READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF RESOURCES

TO:	**Council**		
DATE:	**23rd February 2021**		
TITLE:	**CHIEF FINANCE OFFICER'S REPORT ON THE ROBUSTNESS OF THE COUNCIL'S 2021/22 BUDGET**		
LEAD COUNCILLOR:	**Councillor Jason Brock**	**PORTFOLIO:**	**Leadership**
SERVICE:	**Finance**	**LEAD OFFICER:**	**Jacqueline Yates**
JOB TITLE:	**Executive Director of Resources & Section 151 Officer**	**E-MAIL:**	**Jackie.Yates@reading.gov.uk**

1. PURPOSE OF THE REPORT AND EXECUTIVE SUMMARY

1.1 Under Section 25 of the Local Government Act 2003 there is a requirement for the Council's Chief Financial Officer (Executive Director of Resources) to report to Council on:

a. The robustness of the estimates made for the purposes of the calculations of the budget; and

b. The adequacy of the proposed level of financial reserves.

Council in considering its Budget should have regard to this advice

2. RECOMMENDED ACTION

2.1 That Council notes this report in setting its budget for 2021/22:

APPENDICIES: Appendix 1 Statement of Reserves and Balances

3. POLICY CONTEXT

3.1 As outlined in the Medium-Term Financial Strategy (MTFS) and budget report which appears elsewhere on the Agenda, the Council along with all other local authorities, faces an unprecedented level of uncertainty going forward which has made this year's annual Medium-Term Financial Plan refresh and budget setting process particularly challenging. The Covid pandemic has had a significant social and economic impact at all levels: international, national, local and individual and its repercussions, whilst as yet unquantifiable, will undoubtedly be felt over the medium term in the guise of recession, increased demand for mental health and social care services and children's attainment levels and life chances. Those least well-off will sadly be hit the hardest putting increased pressure on the Council's budget.

3.2 The Council's 2020/21 budget has been significantly impacted due to lock down and Tier restrictions associated with the pandemic. Income sources, e.g. car parking, theatre and leisure have either dried up completely, or significantly reduced, officer capacity has of necessity been diverted away from savings delivery to managing the pandemic and unbudgeted costs have been incurred.

3.3 The Government have recompensed local authorities for in year costs and pumped significant amounts of money into the economy as well as announced additional limited support for Covid pressures in 2021/22 as part of the local Government Finance Settlement. However, the Settlement itself was again only for one year and the long-awaited Fair Funding Review (meant to address the underlying funding pressures within local authorities), together with future arrangements for Business Rates retention and New Homes Bonus have been further delayed. Together with Brexit, the impact of which is also as yet unknown, the Council and local government more generally faces significant uncertainty over the medium term in terms of future funding levels. As a consequence of this uncertainty that the Council has not at this stage addressed the residual budget gap in the latter two years of its Medium-Term Financial Plan. The gap (£3.6m) will be addressed on a sustainable basis as part of the 2021/22 budget and MTFS refresh process.

3.4 As a Unitary authority the Council provides the broadest possible range of services and has an inherently higher level of risk than many other authorities simply due to the complexity and nature of the services it provides. Additionally, the Council has taken policy decisions to establish several alternate delivery models including wholly owned companies and PFI arrangements which whilst having advantages also have the potential to increase the Council's risk profile.

The Council's wholly owned bus company, Reading Transport Limited has historically operated on very low margins and with minimal reserves and, like other operators has been hit hard by Covid. The Company has taken action to mitigate the immediate impact and is in receipt of Covid Bus Grant. However, the sector generally is anticipating a minimum 20% reduction in pre Covid ridership levels and it is not known how long the Government grant payments will continue for (there is an 8 week notice period). Consequently, work is underway to agree an action plan to improve the Companies margins and financial resilience going forward. The proposals are however, likely to present some difficult decisions for the Council in its Shareholder capacity when they are presented.

3.5 In October 2019 the Chartered Institute of Public and Finance and Accountancy (CIPFA) launched a new Financial Management (FM) Code in response to the fact that the well documented financial difficulties faced by some authorities had revealed concerns about fundamental weaknesses in financial management, jeopardising their ability to maintain services into the future. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the Code will be 2021/22. 2020/21 has been a shadow year and a self-assessment against the Code, on a RAG rating basis, was reported to the Audit and Governance Committee in July 2020. Of the 17 standards within the code, 8 were reported as Green, 9 as Amber, and there were no areas reported as Red. A subsequent review of the self-assessment was carried out by the

CIPFA consultant assisting the Council with its Finance Improvement Programme. The review validated the assessment and the areas reported as Amber will be addressed as part of Phase II of the Improvement Programme.

3.6 The Council's 2017/18 accounts were signed off in October 2020 and the 2018/19 audit is well underway and scheduled to complete at the end of March 2021. The audit of the 2019/20 accounts will commence shortly thereafter. The issues experienced with closing the 2016/17 accounts had a direct impact on the Council's ability to prepare its subsequent years accounts in a timely way and increased the Council's risk profile from an audit perspective. However, it is not anticipated that the delay in signing off the Council's accounts will impact on the 2021/22 budget or MTFS.

4. ROBUSTNESS OF THE ESTIMATES

Approach to and Assumptions within the 2021/22 Budget and Medium-Term Financial Strategy

4.1 The Council has taken a prudent approach to developing its Medium-Term Financial Strategy. All savings and pressures previously identified within the February 2020 MTFS have been reviewed and amendments made where appropriate.

4.2 All aspects of the Council's budget, efficiency savings, additional income, service reductions and pressures as well as capital projects and new bids have been subject to review, with Assistant Directors being required to review the plans they put forward in previous years and confirm delivery of the proposals or, put forward business cases for change where necessary. Budget proposals have subsequently been reviewed by:

- The Finance Team
- Corporate Management Team
- Lead Councillors

4.3 The assumptions on which the MTFS is based are contained within the main budget report, however, key assumptions include:

- **Council Tax increase**- 1.99% per annum for all three years plus an Adult Social Care precept of 3% in 2021/22 and 1% in both 2022/23 and 2023/24. This is below the 2021/22 referendum level of 5% which includes an assumed 3% for social care and 2% for other expenditure.
- **Finance Settlement** – The figures are as per the Government's Final Settlement announcement
- **Pay Assumptions** – 2% per annum
- **Inflation** – Non pay budgets have been increased where necessary in order to maintain service levels by either CPI (assumed at 2% over the period) or as contractually specified
- **Provisions** - Provisions for bad debts and appeals against business rates valuations have been reviewed in light of Covid and are deemed to be adequate.
- **Reserves** – Following a review of reserves, £2.8m is being drawn down on a one-off basis to balance the 2021/22 budget.

4.4 To deliver the Council's policy priorities and a balanced budget in 2021/22, savings of £15.1m are required. The MTFS 2021/22 - 2023/24 identifies savings over the period of £28m (£6.1m to be delivered in partnership with Brighter Futures for Children and £21.9m from retained Council services). To facilitate the delivery of service efficiencies and ongoing revenue savings transformation funding of £9.9m has been provided for within the General Fund Capital Programme funded in part from the 'flexible use of capital receipts (in 2021/22 only) and revenue.

4.5 The continued need to deliver a high level of savings poses an inherent risk to the delivery of a balanced budget position as over time they become more complex and difficult to deliver. Consequently, it is important there is continued focus on savings delivery to ensure they are delivered as planned. Contingency sums of £3.8m, £4.5m and £6.1m have been allowed for across the period of the Plan to mitigate any potential shortfall or slippage in the delivery of higher risk savings.

4.6 The Council has an ambitious Capital Programme over the next three years totalling £301m (£200m General Fund and £101m Housing Revenue Account). The net cost of which (after the application of specific grants and contributions) is predominantly funded from borrowing. The Council's external borrowing is projected to increase to £562.3 million over the period. The associated capital financing costs together with the revenue implications of the specific schemes are provided for within the relevant revenue accounts.

4.7 It is imperative that close monitoring of the Capital Programme takes place to ensure projects are delivered to time and budget so that borrowing costs do not increase beyond what is provided for within revenue budgets. A review of Capital Programme governance and monitoring arrangements is scheduled to take place in Q1 of 2021/22 as set out in the Capital Strategy Action Plan, which appears elsewhere on the Agenda.

Financial Management

4.8 All reports to members have the associated financial implications identified within the report. Monitoring of the budget throughout the year is undertaken by Financial Services in conjunction with Assistant Directors and Budget/Project Managers. When budget pressures do emerge, it is the responsibility of the service area to contain them in the first instance, failing that they should be managed within the Directorate and ultimately at a corporate level. If pressures remain at year end in excess of the contingency sum, reserves will reduce and subsequently need to be replenished.

4.9 Comprehensive budget monitoring reports are considered by the Council's Corporate Management Team on a monthly basis and quarterly performance reports are presented to the Council's Policy Committee.

4.10 Recognising the significant level of transformation and savings required to deliver a balanced budget and MTFS a series of Programme Boards; (each chaired by a member of the Corporate Management Team) was set up in 2018/19 to manage and track transformation delivery. A review of the Board Structure is currently underway to ensure they remain fit for purpose.

4.11 As a result of containing pressures and the delivery of savings which enabled the release of contingency budgets the Council has underspent against budget in each of the last three financial years, 2017/18 - 2019/20. This, together with the benefit of having been part of the Berkshire Business Rates Pilot has meant that the Council only had to draw down £1.2m from reserves rather than the £4.3m budgeted for in 2017/18 and in subsequent years reserves to be returned to more sustainable levels following a significant reduction in 2016/17.

4.12 As at the end of quarter 3 2020/21 the Council is projecting an underspend of £4.8m as a result of Covid grant funding covering the none delivery of savings and enabling the associated contingency sum to be released. It is assumed that this underspend will be utilised to mitigate the unplanned £9.9m draw down from earmarked reserves required as a result of capital receipts not having been realised in year and available to reduce the ongoing Minimum Revenue Provision charge in future years as previously planned.

Insurance and Risk Management

4.13 The Council's Insurance arrangements are a mix of external premiums and internal self insurance funds. An external review of the Council's Insurance Reserve was undertaken in the summer of 2020 and concluded the reserve was sufficient.

4.14 The Council has an internal risk manager and strategic risk management is being embedded across the Council.

5. ADEQUACY OF RESERVES AND BALANCES

5.1 The level of reserves a Council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In the event of a serious problem or a series of events, the Council could run the risk of a deficit or be forced to cut expenditure in a damaging or arbitrary way should reserves not be available.

5.2 Due to the delivery of £33m of savings over the three years to 2019/20 and the consequent release of contingency sums, as well as having benefitted from being part of the Berkshire Business Rates Pilot for the three years to 31.March 2020, the Council has been able to reinstate reserves to a more sustainable level.

As set out above and in the Medium-Term Financial Strategy and Budget Report which appears elsewhere on the agenda, the Council faces significant financial uncertainty going forward in terms of future funding levels (Business Rates Retention and the Fair Funding Review) and the implications of Brexit. Additionally, the legacy of Covid 19 is likely to increase demand pressures on Children's services and Adult Social Care and depress income streams over the medium term due to the economic impact on business and individuals as well as changes to individuals behaviours (working patterns and retail preferences). Consequently, for this authority the Section 151 Officer recommends that the level of working balance for the General Fund should be in the region of £7.5 million or 5% of net revenue expenditure.

5.3 In addition to the working balance the Council holds earmarked reserves, these include:

- Ring fenced accounts funded by third parties which must be repaid if not used for the purposes specified, e.g. grants
- Reserves which have a statutory limitation as to their use, such as Schools Balances, Dedicated Schools Grant and Housing Revenue Account reserves
- Accounts it is considered prudent to set aside for specific purposes, e.g. the Insurance Fund, Schools Deficits which will crystalize on academisation
- Committed but unspent budgeted amounts carried forward at the end of the financial year to deliver specific projects

Due to the significant amount of Covid related funding the Council has received in the current financial year, including S31 grants reimbursing the Council for business rates reliefs (£27m) and the required accounting treatment of those, the Council's General Fund earmarked reserves and working balance are forecast to increase to £80.4 million at 31st March 2021, before returning to average levels (c.£47m) by 31st March 2022. A full schedule of reserves and balances including those which are ring fenced to the Housing Revenue Account and Schools is attached at Appendix 1 together with an explanation as to their intended use. It should be noted that the earmarked reserves figures are indicative and will change depending on how quickly associated expenditure is incurred.

5.4 CIPFA have stated that there should be no imposed limit on the level or nature of balances required to be held by an individual Council. However, in light of recent high profile failures and funding concerns being raised by authorities they introduced a financial resilience index in 2019/20 which uses a basket of indicators to measure individual authority's financial resilience compared to their comparators. Key indicators include:

- The current level of reserves held compared to the average change over the last three years
- The level of reserves held (excluding Public Health and School reserves) as a percentage of net revenue expenditure
- The average change in reserves over the last three years excluding Public Health and School reserves
- The total cost of Adult & Children's social care as a percentage of the Council's net revenue expenditure
- The level of external interest payable by the Council compared to net revenue expenditure
- The level of external debt held by the Council
- Council Tax requirement compared to net revenue expenditure
- The level of fees and charges income as a proportion of total service expenditure
- Growth above baseline
- OFSTED rating
- Auditors value for money conclusion

5.5 Based on the latest data available (2019/20), the Council's reserves position is now around the average compared to all unitary authorities. The risk ratings allocated by CIPFA are relative to other Unitary authorities. Areas where the index highlights there is comparatively more risk for the Council include:

- **The level of external interest payable by the Council compared to net revenue expenditure and the level of external debt held by the Council** - These 2 index scores highlight that the Council has higher levels of external debt to fund its Capital Programme, and therefore also has higher levels of external interest payable than the average unitary authority as a proportion of its net revenue budget. However, the revenue costs of this external interest have been modelled and budgeted for in the 2021-2024 Medium Term Financial Strategy. The levels of external debt are also assessed as part of the Council's Capital Financing Requirement set out within The Treasury Management Strategy (included elsewhere on the Agenda) and the Council continues to maintain an "under borrowed" position. Therefore, the potential risk suggested by these index scores is not considered to be of particular concern.
- **The total cost of Adult & Children's social care as a percentage of the Council's net revenue expenditure -** Whilst Children's social care costs remain above average, Brighter Futures for Children's transformation plan; supported by the Council is seeking to address that. Additionally, Central Government have recognised social care as a significant cost pressure and attempted to address this in 2021/22 by extending the 2020/21 grant funding, allocating new one-off grant funding and extending the facility to increase Council Tax via the Adult Social Care Precept, all of which are included in the 2021-2024 Medium Term Financial Strategy. It is hoped that the pending Fair Funding Review will address these cost pressures on a recurring and longer-term basis.
- **Growth above baseline** - This index compares the total baseline funding level of the Council with retained business rates income. This index is showing as higher risk due to the Council having been part of the Berkshire business rates pilot pooling arrangement in prior years which generated a high amount of business rates income compared to other unitary authorities suggesting a high reliance on this funding source. The pilot pooling arrangement ended on 31st March 2020. In light of the impact of Covid 19 on the economy a prudent approach has been taken in respect of future years business rates growth; albeit recognising that Reading's economy has historically bounced back more quickly than other areas.

6. CONCLUSIONS

6.1 Considering all of the above, the Council has taken a prudent approach to setting its 2021/22 budget and I would conclude that:

- The process for the formulation of General Fund, HRA and Capital budgets provides for a reasonable assurance of their robustness;
- The level of contingencies provided for slippage in, or non-delivery of higher risk savings is prudent;
- The provision of a transformation fund facilitates the ongoing delivery of required savings and the testing of new models of working; and
- The level of the Council's total reserves are sufficient to provide for:
    - A working balance to cushion the impact of unexpected events or uneven cash flows; and

- The setting aside of funds to meet known or anticipated liabilities (earmarked reserves).

7. LEGAL IMPLICATIONS

7.1 The Council has a legal requirement to set a balanced budget. In agreeing its' budget, Council is required to consider the report of its S151 Officer as set out in paragraph 1.1 above.

8. FINANCIAL IMPLICATIONS

8.1 These are set out in the body of the report.

9. EQUALITIES IMPLICATIONS

9.1 There are no Equalities Implications arising directly from this report.

10. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

There are no environmental implications arising directly from this report.

11. BACKGROUND PAPERS:

Budget Papers
CIPFA's Financial Management Code
CIPFA's Financial Resilience Index