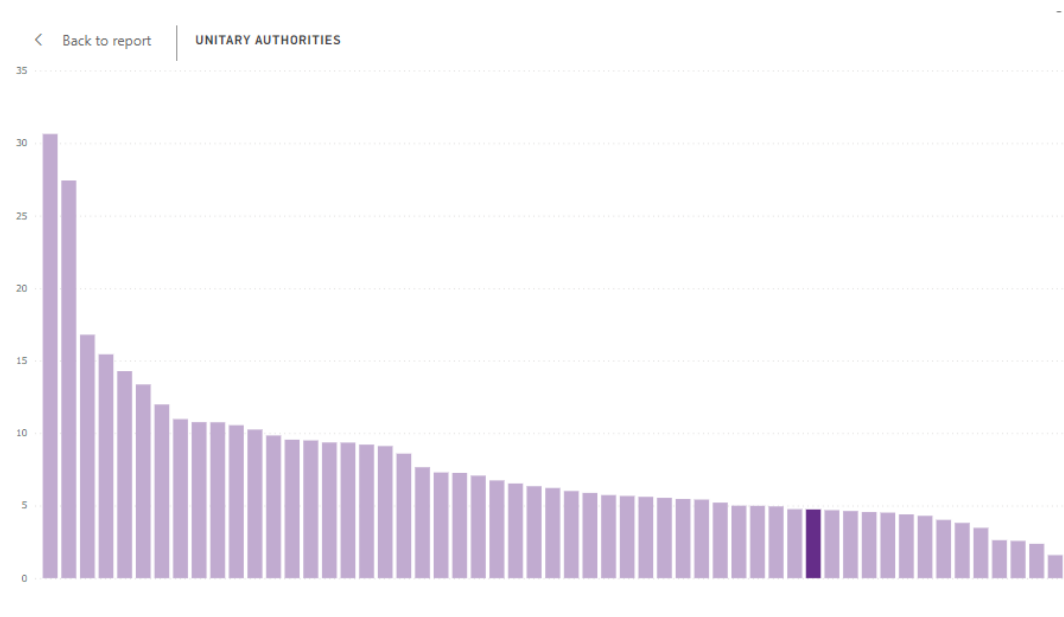
As part the above, general fund reserves are just above the minimum level set out in this appendix and appendix Fi **before** any overspend in 2023-24; as highlighted elsewhere in the revenue budget papers and Q3 paper to the Executive, the Council will have general reserves **below** the recommended level. The Council has the lowest level of earmarked reserves compared to other similar authorities in the

country. The below also highlights some risk around taxbase growth and this has been adjusted for across the financial papers in this budget cycle.

**CIPFA Financial resilience index – 2022-23 summary**



**CIPFA Financial resilience index – unallocated reserves comparison vs other unitaries**



3.6 The Council has an audited set of financial statements from 2020-21. Grant Thornton (the Council’s external auditors) did commence some work on the 2021-22 financial statements but have ceased to do any further work for many months. The Council prepared its 2022-23 financial statements on time (to the May 2023 deadline) and was one of only approximately 30% of Councils to meet this deadline. However, Grant Thornton have completed no work on the audit of the 2022-23 financial statements. The Council has undertaken a self-assessment against the CIPFA Financial Management Code and against the Department for Levelling Up, Housing & Communities published Best Value standards from Summer 2023. These

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assessments will feed into the Annual Governance Statement<sup>1</sup> for the 2023-24 financial year, which is likely to continue having financial resilience as the primary governance risk for the Council.

### 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.

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m	£m	£m
General fund	8.2	8.0	12.1	12.9	7.2	4.0

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 General Fund balance of £4m have been deployed either in 2022-23 or 2023-24. If the Council's financial position by Quarter Four of 2023-24 improves, this will release the pressure on reserves, but at present the forecast is for an in-year overspend of £3.2m and the general fund reserve being at £4m and this is £3m lower than the minimum level required. It is expected that, compared to other Councils, West Berkshire's size of reserves will have declined in respect of 2022-23. The Council does not expect to have the minimum level of reserves set aside in the General Fund for year end in 2023-24, this leaves very little buffer through general reserves and other earmarked reserves which increases the risk of the general fund reserve being further depleted. This puts even greater focus on 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 2024-25.

4.4 The 2024-25 budget does include an increase to general fund reserves of £1.9m to bring reserves up to £6m. This still remains below the minimum level required but is significantly narrowing the gap between the forecast level of reserves and the minimum level required.

### 5 Future risks

5.1 The analysis above, is solely focussed on what the current position and looking to the 2024-25 budget. Major pressures are emerging though on the some of the underlying assumptions that will be made beyond 2024-25. There are three key areas of focus and concern:

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<sup>1</sup> See the 2022-23 Annual Governance Statement at [6. AGS 2022-23\\_SCS revised.pdf](https://www.westberks.gov.uk/6-AGS-2022-23-SCS-revised.pdf) ([westberks.gov.uk](https://www.westberks.gov.uk))

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- 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 Annual Governance Statement highlights financial resilience as the key risk for the Council.
- The post 2025 financial position. The short term funding mechanisms put in place by Government provide an overall 6.7% increase in core spending power for 2024-24. This is welcome, but is far lower than the growth in costs for West Berkshire. 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 2028<sup>2</sup> 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.
- 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. 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. If this accounting treatment does not continue, the Council would have little option, with an accumulated DSG deficit at 31.3.23 of £4.8m which is forecast to reach £9.5m by 31.3.24, of issuing a s114 report.

### 6 Proposals to increase reserves to the minimum level

6.1 The s151 officer has a recommendation as to the minimum level of reserves, however, the budget for the year ahead is a member decision, where members shall regard to the report when making decisions about the calculations and the budget on which members vote for the year ahead.

6.2 There is a gap between the minimum level set and the project level of general fund reserve. Within the budget, there are proposals and opportunities to close this gap; for example:

- There is a contribution of £1.9m to increase the general fund reserve (this leaves a gap of £1.1m to the minimum level of general fund reserve, though the minimum level of reserves may need to rise in the future as the budget increases)
- There is investment of £2.2m of ongoing or one off investment. Where this investment is not linked to savings / income generation, then some of these investments could be delayed especially where they are new staffing posts, services, or reducing income options
- Some of the savings options could be re-considered to be increased in size though being aware of the risk associated with these, and income raised in line with inflation (where not set nationally)
- A further in year (2024-25) savings plan to reduce establishment costs

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<sup>2</sup> <https://ifs.org.uk/articles/english-councils-core-spending-power-set-grow-11-real-terms-over-next-two-years>



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- The Government is currently<sup>3</sup> “inviting local authorities, sector representatives and other stakeholders to provide views on a set of options with respect to capital flexibilities and borrowing, to be managed locally, that could be used to encourage and enable local authorities to invest in ways that reduce the cost of service delivery and provide more local levers to manage financial resources” – *if* proposals come forward in line with the Government document, the Council would have the opportunity to replenish reserves (where they are demonstrably low, which West Berkshire’s are) through the sale of commercial property assets. At the time of writing, the implementation date is unknown, as is the extent to which Government implements any of the ideas included in the document.

6.3 It is for members when setting the budget to consider all options and reports as part of the overall approval of the budget.

Joseph Holmes  
Executive Director (Resources) and s151 Officer  
January 2024

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<sup>3</sup> [Call for views on new local authority capital flexibilities - Department for Levelling Up, Housing and Communities - Citizen Space](#)