

**READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE**

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| TO: | COUNCIL | | |
| DATE: | 28th FEBRUARY 2023 | | |
| TITLE: | CHIEF FINANCE OFFICER'S REPORT ON THE ROBUSTNESS OF THE COUNCIL'S 2023/24 BUDGET | | |
| LEAD COUNCILLOR: | COUNCILLOR BROCK | PORTFOLIO: | LEADER OF THE COUNCIL |
| SERVICE: | ALL | WARDS: | BOROUGHWIDE |
| LEAD OFFICER: | DARREN CARTER | TEL: | |
| JOB TITLE: | DIRECTOR OF FINANCE | E-MAIL: | darren.carter@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 Finance Officer (Director of Finance) 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.
- 1.2 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 2023/24.

Appendices:

Appendix 1 - Summary of Estimated Reserve Movements 31/03/2023-31/03/2026

3. POLICY CONTEXT

- 3.1 Reading Borough Council is financially stable, having a reasonable level of reserves and contingencies and consistently delivering services within budget. This is despite the financial challenges facing the wider Local Government sector:
- At least 5 Councils have issued s114 notices in recent years, most notably at Croydon, Slough and Thurrock.

- Significant delays in the completion of audits of the statutory accounts are adding to the workloads on council finance teams and increasing the risk of material issues being identified that will impact on balances.
- Long-planned changes to the Local Government Funding system, including the Business Rates reset, have been deferred beyond the period of the current Parliament.
- Another one-year Local Government funding settlement being announced for 2023/24.
- Inflation is running at levels not seen in decades, with wide-scale industrial action taking place in support in pay claims.

3.2 In this context, it is more important than ever for councils to retain a healthy level of reserves to mitigate against the risks that are inherent in the system.

The CIPFA Financial Resilience Index

3.3 The CIPFA financial resilience index is a comparative analytical tool intended for use by Chief Financial Officers to support good financial management. The index shows a council's position on a range of measures associated with financial risk, highlighting where additional scrutiny may be required. The index for Reading Borough Council as compared to other unitary authorities is as follows:



3.4 On 31st March 2022, the level of reserves held by Reading Borough Council equated to 57.88% of net revenue expenditure. This placed Reading as the 23rd highest among 51 Unitary authorities.

3.5 The key risk areas identified for Reading are:

- The level of external debt and associated interest costs. It should be noted that while our level of external debt ranks as the 19th highest out of 57 Unitary Authorities, the actual amount of our external debt is proactively managed and is only slightly above the average.
- The growth in Business Rates ahead of the baseline. While this is of significant benefit to the Council at the moment, that benefit will be lost when a reset occurs.

Wholly owned Companies

- 3.6 The Council's wholly owned bus company, Reading Transport Limited (RTL) has historically operated on very low margins and with minimal reserves and, like other operators was hit hard by Covid-19. Passenger numbers are recovering but remain below pre-Covid levels, and the company has been reliant on Central Government grant funding to mitigate the impact of reduced income. This grant funding is currently due to end in March 2023. The Council continues to work with RTL to address concerns about ongoing financial viability.
- 3.7 The Council has been awarded £26.2m of Bus Service Improvement Plan funding by the Department for Transport in order to improve bus services in the borough.
- 3.8 Homes for Reading (HfR) - the Council's current dispensation to not charge Minimum Revenue Provision on borrowing relating to loans given to HfR is reliant on the value of the fixed assets on the company's Balance Sheet exceeding the loan liability. The asset valuation is dependent on the economy and the housing market.
- 3.9 Brighter Futures for Children (BFfC) - the Council's children's company has requested a contract sum of £51.430m which is an increase of £3.905m compared to the figure that was previously included in the MTFS for 2023/24. This is a net increase of £2.972m from the 2022/23 contract sum. This covers increased inflationary pressures relating to pay and contractual inflation and school travel demand pressures. The demand pressures on travel as well as social care placements present an on-going risk in terms of numbers and complexity.

The CIPFA Financial Management Code

- 3.10 In October 2019 the Chartered Institute of Public and Finance and Accountancy (CIPFA) launched a new Financial Management (FM) Code in response to the well documented financial difficulties faced by some authorities. 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 was 2021/22 and an assessment of the Councils' compliance with the Code was presented to Audit and Governance Committee in April 2022. The overall rating, on a Red-Amber-Green scale, was Amber. A lot of work has been done since the April 2022 assessment with some individual assessments moving from Amber to Green, but I anticipate that the overall assessment will remain at Amber.

4. ROBUSTNESS OF THE ESTIMATES

Approach to and Assumptions within the 2023/24 Budget and Medium-Term Financial Strategy (MTFS)

- 4.1 The Finance Team has led the production of the 2023/24 budget and the 2023/24 to 2025/26 Medium Term Financial Strategy with input from the Councils' officer leadership team.
- 4.2 All aspects of the Council's budget, savings, income, service changes, inflation, pressures and new capital projects and new revenue bids have been subject to review, with services 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 All Executive and Assistant Directors have signed budget accountability letters for the 2023/24 budget that is being presented for approval. If any budget amendments are agreed, then updated letters will be issued.
- 4.4 The 2023/24 budget and the 3-year MTFs have been built on a range of assumptions reviewed and assessed by the finance team with support from our professional networks and specialist advisors. These are set out in detail in the Medium-Term Financial Strategy attached as Appendix 1 to the budget report.
- 4.5 The 2023/24 budget proposes an increase of £4.4m for Adult Social Care services. This follows a £5.0m increase in the previous year, a cumulative increase of 25% over 2 years. This increase reflects the post Covid-19 cost pressures in social care services.
- 4.6 In setting the new three-year MTFs, I have undertaken a thorough review of contingencies. The corporate contingency was previously planned to increase to £4.8m in 2023/24 and £6.3m in 2024/25. These figures have been revised down to £4.1m and £4.9m respectively. This reflects a greater degree of confidence in the delivery of savings across the period of the MTFs.
- 4.7 The main risks to delivering the proposals set out within this MTFs include:
- Inflationary pressures, including pay award
 - Demographic demand pressures, especially in social care services
 - The long-term impacts of COVID-19
 - The economic impact of the cost-of-living crisis, including the risks to our own commercial property investments
 - Interest rate movements
 - Delivery of capital receipts to fund transformation activity
 - Future local government financing settlements
 - The future of Local Government funding
 - The potential of a Business Rates reset

Financial Management

- 4.8 Reading Borough Council has in place robust arrangements for financial monitoring, these include:
- The Director of Finance is a member of the Corporate Management Team
 - Regular financial reporting to the Corporate Management Team and Lead Member
 - Quarterly financial monitoring to Policy Committee
 - All reports to committee for approval include financial implications approved by the Director of Finance

- Strategic Finance Business Partners are members of Directorate Management Teams
- The introduction of a new Capital Programme Board chaired by the Director of Finance

4.9 The Council is on track to deliver services within the approved 2022/23 budget. The Quarter 2 position reported to Policy Committee in December 2022 projected a net positive variance of £1.3m. This included service level overspends of £3.5m that were being mitigated by the release of the corporate contingency that was set at £3.6m following a risk assessment of service budgets, plus savings in capital financing costs.

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 The proposed working balance for the General Fund reserve is set at 5% of the net budget requirement. This equates to £8.2m on 31st March 2023. I consider this to be an adequate working balance.

5.3 The Council also maintains a range of earmarked reserves that are directly linked to the risk areas highlighted in paragraph 4.7:

- Financial Resilience reserve. This is set initially at a level that matches the General Fund reserve to mitigate against the potentially significant loss of funding that will occur with a reset of the Business Rates baseline.
- Collection Fund reserve to mitigate against the impact of an economic downturn on the collection of Council Tax and Business Rates.
- Transformation reserve to fund the cost of transformation activity.
- Demographic pressures reserve.
- Pay and inflationary pressures reserve.
- Commercial Property reserve.

5.4 The Council also maintains the following reserves to protect against the impact of unforeseen events or liabilities:

- Emergency Planning reserve to cover unforeseen emergencies.
- Self-insurance reserve to meet estimated liabilities in connection with internally held risks related to the Council's Insurance programme.
- Legal and taxation reserve to cover one-off legal or tax liabilities.
- School deficits reserve.

5.5 Earmarked reserves are also held for the following:

- Unspent revenue grants
- Reserves which have a statutory limitation as to their use, such as Schools Balances, Dedicated Schools Grant and Housing Revenue Account (HRA) reserves
- Committed but unspent budgeted amounts carried forward at the end of the financial year to deliver specific projects

5.6 The Council's reserves temporarily increased during the pandemic due to the significant amount of Covid related funding the Council received, including Section 31 grants for business rates reliefs. This short-term impact is now being removed as these Section 31 grants are required to be released. The Council's General Fund revenue reserves, including earmarked reserves, increased to £98.119m on 31st March 2021 and reduced to £89.651m by 31st March 2022. This trend is continuing, with reserves forecast to reduce to £70.049m by 31st March 2023. This was a planned reduction which primarily relates to the required release of the Section 31 grants referenced above and is not a cause for concern.

5.7 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.

5.8 The HRA minimum balance is £4.0m for 2023/24 and increases in line with CPI annually. The forecast HRA balance, including HRA earmarked reserves, as at 31st March 2023 is £51.170m. The 30-year Business Plan shows the HRA balance reducing to a minimum point of £7.3m in 2032/33 before increasing again in the remaining years of the plan.

6. CONCLUSIONS

6.1 I consider that the Council has taken a prudent approach to setting its 2023/24 budget and I 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 is prudent
- The provision of transformation funding facilitates the ongoing delivery of required savings and the testing of new models of working; and
- The level of the Council's total reserves is 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).

6.2 The indicative budget for 2024/25 is currently in a surplus position which may allow for funds to be allocated to one-off activities in due course. The budget for 2025/26 is in deficit due to the potential impact of the Business Rates reset. The projected 2024/25 surplus has been assumed to roll forward into 2025/26 in order to mitigate the projected deficit in that year.

7. CONTRIBUTION TO STRATEGIC AIMS

7.1 The Council's vision is to ensure that Reading realises its potential - and to ensure that everyone who lives and works in Reading can share the benefits of its success. The Council has three themes which contribute to delivering this vision. These themes are:

- Healthy Environment
- Thriving Communities; and
- Inclusive Economy.

7.2 The setting and delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

7.3 Full details of the Council's Corporate Plan are available on the website.

8. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

8.1 There are no environmental or climate implications arising directly from this report.

9. COMMUNITY ENGAGEMENT AND INFORMATION

9.1 The public budget consultation ran from 19th December 2022 until 19th January 2023. The feedback from this consultation, alongside the feedback from the Residents' Survey 2022 is set out in the 2023/24 Budget & Medium-Term Financial Strategy 2023/24-2025/26 Report elsewhere on the agenda.

10. EQUALITY IMPACT ASSESSMENT

10.1 There are no equalities implications arising directly from this report.

11. LEGAL IMPLICATIONS

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

12. FINANCIAL IMPLICATIONS

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

13. BACKGROUND PAPERS:

13.1 None.