READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	**COUNCIL**		
DATE:	**28 February 2018**	**AGENDA ITEM:**	**7**
TITLE:	**BUDGET 2018/19 & MEDIUM TERM FINANCIAL STRATEGY**		
LEAD COUNCILLOR:	**CLLR JO LOVELOCK**	**PORTFOLIO:**	**LEADER / FINANCE**
SERVICE:	**FINANCE / CORPORATE**	**WARDS:**	**ALL**
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1. PURPOSE OF REPORT

1.1. To present to members proposals for the General Fund revenue budget for 2018/19 & Medium Term Financial Strategy (MTFS) for the period to 2020/21, alongside proposals for capital expenditure over the same period. Councillors are asked to consider the proposals and the formal recommendations set out below.

2. SUMMARY OF THE REPORT

2.1. The Council is proud of its track record of delivering good quality services that support the aspirations & requirements of the residents and businesses of Reading. This is especially so when set against the ongoing impact of Government funding reductions and the increasing demand pressures upon services, especially in children's and adult social care.

2.2. It is essential that the Council has robust plans to be financially sustainable so that it can continue to shape and influence the future of Reading and play its part in protecting the most vulnerable by:

- Ensuring that Reading achieves sustainable growth, which provides a wide range of job opportunities for people living in Reading and beyond.
- Ensuring that there are enough new homes and associated infrastructure to meet local needs.
- Protecting and enhancing the life outcomes of vulnerable adults and children.
- Keeping Reading's environment clean, green and safe.

- Ensuring that there are good education, leisure and cultural opportunities for people in Reading.

More detail of these priorities and plans will be set out in the Corporate Plan, which is being developed and will be presented to the Council later in the year.

2.3. Delivering these priorities against funding and demand pressures will require the Council to act effectively, efficiently and with clear focus and determination. Indeed the Policy Committee in January 2018 resolved to require officers to develop more radical proposals to close the financial gap, including steps to:

- Alter service levels where current ones are no longer affordable;

- Look for locally developed alternative delivery models in appropriate service areas;

- Positively test existing services against the market;

- Restrict the growth of employment costs

2.4. The report to the January Policy Committee noted that in order to deliver everything that the Council does now, in largely the way that it is currently done, then the Council would need £43.2m more than is forecast to be available over the period to 2020/21. Proposals, including those presented to the July 2017 Policy Committee, have been developed to seek to bridge that gap. In order to make swift progress, savings proposals of £3.7m, £4.4m & £3.3m, for 2018/19, 2019/20 and 2020/21 respectively, were presented to and agreed by the Policy Committee in January 2018 with appropriate delegation to Directors to implement as soon as possible (after undertaking any necessary consultation).

2.5. Further proposals for savings and/or income generation have continued to be developed and were agreed at Policy Committee on 19 February. These proposals amount to £3.6m in 2018/19, £3.9m in 2019/20 and £4.4m in 2020/21. These proposals will allow a balanced budget to be set for 2018/19 and they will provide for a balanced MTFS. However, as explained in the report, it has not been possible to identify ongoing savings for each year of the MTFS, so some use of balances is required to enable one-off funding and the over-achievement of savings in earlier years to address deficiencies in later years. Overall, it is expected that the proposals will underpin the "going concern" statement that needs to be provided to our external auditors, EY, shortly.

2.6. In addition to the details of the General Fund revenue budget and MTFS, this report also presents proposals for the Housing Revenue Account (HRA). This is a ring-fenced account, which deals with the finances of council housing. Budgets have been prepared in accordance with the business plan for the HRA and taking account of variations required due to the impact of any changes in 2017/18. There are also details of the proposed capital programme within this report, the related treasury management strategy, and an outline capital strategy. In addition the report includes details of the Council's proposed deployment of the Dedicated Schools Grant and an update on the implementation of the Government's 2017 budget Discretionary Rate Relief Scheme. All these are also for approval and are referred to in relevant appendices (see list at end of the main report)

2.7. Councillors will be aware that the Council has not yet achieved a complete and audited set of accounts for 2016/17. Work continues and a further update will be given at the meeting. To date no errors have been found that would lead to concerns about the amount of money spent or received in 2016/17, which in turn would undermine or alleviate the position in subsequent years.

2.8. Final Settlement – the Local Government Finance Settlement 2018/19 was approved in Parliament on 7 February. While it confirmed the figures that we already knew about there was also a welcome late addition to funding in the form of a £150m Adult Social Care Grant nationally for 2018/19 only. This translates into £0.355m for Reading Borough Council. Due to the lateness of the announcement, this sum, which must be earmarked for Adult Social Care, has been added to the contingency but was not reflected in any of the tables within the report to the Committee. These have been amended for the presentation to the Council in Appendix 6.

3. RECOMMENDED ACTIONS

3.1. **Council is recommended to:**

SETTING THE COUNCIL TAX FOR THE READING BOROUGH COUNCIL AREA

1. That the following, as set out in this report by the Strategic Director of Finance and in the Budget Book, noting the Equality Impact Assessment, be approved:

a) The Council's General Fund Budget for the period 2018/21 (Appendix 6)
b) The specific revenue estimates for 2018/19
c) The capital programme for the period 2018-21

2. It be noted that on 23 January 2018 the Council calculated the Council Tax Base 2018/19 for the whole Council area as 54,850 [item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the "Act")].

3. Calculate that the Council Tax requirement for the Council's own purposes for 2018/19 as £1,579.99 (as set out below).

That the following amounts be calculated for the year 2018/19 in accordance with Sections 31 to 36 of the Act.

a) £390,897,725 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act.

b) £304,235,000 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.

c) £86,662,725 being the amount by which the aggregate at 4(a) above exceeds the aggregate at 4(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B(4) of the Act).

d) £1,579.99 being the amount at 4(c) above (Item R), all divided by Item T (2 above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year.

e) Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
1053.33	1228.88	1404.44	1579.99	1931.10	2282.21	2633.32	3159.98

being the amounts given by multiplying the amount at 4(d) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

5. That it be noted that for the year 2018/19 the Police & Crime Commissioner for the Thames Valley has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Precepting	Valuation Bands							
Authority	A	B	C	D	E	F	G	H
Police & Crime	£	£	£	£	£	£	£	£
Commissioner	121.52	141.77	162.03	182.28	222.79	263.29	303.80	364.56

6. That it be noted that for the year 2018/19 the Royal Berkshire Fire & Rescue Service have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of the dwellings shown below:

Precepting	Valuation Bands							
Authority	A	B	C	D	E	F	G	H
Royal Berkshire	£	£	£	£	£	£	£	£
Fire & Rescue	42.90	50.06	57.21	64.36	78.65	92.96	107.26	128.72

7. That, having calculated the aggregate in each case of the amounts at 4(d), 5 and 6 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2018/19 for each of the categories of

dwelling shown below:

Valuation Bands

A	B	C	D	E	F	G	H
£	£	£	£	£	£	£	£
1217.75	1420.71	1623.68	1826.63	2232.54	2638.46	3044.38	3653.26

3.2. **Committee/Council is requested to approve the Treasury Management, Investment Strategy, Initial Capital Strategy and the Prudential Indicators set out in Appendix 4 and approve the MRP Statement to apply from 2018/19 in Annex A of the strategy, and in particular in connection with the apportionment of interest between the HRA & General Fund Committee/ Council is asked to authorise the appropriation of non-residential shop units and garage blocks currently held within the HRA (and listed in the background paper on the Council's website together with a borough map showing locations) be appropriated from being held for housing purposes under the Housing Act 1957, to being held for the benefit, improvement and development of the Borough under Section 121 of the Local Government Act 1972, and for land in Norcot currently held under Section 121 of the 1972 Act to be appropriated for housing purposes under the Housing Act 1957, noting that these appropriations will impact the apportionment of interest as set out in the strategy.**

3.3. **Committee/Council is requested (in connection with its consideration of the budget and calculations of Council Tax above) to take account of the statutory advice of the Strategic Finance Director in accordance with S25 of the Local Government Act 2003 on the robustness of the budget and adequacy of financial reserves in Section 6.1 of the report.**

3.4. **Council is requested to approve the changes to Fees and Charges outlined in Appendix 3 of the report, and set out in detail on the Council's website and authorise officers to take the action necessary to implement these changes.**

3.5. **Council NOTES the schedule of savings proposals formerly in Appendix 1, which were AGREED by Policy Committee on 19 February 2018 for inclusion in the 2018/19 revenue budget and MTFS, and that directors were authorised, in consultation with the responsible lead councillor and the statutory officers, to implement the savings in their service areas as soon as practicable, and before the start of the 2018-19 financial year where possible, subject to: a) undertaking and considering the outcome of any necessary statutory consultation for the service in question; b) complying with the Authority's duties under Section 149 of the Equality Act 2010, including undertaking and considering the outcome H1 of an Equality Impact Assessment where appropriate.**

3.6. **Committee/Council is asked to approve the Housing Revenue Account budget for 2018/19 set out in Appendix 10, and in line with the Government mandatory requirement authorise a 1% rent reduction from the week beginning Monday 2 April to all HRA tenancy rents (noting that re-let of vacant HRA housing properties will be at target (formula) rent on all relets as agreed last year).**

3.7. **That the permitted PFI stock exemption to the annual 1% rent reduction for social rented housing is not applied for the financial year 2018/19, but the position be reviewed for 2019/20 in due course.**

3.8. **Note that Policy Committee RESOLVED to approve a 4.0% garage rent increase, in line with normal rent policy for garages (CPI + 1%).**

3.9. **That Council delegate to the Head of Customer Services and Head of Finance in consultation with the Leader and Chair of Audit & Governance Committee authority to operate the Discretionary Rate Relief Scheme broadly in line with Appendix 7 to the report in order to ensure the Government resources available are fully deployed.**

3.10. **That the appointment of Jackie Yates' to the post of Director of Resources, starting from 19 March 2018, be noted;**

3.11. **That the post of Director of Resources be designated to act as the local authority's Chief Finance Officer and Section 151 Officer with the statutory responsibilities under the Local Government Act 1972 and also be the Responsible Officer under Section 113 of the Local Government Finance Act 1992 with effect from 26 March 2018; and the Council's Constitution and Delegations' Register be amended accordingly to reflect this change.**

3.12. **Note that Policy Committee RESOLVED to agree that the first calls on capital receipts for the MTFS period, including 2017/18, be to cover the estimated remaining equal pay settlement and the Delivery Fund set aside to provide the capacity required to enable sustainable changes in the Council to be implemented and savings to be delivered and that the Chief Executive has the delegated authority in consultation with the Director of Resources to deploy this Fund in accordance with the Council's constitution.**

4. BACKGROUND AND ASSUMPTIONS

4.1. In July 2017 the Policy Committee agreed a revised budget for 2017/18 and a MTFS for the period to 2019/20, the final year of the Government's four year local government finance settlement. The revised budget for 2017/18 was based upon more robust assumptions and more realistic and extensive savings proposals and a much reduced reliance on reserves compared to the February Council report. In addition, savings were proposed over the medium term that, if delivered, nearly balanced 2018/19, but left a larger gap of £5.3m to be resolved in 2019/20.

4.2. Since July 2017 there has been much progress made in delivering savings (over 90% of those due to be achieved in 2017/18 are expected to be delivered) with progress also made against savings planned for 2018/19 and 2019/20. However, there has been increased pressure on the 2017/18 budget from rising demand (volume and price) in both adult and children's social care. This required mid-year mitigating action to avoid an overspend and the current overall Council position (small underspend) has been reported in the regular budget monitoring reports to Policy Committee.

4.3. In the light of this 2017/18 experience and the predicted impact of the in-year pressures on subsequent years, the Administration Group and senior officers have been working together over the Autumn/Winter period to address the budget gap. It is estimated that if the Council continues to do everything it does now in the way it currently does it then there will be a £43.2m budget gap in 2020/21.

4.4. Larger elements of this £43.2m comprise:

- £14.9m of demand pressures. Of these pressures approximately £8.7m is in Children's Services and £3.6m in Adults Services;
- £9.5m in pay awards and increments, providing for pay awards at the level of the offer made by the management side in November 2017;
- £7.8m of contract inflation;
- £4.9m of capital financing costs;
- £3.6m arises from savings that were resolved in July to be undertaken, but cannot now be delivered, including the £2m in regard of redefining some staff terms and conditions.

4.5. In preparing this MTFS, every effort has been made to keep annual revenue spending within the limit of ongoing income sources within each year, only using one-off funding to support change and investments which then contribute to closing the financial gap in a sustainable manner. This principle was endorsed by the Policy Committee on 15 January 2018. It has not, however, been possible to fulfil this requirement across all years and a Funding Equalisation Reserve is required to enable funds available in the earlier years (one-off and over-achievement of savings) to move to the later years for the purposes of balancing the MTFS. More details are explained later in this report.

4.6. Before proceeding to describe the assumptions upon which the MTFS is built, it is appropriate to describe the outcome of the considerable work undertaken in recent weeks by members and officers.

	2018/19	2019/20	2020/21
	£000's	£000's	£000's
Gross Budget	£ 159,964	£ 142,360	£ 136,150
Funding	-£ 142,891	-£ 126,709	-£ 128,501
Savings Agreed July 2017	-£ 10,449	-£ 7,420	£ -
Savings Agreed January 2018	-£ 2,973	-£ 4,377	-£ 3,253
Savings Proposed within this Report	-£ 3,651	-£ 3,854	-£ 4,396
Balanced MTFS with Agreed and Proposed Savings	**£ -**	**£ -**	**£ -**

Note: In paragraphs 5.8/5.10 of this report, the 2018/19 saving agreed in January 2018 adds up to £3.7m; here it is £2.973m. This difference arises because £0.761m of measures agreed relate to increased funding so are shown in the funding line here.

This table illustrates a balanced budget for 2018/19 and a balanced MTFS taking account of the further savings being proposed for consideration by councillors in this report. As indicated above and described below, the opportunity presented by the Business Rates Pilot means that the Council can use these one-off funds in 2018/19 to address the small budget gap that would otherwise be apparent in 2020/21. The funding is moved between years by means of the proposed Funding Equalisation Reserve described below within the section on the Pilot. The unusually large gross budget and funding figures in 2018/19 are a consequence of the Business Rates Pilot and the way that the increased value of rates retained will flow through the Council's accounts.

4.7. In paragraphs below there is narrative on the savings required and the contingency for unmet savings and unexpected pressures. It is appropriate to highlight at this stage that full delivery of the savings and strict control of the budget in the first year or two of the MTFS will reduce the pressure on the contingency for the later year or two. In this case the contingency could be reduced thereby enabling the release of funds back to the core budget for planned service delivery. This would then reduce the need for one-off funded solutions.

4.8. **Assumptions**: the key assumptions made in support of these budget proposals are set out below.

- **Pressures** – given recent experience of in-year budget pressures leading to potential overspends, even greater effort has been committed in this round to understanding the cost drivers behind the major elements of expenditure and how they might be influenced. The impact of this is shown in paragraph 4.4 above. In particular, in Children's Services there has been much more detailed modelling of trends, volumes of cases and cost per case to build the budget. While forecasting in this area is subject to significant influence by external forces, a greater understanding will enable greater control. Interventions are being designed to seek to moderate the pressure on the budget in future years.

  In respect of Adult Services, in addition to a better understanding of the demographics of our population, the officer team has been focussing on case reviews, more detailed scrutiny of proposed care packages and improved commissioning to secure cost effective services. Each of these will make a contribution to improved spending control.

- **Government Funding** – the four-year settlement information has been applied – this originally showed Government funding in the form of Revenue Support Grant (RSG) as being due to reduce from £10.4m in 2017/18 to £6.2m in 2018/19 and then below £2.0m in 2019/20. This will now change in 2018/19 when there will not be RSG, but there has been a matching tariff adjustment because of the Business Rate Pilot as explained below. 2020/21 is beyond the four-year settlement and it is known that the Government intends to reform the local government finance system by that year; an outline timetable has been published to show the key stages of the work. At the start of the review the stated aim was to move to a 100% business rate retention scheme, with local government as a whole only being funded by business rates with removal of central government grant and some reallocation of responsibilities between central and local government.

- A “reset” of the system is due to occur that will redistribute available business rates. In the reset Government will estimate the total resources (from business rates and council tax) available to Local Government as a whole. A revised needs formula will determine the relative need of each local authority and the total resources nationally will then be redistributed according to relative need. From the resources determined in this way the amount of council tax each authority has will be deducted to leave the amount of business rates an authority needs. Authorities that collect less business rates will (as now) receive a top up, paid for by charging a tariff to authorities that collect more rates than they need. As now (in 2017/18) where we pay about 75% of rates to the Government, Reading will be a tariff authority, and be required to pay a significant proportion of the rates collected to Government for redistribution.

- The change to the needs formula may mean that the tariff is different to that which would arise if Government simply rolled the existing formula on for one more year. When major transitions from one formula to another have occurred in the present system, an arrangement of safety nets and caps, on losses and gains respectively, has operated. As a consequence almost no authority has actually reached the level of resources a pure operation of the formula would suggest. The current thinking (in the joint LGA/MHCLG working group) is that a transition scheme will operate that does get most authorities to the “correct” level of resources after year 4. However, it is also thought likely that all authorities will get to keep locally some (reasonably significant) element of business rates growth since the last reset. The combination of all of these likely changes makes it very difficult to predict the level of funding that might be available to the Council in 2020/21. At this stage it is estimated that Government funding will fall to £0 in 2020/21, from £2.0m in 2019/20. While £0 might seem a natural minimum, there are some authorities who have been calculated to receive negative RSG before the end of the four-year settlement, so the Borough Council’s settlement could be worse than is assumed. As indicated above, the government will implement change by changing the business rates tariff. For this reason a balancing reserve is proposed in a later section.

- **Berkshire Business Rate Pilot** – the Government announced 10 new pilots of “100% business rates retention” including Berkshire as part of the local government finance settlement in December 2017. This is positive news for Berkshire and for Reading Borough Council. The pilot is announced for one year (2018/19) only at this stage, although it is hoped that it might be carried forward into 2019/20 until the changes described above occur in 2020/21.

- The pilot means that Berkshire authorities will as starting point retain 99% of business rates rather than 49% with 1% to the Fire Authority. However, Government has recalculated the tariffs Berkshire authorities are required to pay and in doing so made an adjustment because the Government will not be paying any RSG – the £6.2m (for 2018/19) referred to above – to the Council. The tariff increases from £27.5m in 2017/18 to (that would ordinarily have risen to £28.3m in 2018/19) to £81.0m. Although this represents an increase of £53.5m, which is coupled with the loss of £6.2m RSG as we are actually estimating business rates income of £130m in 2018/19, £65m of which would be paid to the Government, the Council is £5.3m better off from this aspect of the Pilot. Overall the pilot bid estimated a net gain to Berkshire of £35m for the year, and £25m of that was reserved for allocation by the Local Enterprise Partnership (LEP) to help generate further economic (and hence business rates and council tax) growth. The remainder is kept by each local authority. For Reading Borough Council this produces one-off gains of approximately £2.6m as there is no levy to pay to Government in regard of business rate growth. There is also a further gain of about £1.7m due to receiving the Government's share of the Section 31 grant calculated to compensate local government for constraining business rate growth to CPI (as opposed to RPI) in 2018/19 and other changes government has made over the past 4 years that have reduced business rates income.

- While the Berkshire pilot is to be welcomed, it has certainly made the calculation of the national non-domestic rates (NNDR) funding element of the Council much more complicated, and especially so due to the current one-year pilot. Reading officers have had to work very closely with other Berkshire finance colleagues to make sure that our assumptions align in an appropriate manner, and there will be a need to review progress during the year, as the final position will not be known until after the end of the 2018/19 financial year. The impact of unwinding the pool in 2019/20 (if it is not extended) may yet produce uncertain impacts, hence the proposal for a reserve to be created in order to smooth this transition.

- **Council Tax** – the Government still maintains a significant amount of control over council tax levels by applying a referendum limit; that is, the maximum increase that is allowed before a referendum of council tax payers is required to consider any higher increase. This year the Government reaffirmed the "normal" referendum limit as 2% for 2018/19, but has allowed a further 1% to recognise the pressures on local government. In addition, from previous settlements, the Adult Social Care precept remains in place for 2018/19; this is the last year for this Council as we have taken the option of advancing the 2% per annum for three years into 3% for two years. This has two impacts:

  - The proposals in this report are based on a (just below) 6% increase in council tax (detailed calculations are shown in Appendix 2);
  - Beyond 2018/19, under current known permissions, the Council will only be able to increase the council tax by a maximum of 2%, which will not be

enough to maintain pace with the currently experienced growth in pressure on the services of the Council.

- **Savings** – as indicated above, if we made no further savings then the budget gap would be over £43m to 2020/21. Therefore, savings, efficiencies and income generation have been proposed that will bridge the gap in 2018/19 and will largely bridge the gap over the MTFS. More detail of those savings are set out below, but in summary the Council needs to deliver savings of:

	July 2017	Jan/Feb 2018	Total
2018/19	£ 10,449	£ 6,624	
2019/20	£ 7,420	£ 8,231	
2020/21	£ -	£ 7,649	
Total	£ 17,869	£ 22,504	£ 40,373

- This volume of savings is clearly significant and will be challenging to deliver; to be successful, and hence avoid in-year pressures on the budget, will require pace, determination, discipline and adequate funding of any additional resources required. This last point is covered by the Delivery Fund mentioned below. In addition, at the Policy Committee in January 2018, members resolved that directors were authorised, in consultation with the responsible lead councillor and the statutory officers, to implement the savings in their service areas as soon as practicable, and before the start of the 2018-19 financial year where possible, subject to:
    a) undertaking and considering the outcome of any necessary statutory consultation for the service in question;
    b) complying with the Authority's duties under Section 149 of the Equality Act 2010, including undertaking and considering the outcome of an Equality Impact Assessment where appropriate;

- Each saving has been assessed for confidence in deliverability. It is not surprising that, after so many years of finding savings, further savings are more challenging to deliver. In addition, those savings that are in the later years of the MTFS are currently less well planned and will therefore have lower confidence ratings. In addition to the Delivery Fund, it is essential that the Council maintains an appropriately sized contingency; this is referred to below.

- **Delivery Fund** – the Council, in 2017/18, took advantage of the Government's flexibility to allow the use of capital receipts for the purpose of "transformation" (in a similar way to the earlier change that permits their use for settling historic equal pay settlements). The Government announced in December 2017 that this flexibility will continue until April 2022. With that in mind is proposed that the first calls on capital receipts for that period will be to cover the estimated remaining equal pay settlement and to support the Delivery Fund, set aside to provide the capacity required to enable sustainable changes in the Council to be implemented and savings to be delivered. There is no revenue funding available for this purpose.

- The Delivery (formerly "Change") Fund was presented to members in the report to the July Policy Committee; at that time a fund of £7.8m was planned across three years, with £2.4m being contributed from the revenue organisational change fund and £5.4m from capital receipts. The Delivery Fund will need to be extended and supplemented to ensure that the savings and changes now required can be delivered successfully. The Delivery Fund is now intended to be:

2017/18	£2.557m
2018/19	£5.593m
2019/20	£3.840m
2020/21	£2.260m
Total	£14.250m

- Now that the Government has agreed the extension of the facility to use capital receipts flexibly for "transformation" type activity that leads to long term savings, and given the lack of available revenue funding, then capital receipts will be directed towards the Delivery Fund in the first instance. At the end of the 2017/18 financial year, it is expected that there will be £13.2m of receipts remaining with a further £13.3m expected in 2018/19. This will be at least sufficient to support the Delivery Fund commitments as above bearing in mind the estimated remaining equal pay settlements.

- **Contingency and General Balance** – as mentioned above, each of the savings proposals has been assessed for deliverability, with confidence factors applied. While some of the assessments may appear low, for some of them at least, this is because detailed planning has not taken place rather than an outright assessment that they only have a limited chance of success of being delivered. However, applying the confidence factors produces the following reductions in savings:

	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000
Reduction in Savings if confidence factor applied	**5,891**	**6,416**	**3,069**	15,376

- The table above suggests that we need contingencies for non-delivery of savings of: £5.9m in 2018/19, £6.4m in 2019/20 and £3.0m in 2020/21. The last year is a lower amount as there are no savings emanating from 2017/18 in that year, whereas there are in 2018/19 and 2019/20. Any unmet savings, if not mitigated by other means, will drain the contingency on an ongoing basis, hence full delivery of savings or other ongoing mitigations is the target.

- Current proposals are to aggregate any identified contingencies across the Council, as it is estimated that one larger contingency will be more efficient than several smaller ones. With that in mind, the following comprises the planned contingencies for the respective years:

Contingency	2018/19 £'000	2019/20 £'000	2020/21 £'000
General	3.276	4.276	4.276
Additional Pressures on Children's	2.000	2.000	2.000
Creation of Children's Company	1.000	0.000	0.000
Learning & Workforce Development	0.100	0.100	0.100
Housing Benefit Subsidy	0.150	0.025	0.025
Total	**6.526**	**6.401**	**6.401**

- While it is intended to use the contingency flexibly, it is acknowledged that the recent experience of pressures on Children's Services and the need to create the children's company will consume at least some of the total. It is also acknowledged that there is a fixed total budget, so an increased revenue contingency will require more savings to be found; perhaps a vicious circle. Therefore, it is proposed to moderate the requirement for the contingency by setting aside the additional, one-off benefit from the Berkshire Business Rate pool (£2.5m) into the general balances. These are just above the minimum acceptable level (£5m) at this time and any draw on them will require a swift plan for replenishment, which would add more pressure to the revenue budget. Therefore, setting aside this one-off sum is prudent, does not impact ongoing revenue expenditure and mitigates the need for further sums to be added to the contingency. It is therefore not proposed to add further sums to the contingency at this time provided that the General Balances can be improved in the manner described above.

- **Fees and Charges** – through December and early January officers have been reviewing the fees and charges levied by the Council for various services; more details are contained in an appendix to this report. Given that this was a more holistic review of the current and potential fees and charges, it has been possible to add a further anticipated £60k of income in each year of the MTFS. Beyond this there is additional income being generated that is separately identified within other savings proposals. As has become customary in recent years, the full schedule of new fees & charges is published on the Council's website with Appendix 3 setting out in narrative showing the key changes.

5. GENERAL FUND BUDGET

5.1. The Council is required to set a budget for day-to-day expenditure for each financial year starting on 1 April and it is a legal requirement that this budget must be balanced. The result of the detailed estimates and the assumptions above is a proposed General Fund budget as below:

5.2. The detailed budgets by directorate are set out in Appendix 6, and summarised in the table below:

	2018/2019 £'000	2019/20 £'000	2020/21 £'000
Corporate Support Services	12,279	12,467	12,787
Environment & Neighbourhood Services	23,812	19,517	17,997
Children's, Education & Early Help Service	41,569	41,868	41,337
Adult Care & Health	37,479	37,950	41,267
Total Directorate Requirements	115,139	111,802	113,388

5.3. The movements in each year of the MTFS are set out in the table below:

	2018/19	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**
Funding Previous Year	**125,327**	**142,891**	**126,709**
One off measures from previous year	4,531	0	0
Contribution to the LEP	6,250	-6,250	
Equalisation Reserve	3,275	-3,708	-1,994
Additional to General Fund Balances	2,500	-2,500	
Grant and Levy Changes	- 276	-226	1,625
Pay Award and Increment	2,848	3,131	3,495
Non Pay Inflation	2,497	2,600	2,670
Capital Financing Cost	1,300	2,400	1,200
Service Pressures	10,381	3,735	2,394
Recharge of GF to HRA	-1,000		
Contingency - LAC Placements	2,000		
Contingency - Children's Company		-1,000	
Other Corporate Budget Changes	-24	287	50
Draft Budget Before Savings	**159,609**	**141,360**	**136,150**
Savings measures agreed July 2017	-11,449	-7,420	0
Savings measures agreed Jan 2018	-2,973	-4,377	-3,253
Savings proposed within this report	-3,651	-3,854	-4,396
Addition to General Contingency	1,355	1,000	
Funding Available in Year	**142,891**	**126,709**	**128,501**

5.4. It should be noted that this table works cumulatively; that is, for example, an entry in 2018/19 flows through the other years until changed. An entry in one year followed by the same, but negative, number in the next year, means that the entry in the first year has been reversed and so was one-off.

5.5. The proposed level of council tax for Reading for 2018/19 at Band D is £1,579.99, an increase of 5.99% on the previous year; this represents an increase of £1.72 per week at Band D. It should be noted that the Governments assumptions about local government funding imply that council tax is raised up to the referendum limit each year. The overall increase with fire & police precepts is also 5.99%.

5.6. It should be noted that in January the Council agreed to revise the Local Council Tax Support (LCTS) scheme. It was resolved, from 1 April 2018 for 2018/19 and future years to:

- increase the minimum contribution from 25% to 35%;
- reduce capital level from £6,000 to £3,000;
- increase levels of Non-Dependant deductions (based on income) from £7.50 to £10.00 for those non-dependants not engaged in remunerative work (working less than 16 hours per week) and/or have gross earnings less than £196.95 per week;
- increase levels of non-dependant deductions (based on income from £12.50 per week to £15.00 per week for any non-dependants engaged in remunerative work (16 hours or move) with gross weekly earnings of £196.95 per week and above.

5.7. As described above, the Council will benefit from the Berkshire Business Rates Pilot in 2018/19 and this has been taken into account in the calculations. The Council will retain an extra £5.3m in business rates in 2018/19, after the loss of £6.2m RSG and other grants. Given the one-off nature of much of the gain it is proposed that a proportion of it is utilised to support the General Balances (and hence reduce the contingency as described above) and a further proportion is used to create a Funding Equalisation balancing reserve. This will enable the Council to deal with the anticipated removal of pilot, should that occur, and with the change to the new funding system in 2020/21. It is this latter event that causes most concern as it is likely to see those areas most able to generate their own funding, through NNDR, losing some of it in equalisation to support those areas less able to support their areas within the business rate income. The outcome of this redistribution is at this stage very unpredictable, hence the proposal to create an equalisation reserve to smooth the transition.

5.8. An intensive exercise to develop, propose and agree savings has taken place over the autumn and winter periods. This resulted in one batch of savings being agreed by the Policy Committee in January 2018. A further batch of proposals was agreed at the 19 February Policy Committee meeting. In considering savings proposals, much effort has been committed to protecting front-line services wherever possible. The following table illustrates the value of savings by category:

Savings Agreed at January 2018 Policy Committee				
Category	**18/19**	**19/20**	**20/21**	**Total**
Managing Demand	1541	1497	1983	5021
Increasing Productivity / Fees & Charges	1269	2339	415	4023
Service Delivery Models	824	390	604	1818
Reductions in Services	100	151	251	502
Total	3734	4377	3253	11364

Savings presented to February 2018 Policy Committee				
Category	**18/19**	**19/20**	**20/21**	**Total**
Managing Demand	505	75	70	730
Increasing Productivity / Fees & Charges	1298	1968	2119	5305
Service Delivery Models	580	1258	1840	3678
Reductions in Services	1269	553	367	2189
Total	3651	3854	4396	11902

Note: In paragraph 4.6 of this report, the 2018/19 saving agreed in January 2018 is shown as £2.973m. That is £0.761m less than shown here as some savings relate to increased funding so are shown in that line (as Council Tax Income) elsewhere.

5.9. It is noteworthy that out of over £23m of savings, only £2.7m is classed "reductions in service". During the creation of this MTFS every effort has been made to protect services and to find even more efficient means of service delivery, including through early intervention to manage demand.

5.10. The distribution of savings by directorate is illustrated in the table below:

Savings Agreed at January 2018 Policy Committee				
Directorate	**18/19**	**19/20**	**20/21**	**Total**
DENS	1096	604	350	2050
DACHS	1050	850	100	2000
DCEEHS	395	2303	2753	5451
CSS	1193	620	50	1863
Total	3734	4377	3253	11364

Savings presented to February 2018 Policy Committee				
Directorate	**18/19**	**19/20**	**20/21**	**Total**
DENS	1170	2172	3223	6565
DACHS	810	442	235	1487
DCEEHS	310	-24	550	836
CSS	1361	1264	388	3013
Total	3651	3854	4396	11901

5.11. The Public Health budget forms part of the overall budget proposals and a more detailed report on this specific area will be presented at a forthcoming Policy Committee.

6. ROBUSTNESS OF ESTIMATES, ADEQUACY OF RESERVES AND THE MANAGEMENT OF RISK

6.1. Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the adequacy of reserves when determining their budget and level of council tax. Authorities are required to consider their Chief Financial Officer's reports when setting the level of council tax. The Strategic Director of Finance (Chief Finance Officer for the Council) has provided the following report:

- *As a relatively small unitary authority on the outskirts of London, Reading Borough Council needs to confidently deal with a number of challenges if it is to be successful in delivering its priorities. These challenges include service demand pressures in Children's Services and Adults Services, supporting economic growth in the area, delivering a large and complex capital programme and ensuring that all of this can be done within very constrained finances. The first two of these challenges in combination with the last one has led, in previous years, to revenue budget overspends that have caused an unplanned drain on reserves. There is strong determination amongst Administration members and officers in 2017/18 to contain the unexpected in-year pressures within the revenue budget agreed in July 2017.*
- *The pressures arising in 2017/18 have led to a review of the Medium Term Financial Strategy (MTFS) for 2018/19 to 2020/21 to seek to ensure that projected future demand is supported by adequate funding, while remaining within the overall, very constrained, budget envelope. Without delivering*

substantial savings, it is projected that the budget requirement would exceed the funding available by £43.2m over the MTFS period. The Council has taken very seriously the requirement to prepare and agree a balanced budget for 2018/19 and a balanced MTFS. This has resulted in the preparation of a further £22.5m of savings proposals in addition to the £17.9m of savings that were agreed in July 2017; over the period to 2018/19 to 2020/21 £40.4m of savings will need to be successfully delivered, in full and on time; this will require determination, focus and adequate supporting resources to achieve.

- *During the preparation of this MTFS there has been a review of all assumptions and underlying budgets to ensure that they are tightened wherever possible. While this will moderate the level of savings required, it will also mean that there is less resilience in the budget in order to meet unexpected, in-year pressures. This fact needs to be reflected in the contingency provision.*
- *To balance the MTFS, members and officers have attempted to offer and agree proposals for savings that do not stop the Council from delivering on its priorities and also that do not introduce longer term difficulties through, for example, reducing preventative work. This is in the context of already finding and delivering over £80m of savings between 2010 and the end of 2017/18.*
- *Some of the pressures of service demand and reduced Government funding will be offset in 2018/19 by additional funding that will flow through from the Berkshire Business Rates Pilot. However, as this extra funding is only one-off, at this time, it must be used carefully to build resilience against non-delivery of savings and future funding system changes, including the end of the Business Rates Pilot facility in 2019/20 and the expected changes to funding in 2020/21.*
- *Given the high level of savings required over the next three years and the tightness of the budget described above, it is essential that there is an adequate provision for unexpected budget pressures and unmet savings targets. I am satisfied that, with the proposals set out in this report for a revenue contingency and the addition to the General Balances and Funding Equalisation Reserve, the Council has made adequate provision to be able to deal with moderate, unexpected financial demands without the need to resort to in-year savings. It is crucial that these provisions, balances and reserves continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced budget in each year.*
- *With a robust savings plan that is delivered with determination and pace, alongside an adequate contingency and increased balances, then I believe that there is adequate evidence to offer to EY, our external auditors, to support their consideration of Reading Borough Council's "arrangements for securing economy, efficiency and effectiveness in its use of resources" and hence its status as a going concern.*
- *All of the above comments are made in the context of a planning assumption that the council tax will increase at the referendum limit over the MTFS period.*
- *This budget reinforces the need for on-going, robust financial management, strict budgetary control and the on-going monitoring of both savings and investment delivery plans, with processes in place to promote these.*
- *In assessing the robustness of the estimate and savings proposals, I have drawn on the advice of service directors that their service priorities for 2018/19 can be*

delivered within the available resource envelope. These colleagues include, but are not limited to, the statutory chief officer roles of Director of Adult Services and Director of Children's Services.

Peter Lewis CPFA
Chief Financial Officer

7. CAPITAL INVESTMENT PROGRAMME 2018-2021

7.1. The Council continues to invest in Reading to provide new school places, homes, transport infrastructure and to improve our facilities to meet the needs of the community and to support continued economic growth. However, the Council's financial position requires all capital spend projects to contribute directly to achieving the Council Corporate Plan objectives and to be supported by a robust business case. The programme is funded by various means, including ring-fenced grant from central government or other organisations, and development-related receipts such as CIL and S106, neither of which can normally be used to run day-to-day council services. If the Council has to borrow to support capital funding, then there is a revenue cost arising, which needs to be provided for in the Council's overall budget. Therefore where projects are proposed to be funded by borrowing, they are required to either make a positive return and/or contribute to reducing the Council's revenue costs in the longer term. There will be an overall, strategic approach to funding the capital programme, with all sources of funding other than borrowing deployed, where permitted by grant or other conditions, in a non-earmarked manner to reduce the pressure on borrowing and its consequent revenue costs. Any local CIL funding (15% of the total) will continue to be allocated through member discretion to schemes that address corporate priorities.

7.2. In summary the overall capital programme and its financing is set out in the table. The more detailed programme is set out in Appendix 8.

Capital Expenditure and Financing	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
General Fund	67.2	122.5	132.6	104.9
HRA	12.1	25.3	14.5	8.5
Total Expenditure	79.3	147.8	147.1	113.5
Government Grants	17.0	28.6	25.2	13.9
Capital Receipts	1.7	5.3	4.2	1.0
S106	1.6	5.7	7.2	0.5
CIL	1.7	2.0	1.7	1.7
Borrowing	20.5	29.0	15.8	5.4
Investment Borrowing	30.6	71.0	85.0	85.0
Major Repairs Allowance	6.2	6.2	6.0	6.0
Total Financing	79.3	147.8	147.1	113.5

7.3. The extensive use of borrowing to finance the programme will lead to an increase in the Council's Capital Financing budget, which will rise from £11.68m in 2018/19 to £14.88m in 2020/21. Further details of the Council's treasury plans and related treasury management indicators are set out in the Treasury Management Strategy Statement in Appendix 4. In addition the CIPFA Prudential Code has set out a new requirement to have a capital strategy, and an Initial Outline Strategy for 2018/19 is set out in Appendix 5. This will undergo further development during the financial year.

7.4. As this report was being finalised, MHCLG announced the outcome of some bids we had submitted in the autumn to the Housing Infrastructure Fund. We have two successful bids, for the next phase of Dee Park Regeneration, and for the regeneration of the Central Pool area following the closure of the pool. Key areas of investment are set out in the paragraphs below.

Education and Early Help

7.5. There are 3 main work streams: Sufficiency of Pupil Places, condition related improvements to school buildings and ensuring compliance of statutory Health and Safety matters.

7.6. The Primary Schools expansion programme has completed its first two phases, and provided over 3000 new pupil places. One substantial expansion is taking place at Moorlands Primary School, providing 210 additional places – due for completion by September 2019, at a cost of circa £4.15m. Capacity at the Avenue school has been lifted to 150 places from 123, with the recent modular building installation at a cost of £276k, and work will commence in 2018 to replace the existing life expired buildings at Blessed Hugh Faringdon school and develop a new 30 place unit at an estimated cost of £2.1m for Asperger syndrome children. Capacity at The Avenue School will be increased through further conversion of upper floor of The Avenue Centre during 2018.

7.7. The Council has begun work to facilitate up to 1200 additional secondary school places in conjunction with partners in neighbouring authorities and the Education Skills and Funding Agency (ESFA).

7.8. The proposed work at Crescent Road Playing Field in East Reading will complete the campus improvements enabling use by over 2000 pupils as the 3 schools fill to capacity. There is a limited contingency of £2.6m to help manage potential school place capacity problems, including the secondary school bulge classes and currents needs of The Heights School.

7.9. In December 2017 agreement in principle was reached with Berkeley Homes and the ESFA to develop a new 2 form entry Primary School with an estimated cost of £8m within the Green Park Village development in South Reading. Under this agreement the Council will contribute £500k of education capital grant to the development, and will own the asset on completion. The ESFA will then enter into a 125 year lease with the Council, and the Academy Sponsor, Reach 2, will operate the school and nursery class.

7.10. Condition-related works will include 3 schools funded through the government Priority Schools Building Programme (PSBP) at Caversham Primary School, Phoenix College, and St Michaels School. This follows a successful bid in 2015.

Housing

7.11. Homes for Reading Ltd, the Council's wholly-owned housing company, is now trading and is actively buying residential property in order to rent to those in housing need. The company's business plan envisages that it will borrow, or receive in share, capital of around £90m over the 3 year life of this capital programme. The company will pay interest on its borrowing that will at least meet the Council's financing costs associated with financing loans in, or purchasing the share capital of the company over the business plan period.

7.12. The council house building programme is on track to deliver 57 new affordable homes at Conwy Close, over two phases, in autumn 2018 and autumn 2019. In addition, 28 additional temporary housing units at Lowfield Road have recently been completed and will provide temporary accommodation for homeless families. The Council plans to continue to invest between £7m and £9m per annum in its existing housing stock via the Housing Revenue Account over the next 3 years. This includes a £4m programme of fire safety works over the next 5 years, with a particular focus on high-rise residential accommodation.

Strategic Transport

7.13. A programme of major transport schemes is planned and for which the vast majority of funding has been secured through central Government grants and match-funded by developer contributions. These schemes will provide significant benefits to Reading in terms of enabling economic growth and housing development; alongside increased public transport and cycling usage resulting in benefits in journey times, decongestion, air quality, social inclusion, public health and safety.

7.14. The Council has been very successful in securing major Growth Deal Funding through the Local Enterprise Partnership (LEP) which, combined with developer contributions has enabled it to commence delivery of a new £13.75m station and interchange at Green Park. Further funding of £10.0m has been secured via the LEP to help fund phases 3 and 4 of the Southern Mass Rapid Transit (MRT) and provide additional capacity for fast and frequent bus services along the A33 corridor. Similarly, LEP funding of over £19m has recently been confirmed to fund the East Reading MRT scheme, costing £24m. A further total investment of £1.3m is being made to the National Cycle Network number 422 which runs east-west through Reading.

Highways

7.15. Bridges and carriageways maintenance is included within the Capital Programme, with the vast majority of funding from central Government grants and a small proportion of borrowing. There is a statutory duty under the Highways Act 1980 for the Council to maintain the public highway.

7.16. The Council receives an annual grant from the DfT for highway maintenance work with the amount calculated through a needs-based formula. This settlement covers the general headings of bridges, highways and lighting, and is expected to be £1,185,000 each year, until 2020/21.

7.17. There is an opportunity to secure additional funding dependent on the authorities pursuit of efficiencies and use of asset management; and/or from a competitive Challenge Fund for major maintenance projects. Reading is currently rated in the middle band of authorities for asset management and has therefore been allocated an additional £110,000 in funding for 2017/18. There is the potential for Reading to achieve an additional £247,000 funding per annum to 2020/21 if we are able to achieve the highest band for efficiencies and asset management.

7.18. The remainder of the capital budget for bridges and carriageways is made up from the DEFRA Lead LA Flood Reduction grant (£12.4k), Pothole Fund Grant (£97k) and borrowing (£208k).

7.19. The Council has been successful in securing grant funding via the LEP of almost £2m for a Smart City Cluster Project - to create an Internet of Things (IoT) communication platform to gather and distribute data such as environmental and traffic information.

7.20. Two challenge fund opportunities encourage innovative solutions to real life issues such as assisted living. The project will offer direct benefits to the Council, businesses and residents.

7.21. The successful bid to the Heritage Lottery Fund has enabled a £2.8m investment in the Abbey Quarter over the next 3 years. A programme of developer-funded improvements to parks and open spaces is planned for 2018/19. The Council continues to undertake a reduced street tree replacement programme of £25k per year in order to help mitigate the effects of climate change and air pollution.

7.22. The ICT Capital Programme is valued at £6m over the next 3 years and makes provision for the delivery of an ICT and Digital Strategy that continues to modernise the way we work, helps deliver more services digitally and supports business transformation. It includes funds for a phased programme of investment in the technology, infrastructure and platforms needed over the next three years.

7.23. Individual projects and initiatives are included in the programme to meet the needs of the council and specifically:

- Enable delivery of savings that are directly dependent on new technology and the digitisation of services

- Implement technical solutions to allow new ways of working across the Council that deliver indirect savings by making us more efficient and productive

- Ensure we have sufficient data storage and network capacity and that we can connect and work securely with partners

- Refresh and replace hardware and software so that it is secure, supported and compliant with required standards

- Invest in security measures needed to protect our systems and data at a time of ever increasing cyber-security threats

8. DEDICATED SCHOOLS GRANT

8.1. The Schools' Budget is funded through a combination of the Dedicated Schools Grant (DSG) and income from the Education & Skills Funding Agency (ESFA). The DSG is ring-fenced in order to fund education provision and from 2018-2019 is split into four blocks:

- the Schools Block;
- the new Central Block;
- the Early Years Block; and
- the High Needs Block

8.2. Local Authorities can transfer funding between the 4 blocks after consultation with schools and Schools Forum but cannot divert funding away from the DSG. The ESFA have restricted movement of funds from the Schools Block up to the limit of 0.5% of the total Schools Block.

8.3. The total DSG in 2017/18 is £120.9m. Appendix 9 sets out in some detail how this money is distributed between blocks and between schools. In due course the detailed distribution will be published on the Council's website.

9. HOUSING REVENUE ACCOUNT

9.1. The HRA is a ring-fenced account which deals with the finances of council housing. Budgets have been prepared in accordance with the budget guidelines and planned programmes of works to housing stock have been updated to take account of progress during 2017/2018. An outline of the programme of planned works for 2017/18 is included with Appendix 10, and it is intended to report more detailed information to Housing, Neighbourhoods & Leisure Committee and publish the information on the Council's website.

9.2. Following the Grenfell Tower fire the Council appointed an external, qualified Fire Engineer (FireSkills) to carry out a review of fire safety practices in respect of the management and maintenance of Council housing stock, including a view on whether additional fire precautions were advised in any of the building types surveyed, to improve the fire safety standard in the context of recent incidents nationally and the learning from those. Overall FireSkills noted that the Council's Housing Service has a 'forward facing and proactive fire safety strategy' and whilst the Council is fully compliant with current legislation, FireSkills have recommended that the Council consider implementing a number of additional measures. Provision of £5.5m has been made in the capital programme and HRA business plan, profiled over a 5 year period to fully implement additional fire safety measures. A full report will come forward to HNL

Committee setting out the findings of the review. Estimated costs are profiled as follows (£,000's):

2018/19	2019/20	2020/21	2021/22	2022/23
£0.90m	£0.80m	£0.70m	£1.56m	£1.56m

9.3. The Welfare Reform and Work Act 2016 required that social housing rents reduce by 1% per annum for 4 years, which started from 2016/17. The Council does have an option to increase rents in line with its normal policy in the PFI area, which is exempt from this reduction (as the contractual arrangement includes an inflationary uprate to costs which cannot be dis-applied). As reported in previous years, the Council effectively has three options in respect of PFI tenants' rents:

- notwithstanding that it is not obliged to, to apply the 1% rent reduction in line with the rest of the Council's directly managed stock;
- to fix rents at their existing level; or
- to increase rents by CPI+1% in line with the Council's adopted rent policy.

9.4. The Council needs to consider these options each financial year in the context of HRA viability. The decision required at this time is in relation to the current year only. The Council did not apply a differentiated rent for PFI tenants in 2016/17 or 2017/18 and this is not proposed this financial year. This will be reviewed in the next financial year for 19/20. Thereafter Government have announced a return to a national policy of annual increases by CPI+1% for five years.

9.5. The Council's HRA Business plan has been updated to reflect the required 1% p.a. reduction. There is sufficient borrowing headroom to continue to fund a new build housing programme currently including the development of 57 homes at Conwy Close, with spend approval to support a further 80+ units in the following phase (largely financed through HRA borrowing, Right to Buy '1-1' receipts, and an element of S106 contributions).

9.6. As regards performance, rental income collection is already top quartile and voids performance (and resulting rent loss) has very significantly improved for standard and major voids in recent years (with consequent financial benefits for the HRA). For historic reasons, Reading BC current rents are, on average across the stock, c.6% below the social housing formula rent set by central government, known as 'Target Rent'. As agreed last year, the Council will continue to set the rent levels in line with Target Rent whenever a property is re-let.

10. DISCRETIONARY RATE RELIEF

10.1. In the national Spring 2017 budget the Government introduced extra funding for a 4 year discretionary rate relief scheme to enable local authorities to reduce more significant business rate increases arising from the 2017 rating revaluation.

10.2. Policy Committee agreed in September an initial scheme and so far about half of the available 2017/18 allocation has been used. Appendix 7 provides an update and includes a proposal to use the remainder of the money this year and provides for the use of the 2018/19 allocation. These allocations can only be used for this purpose and will need to be returned to Government if not used.

11. DIRECTOR OF RESOURCES & SECTION 151 OFFICER

11.1. Further to Minute 7 of the Personnel Committee held on 12 October 2017, which established the new post of Director of Resources, in place of the Strategic Director of Finance, and the subsequent appointment of Jackie Yates to that post, the Council is recommended to confirm the necessary consequential changes to its Constitution and the Delegations' Register. The Director of Resources post will be the Council's Chief Finance Officer under Section 151 of the Local Government Act 1972 and also act as the Responsible Officer under Section 113 of the Local Government Finance Act 1992. The Director will be responsible for all services in Finance and Corporate Support Services and five Head of Service posts will report to the Director, as follows:

- Head of Customer Care and Transformation;
- Head of Finance;
- Head of Human Resources;
- Head of Law and Governance;
- Head of Procurement and Contracts.

11.2. While the Director of Resources commences in post on 19 March, in order to allow for an appropriate handover between the interim Strategic Director of Finance and the Director of Resources, it is proposed that the S151 responsibilities formally transfer to the latter with effect from 26 March 2018. The interim Strategic Director of Finance will complete his contract on Thursday 29 March 2018.

12. COMMUNITY ENGAGEMENT AND INFORMATION

12.1. The savings proposals put forward in this report for inclusion in the 2018/19 revenue budget and MTFS will, if agreed, go forward as soon as practicable in consultation with the responsible lead councillor and the statutory officers subject to: a) undertaking and considering the outcome of any necessary statutory consultation for the service in question; b) complying with the Authority's duties under Section 149 of the Equality Act 2010, including undertaking and considering the outcome H1 of an Equality Impact Assessment where appropriate.

13. EQUALITY IMPACT ASSESSMENT

13.1. Under the Equality Act 2010, Section 149 a public authority must, in the exercise of its functions, have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

13.2. The equality duty is relevant to the development of the Budget. The specific savings and income proposals included in this budget will, if agreed, go forward as soon as practicable in consultation with the responsible lead councillor and the statutory officers subject to consultation and equality impact assessments where required.

14. LEGAL

14.1. There is a legal requirement to set a balanced budget, and in doing so consider the statutory advice of the Chief Finance Officer on the robustness of the budget and adequacy of balances.

15. FINANCIAL

15.1. The financial implications are set out throughout this report. Our financial situation is extremely challenging over the MTFS period. Further efforts will be made to review the approach to the budget setting process and to review council functions and services. This will enable officers to provide Councillors with more insight into the cost of services and hence options to manage and reduce spending and to increase income to bring the budget into a sustainable balance.

16. APPENDICES

1) Additional savings proposals for 2018-21 – Agreed at Policy Committee 19 February 2018
2) Calculation of Council Tax
3) Fees and Charges Summary Statement
4) Treasury Management Strategy Statement
5) Outline Capital Strategy 2018/19
6) General Fund and Summary Cost Centre Budget
7) Discretionary Rate Relief 2017/18 update & 2018/19
8) Capital Programme
9) Dedicated Schools Grant
10) HRA Budget 2018/19

APPENDIX 1

Formerly savings proposals

Calculation of Council Tax
2018-19

Policy Committee 19 February 2018 and Council 28 February 2018

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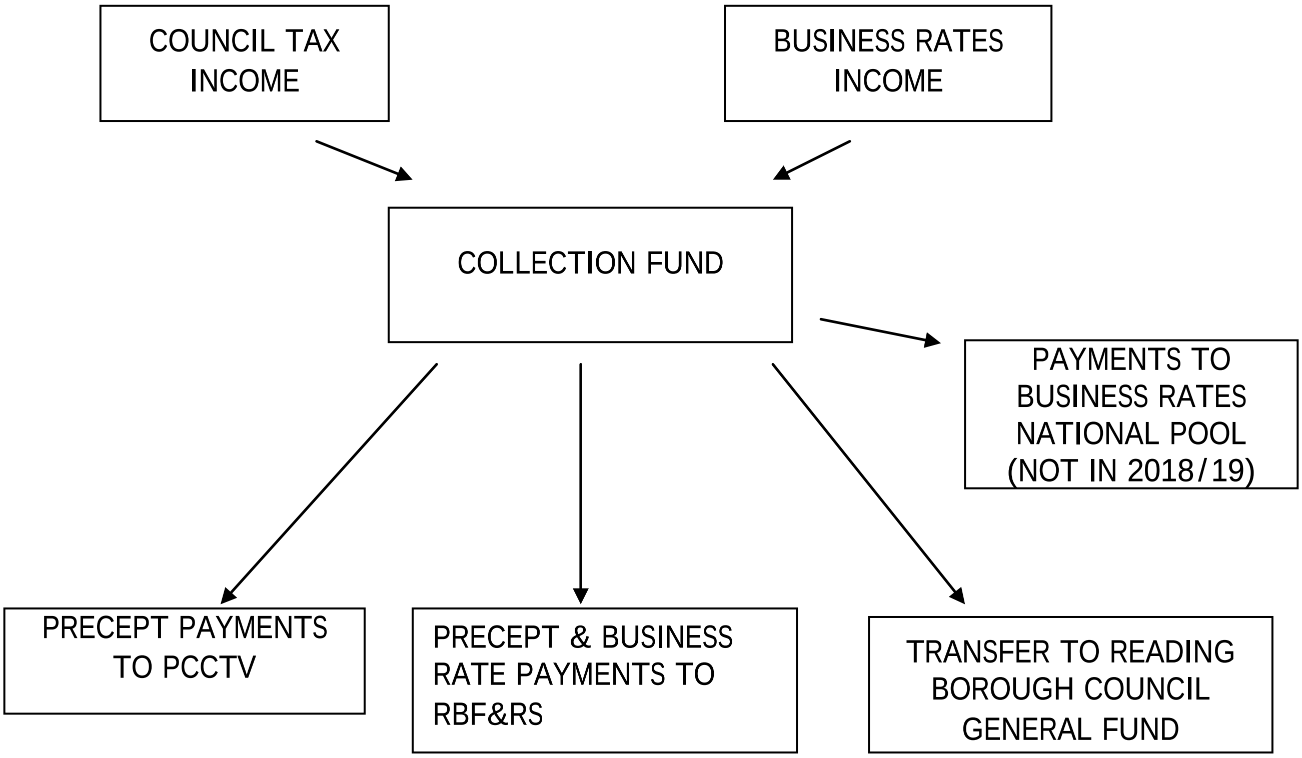
APPENDIX 2

1. COUNCIL TAX COLLECTION FUND

Collection Fund

1.1 The Collection Fund records all the transactions relating to the collection of local taxes and precepts to other authorities.

COLLECTION FUND INCOME AND EXPENDITURE



Business Rate Income

1.2 Normally, business rate income, including the impact of all adjustments (except transitional relief, where Government meet the cost or take the benefit) is normally split 50% to central government, 1% to the fire authority with the basic position being that the Council retains 49% (but this is reduced by a tariff process explained below).

1.3 In 2018/19, Berkshire Authorities are piloting 100% local retention, so 1% of rates transfers to the fire authority as usual but the basic position being is that the Council retains 99%. However, that is reduced by a revised tariff, and as part of the Berkshire pilot we agreed that part of the gain, estimated as £25m would be paid to the LEP to support projects that would generate further economic growth. Formal in year transfer for 2018/19 to the General Fund are as set in the NNDR1, submitted to Government in January, so actual variations to this will produce an in year surplus or deficit, which will need to be estimated in January 2019, and taken account of in setting the budget and tax for 2019/20. At the current time the pilot is for 2018/19 only, but the Government may decide at a later stage to extend it to 2019/20 before the planned reforms and reset of the system now expected in 2020/21. Therefore, were there to be a deficit in comparison to the £130m business rates available forecast on our NNDR1 form the 2019/20 budget would need to be reduced to take account of the position, and vice versa were a surplus to arise. In connection with the pilot we will not receive RSG into the General Fund in 2018/19.

1.4 In comparison to most other authorities Reading collect a high amount of Business Rates. A simple localised system of Business Rates where each authority kept 99%/100% of what they collect would leave many authorities short of sufficient resources, so there is a process of applying tariffs to the local 99% share (in the pilot year) and Reading's tariff (in 2018/19) is £81.0m (increased from £27.5m in 2017/18, because of the move from a 49% local share to a 99% share). However, as a pilot authority we do not pay a levy on growth above a government set baseline (which in 2018/19 would be £2.9m if we were not a pilot).

1.5 Government also pay a grant to compensate for limiting the rise in business rate to CPI rather than RPI and in connection the small business and other relief schemes in past years), which ordinarily would also be subject to the levy. The estimated grant in 2018/19 is just below £4m.

1.6 Business Rates (Non Domestic Rates) Payable

1.7 All business properties were revalued by the Valuation Office Agency during 2015 & 2016 to produce a new rating list that was introduced in 2017/18 (based on the 1 April 2015 position). This list replaced the 2008 list which lasted 7 years from 2010/11. The Government adjusted the 2017/18 Local Government Finance Settlement to take account of the impact of revaluation, and in 2018/19 has simply rolled figures forward for inflation (and then separately made the pilot adjustments). New properties are valued on the basis of 2015 rental values. To mitigate the impact of the 2017 revaluation there is a transition scheme that limits increases over RPI to RPI + 12.5% for properties with (new) RV £10,000-£100,000 and to RPI + 42.5% for properties with new RV over £100,000. The Council has used Government funding to reduce further some of these increases in last year's Budget Discretionary Rate Relief Scheme (see Appendix 7).

1.8 Rate Multiplier

Under Schedule 7 to the Local Government Finance Act 1988 (the 1988 Act) as amended there are two multipliers.

The small business non-domestic rating multiplier, which is applicable to those that qualify and successfully apply for the small business relief, and the non-domestic rating multiplier, which includes the supplement to pay for the small business rate relief scheme.

This small business non-domestic multiplier for 2018/19 is to be 48.0p (46.6p in 2017/18).

The Secretary of State has estimated that the supplement to fund small business rate relief should be at 1.3p in 2018/19 (1.3p for 2017/18).

The provisional non-domestic multiplier will therefore be 49.3p in 2018/19 (47.9p in 2017/18).

In accordance with Schedule 7 to the 1988 Act, the multipliers will be confirmed after the Local Government Finance Report for 2018/19 has been approved by Parliament (which occurred on 7 February).

For 2018/18 we expect to collect around £130.0m in Business Rates (up from £124.0m in 2017/18.

Council Tax Income

1.9 The Collection Fund receives all Council Tax income collected and makes precept payments according to the precepts set to the Police and Fire Services and the internal transfer to the Council. Any in year surplus or deficit for Council Tax and precept transactions will need to be estimated in January 2019 and taken account of in setting the budget and tax for 2019/20.

1.10 In practice we try to monitor both collection and the amount of both Council Tax and Business Rates collectable during the year, so that surpluses or deficits can be allowed for in developing future years' budget plans, and in the event of a deficit (against the estimated position) occurring consider in year actions that might be taken to mitigate the effect, in same way that mitigation would need to be considered for other adverse budget changes identified in year.

2. CALCULATION OF COUNCIL TAX

2.1 Council Tax will be calculated by dividing the sum of the budget requirements of Reading, Thames Valley Police Authority and Royal Berkshire Fire & Rescue Service, less Formula Grant Allocation and Collection and Fund Surplus by the Council Tax base, to give the Council Tax at Band D. The Band D rate will then be multiplied by the proportions shown below to give the Council Tax for each band.

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
Proportion	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

2.2 The Council at its meeting on 23 January 2018 set a Council Tax base for 2017/18 of 54,850.

2.3 Policy Committee also received a report explaining the need to estimate the Collection Fund position as at 31 March 2018. This was done in accordance with Government Regulations and a neither a surplus nor deficit was estimated in respect of Council Tax transactions. The split between the Council and precepting authorities as follows:

	£'000
Reading BC	0
Thames Valley Police	0
Royal Berkshire Fire & Rescue Authority	0
	0

2.4 A surplus was also estimated for NNDR transactions of £9.36m which is be apportioned according to Government rules as follows:

	£'000
Reading Borough Council	4,680.0
DCLG	4,586.4
Royal Berkshire Fire & Rescue Authority	1,393.6
	9,360.0

2.5 Table A sets out the amount to be collected from Tax Payers in 2018/19.

Table A

Budget	138,912,270
Council Tax Collection Fund surplus	0
NNDR Collection Fund surplus	-4,586,400
Business Rates Income	-128,700,000
Tariff Payment	81,036,855
Revenue Support Grant	0
Council Tax collected for Reading BC	86,662,725
Police and Crime Commissioner Thames Valley Council Tax	9,998,058
Royal Berkshire Fire & Rescue Authority Council Tax (tbc)	3,530,146
Total amount to be collected from Council Tax payers	**100,190,929**

Forecast of Council Tax for 2018/19

2.6 The Council Tax at each Band (with property numbers per Band) is set out below:

Table B

		Reading	PCCTV £	RBFRS £	Total £
A	**6,533**	1,053.33	121.52	42.90	1,217.75
B	**14,134**	1,228.88	141.77	50.06	1,420.71
C	**28,756**	1,404.44	162.03	57.21	1,623.68
D	**10,883**	1,579.99	182.28	64.36	1,826.63
E	**5,434**	1,931.10	222.79	78.65	2,232.54
F	**3,277**	2,282.21	263.29	92.96	2,638.46
G	**1,843**	2,633.32	303.80	107.26	3,044.38
H	**83**	3,159.98	364.56	128.72	3,653.26
Total Properties 70,943					

Proposals for revised Fees and Charges by Directorate / Service Area

The commentaries below set out the broad approach to fees and charges adopted in each service area.

1. Directorate of Corporate Support Services:

1.1 ICT Support Services

The service has increased the fees charged to schools to ensure the recovery of costs, which include administration of the education SLA portal.

1.2 Bereavement Service

Concessionary services historically provided at no cost remain FOC.

Discretionary fees have been reviewed and benchmarked, with proposals to increase fee by between 3 – 14% to ensure cost recovery.

A number of fees have been held at current rates as a result of benchmarking and consideration of associated costs.

Several new services introduced to meet customer demands.

1.3 Registry office

The service has increased a number of fees between 1 - 20%, with some services remaining unchanged following benchmarking and consideration of cost recovery.

The service predicts a decline in nationality checking services but an increase in face to face services at their new location within Reading Town Hall.

1.4 HR & Payroll

HR fees have been increased by 10% to move towards a cost recovery position. The service believes a subsidy remains per transaction. Efforts will be made to recover the full cost over subsequent fee reviews.

Payroll fees have increased by 3% to reflect inflation. The service believes that costs are recovered from the fee charged.

1.5 Occupational Health

The service has increased the fee by 10% to move towards a rate that reflects full cost recovery.

1.6 GIS Mapping

The service has increased fees by 10% to recover costs associated with the provision of the service.

The service is demand led and dependent upon the scale of development that takes place annually within the Borough. Transactions are forecast to increase in 2018-19 based on figures provided by the Council's Planning Team.

1.7 Legal Services

Fees increased between 3 – 25% to reflect cost recovery and inflation.

1.8 Income & recovery

The service has increased controllable fees by 6% as a result of benchmarking and consideration of market rates.

1.9 Democratic Services

The service has increased the fee for both school admission appeals and School Exclusion Review Hearing's to reflect the cost of service provision.

1.10 Berkshire Record Office

Services are provided under a joint Berkshire arrangement and the amendment of fees requires the approval of all 6 participating authorities; Reading, Slough, Bracknell, Wokingham, West Berkshire and the Royal Borough of Windsor and Maidenhead.

Fees for 2018/19 were extensively agreed in January 2017, with revised fees front-loaded to account for inflation and the recovery of associated costs. Fees will be reviewed during 18/19 for 19/20, taking account of corporately specified criteria.

The service have increased the fee for the Copy of certificates (baptism, burial, pre 1837 marriage) by 7.76% as governed by statute, which is forecast to return a modest additional income.

2. <u>Directorate of Adult Care & Health services:</u>

2.1 Adult Social Care

The service proposes increases of between 3 – 25% to a range of support services on the basis of cost recovery.

3. <u>Directorate of Children's Education & Early Help Services:</u>

3.1 Caretaker Services

The service has reviewed the fee charged to schools for the maintenance of caretaker properties to ensure the recovery of contracted costs.

3.2 CAT – Sure Start

Fees have been increased by approx. 7% to enable recovery of costs, following a review of market rates.

3.3 Pinecroft Children's Residential Care

The service has proposed to increase the weekly fee by 4.1% to recover the costs of service provision.

The fee is charged to other local authorities that buy the service from Reading Borough Council. The provision of the service to other local authorities is at the management team's discretion and is subject to capacity being available.

There are currently no other local authority service users at this time.

3.4 Kennet Day Nursery

Fees have been increased by 5% to move towards full cost recovery, following the benchmarking of other providers and consideration of affordability to service users.

3.5 Early Years

Following benchmarking activity the service has increased fees by a minimum of 3% across the board, with some fees increased by up to 50%.

The service provides both statutory and discretionary services and believes that subsidy is provided in the delivery of both. The increase in fee will narrow this gap and the service is committed to further review within year.

3.6 Reading Play

The service has increased all fees by 10% to recover the associated costs of delivery. Fees have been benchmarked with comparable market providers and remain competitive.

3.7 School performance data

The service has increased a number of fees between 0.8 – 5% to recover associated costs, with some fees remaining unchanged.

3.8 School Standards Traded

The service has increased a number of fees in order to recover the cost of service provision, whilst remaining competitive with the market.

3.9 School Kitchen Service

The SLA is split into package 1 & 2 and is calculated based on attendance numbers, kitchen size etc. The service has increased the charge by 5% to reflect cost recovery.

The income collected from schools is used to provide a programme of preventative maintenance (PPM) and fund the cost of reactive repairs.

3.10 School Admissions

The service have increased the fee for provision of an appeal map to £50 to reflect established market rates and associated costs.

4. Directorate of Environment & Neighbourhood Services:

4.1 Sustainability

The service has increased solar energy costs in line with contractual arrangements.

4.2 Private Sector Housing

Fees have been reviewed and increased to recover associated costs.

A HMO licence lasts 5 years and the fee charged is to cover the administrative and enforcement costs over the term of the licence period. The service forecast the number of new licences and renewals and accounts for income over the term of the licence period to enable costs to be covered and the service provided on a cost neutral basis, as required by the legislation.

4.3 Housing GF & HRA

The service has adjusted the fees in relation to B&B to ensure costs are recovered.

4.4 Leisure

The service propose a range of fee increases of between 3 – 10% as a result of benchmarking and consideration of cost recovery.

Concessionary fees, such as FOC swimming have been retained for Council operated facilities.

4.5 Museum

The service has an internal pricing policy for its services, which is followed in the review of fees.

The service proposes to freeze a number of fees at existing rates and increase others by between 1.5 – 100%. The rationale for proposed increases is the recovery of associated costs and the benchmarking of service fees with the wider market.

4.6 Berkshire Archaeology

The service has increased the fee for the provision of historic record data by 10% to reflect established market rates.

4.7 Licensing

Service has undertaken a significant level of cost recovery work and has proposed increases of 3 – 100%.

4.8 Trading standards

Many fees are set by statute with limited ability for the Council to review.

Increases of between 3 – 10% have been proposed on a number of controllable fees in order to recover the cost of service provision.

4.9 Highways

The service has increased all fees by between 3 – 50% to reflect inflation and ensure the recovery of costs.

4.10 Streetcare Services

The service has increased fees between 6-20% following consideration of cost recovery and market rates.

4.11 Emergency Planning

The service has reviewed fees on the basis of cost recovery and market rates.

Following a successful subsidised pilot of school lockdown procedure training, the service intends to role this out at a fee that recovers associated costs.

Inflation of 2.7% added to shared services agreement, which runs to 2020.

4.12 Libraries

The service has increased a small number of fees between 8 – 16% to benchmarked rates.

The vast majority of fees have not been increased as a result of benchmarking and ongoing review of service provision.

4.13 Environmental Protection

The service predominantly undertakes statutory functions, with a small number of services provided on a discretionary basis.

Fees have been reviewed to ensure that they permit the recovery of costs, with some fees retained and others increased to reflect a changing cost base.

4.14 Arts Venues

The fee for the administration and posting of tickets has increased to match market rates and recover costs.

The service is introducing a membership offer at a fee of £25 + vat, mirroring services provided by other venue operators.

4.15 Planning

The service has increased all discretionary fees by between 4 & 25% to recover costs associated with service provision.

4.16 Public toilets

The service has increased the fee for use of automated public toilets to 40p following benchmarking activity. The increase will permit more of the cost of service provision to be recovered.

4.17 Concessionary Fares

The service has increased the fee for a replacement concession pass to reflect the cost of provision, whilst remaining in line with other local authority practices.

The service has introduced a new charge for access to transport modelling information, in line with the charging practices of neighbouring local authorities.

The fee for parking at the Mereoak Park and Ride site has increased to reflect market rates.

Treasury Management Strategy Statement 2018/19

1. The Treasury Management Strategy Statement (TMSS) is an annual statement the Council is required to approve each year of our intended treasury activity, setting constraints under which that activity will (usually) operate. Given the technical nature of the subject, by way of introduction the statement is intended to explain

- How the Council tries to minimise net borrowing costs over the medium term
- How we ensure we have enough money available to meet our commitments
- How we ensure reasonable security of money we have lent and invested
- How we maintain an element of flexibility to respond to changes in interest rates
- How we manage treasury risk overall

The context of the Council's borrowing is set out in the Initial Capital Strategy Statement, which is a new Statement recommended by CIPFA to provide a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services in the context of the Council's wider financial position. The TMSS primarily deals with the treasury management aspects of the Capital Strategy, but inevitably has to take account of the Council's capital expenditure plans and wider financial plans as they will impact the cashflow, and hence the treasury position.

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Council Investments in March 2010 that requires the Council to approve an Investment Strategy before the start of each financial year. During the Autumn of 2017 both CIPFA and DCLG consulted on revisions to the Code and statutory guidance, but at the time of drafting this TMSS, whilst the final CIPFA Code had been published, the final revised statutory guidance was not available, and only became available a week before publication (with some changes from the consultation draft that do not have to be implemented until 2019/20). 2018/19 is seen as a transition year, and whilst CIPFA's Treasury & Capital Management Panel has issued a statement recommending both CIPFA codes are implemented as soon as possible, but recognised that the new formal requirement to have a capital strategy may not be fully implemented until 2019/20. In this code we have implemented changes to the practical extent reasonably possible[1] at the time of

[1] As usual the TMSS has been based on a template provided by Arlingclose. For practical reasons their *template covered the requirements of the 2010 CLG Investment Guidance and the 2011 CIPFA TM Code of Practice, including the Treasury Management Indicators. It could not reflect changes to DCLG*

preparation. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the DCLG Guidance.

1.2 The purpose of this TMSS is, therefore, to approve the:

- Treasury Management Strategy for 2018/19
- Annual Investment Strategy for 2018/19
- Approve a (newly required) Initial Outline Capital Strategy (which is a separate Appendix)
- Prudential Indicators for 2018/19, 2019/20 and 2020/21 (with some updates to 2017/18)
- MRP Statement (in connection with debt repayment)

2. <u>Introduction</u>

2.1 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

2.2 Revised strategy: In accordance with the DCLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Council's capital programme or in the level of its investment balance.

3. <u>External Context</u>

3.1 Economic background: The major external influence on the Council's treasury management for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

3.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy

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Guidance which were published after the template was issued. We have made reasonable practical additions and amenments to take account of the later published guidance.

Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

3.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

3.4 Credit outlook: High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

3.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

3.6 Interest rate forecast: The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

3.7 Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

3.8 A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Appendix A***.

3.9 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.3%, and that new long-term loans will be borrowed at an average rate of 1.5% rising to 1.75% by the end of the year (reflecting short term borrowing at up to 0.75% and long term borrowing at 1.75%%. (In practice we are not budgeting for significant lending beyond that needed for MIFID and cash flow management reasons, and these borrowing rates are higher than is currently achievable, so include some cover for possible (modest) interest rate rises.

4. Local Context

4.1 On 31 December 2017, the Council held £352.2m of borrowing and 23.4m of treasury investments. This is set out in further detail at ***Annex B***. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £m	**31.3.18 Estimate £m**	**31.3.19 Forecast £m**	**31.3.20 Forecast £m**	**31.3.21 Forecast £m**
General Fund CFR	301.7	339.1	424.7	468.6	494.1
HRA CFR	191.3	187.2	190.3	191.0	190.2
Total CFR	493.0	526.3	615.0	659.6	684.3
Less: Other debt liabilities *	- 31.8	- 30.8	- 29.8	- 28.8	- 27.0
Borrowing CFR	461.2	495.5	585.2	630.8	657.3
Less: External borrowing **	- 353.4	- 339.2	- 286.7	- 282.3	- 278.0
Internal borrowing	107.8	156.3	298.5	348.5	379.3
Less: Usable reserves	- 81.4	- 80.0	- 80.0	- 80.0	- 70.0
Less: Working capital	- 26.4	- 25.0	- 25.0	- 20.0	- 20.0
Forecast New borrowing Need	-	- 51.3	- 193.5	- 248.5	- 289.3

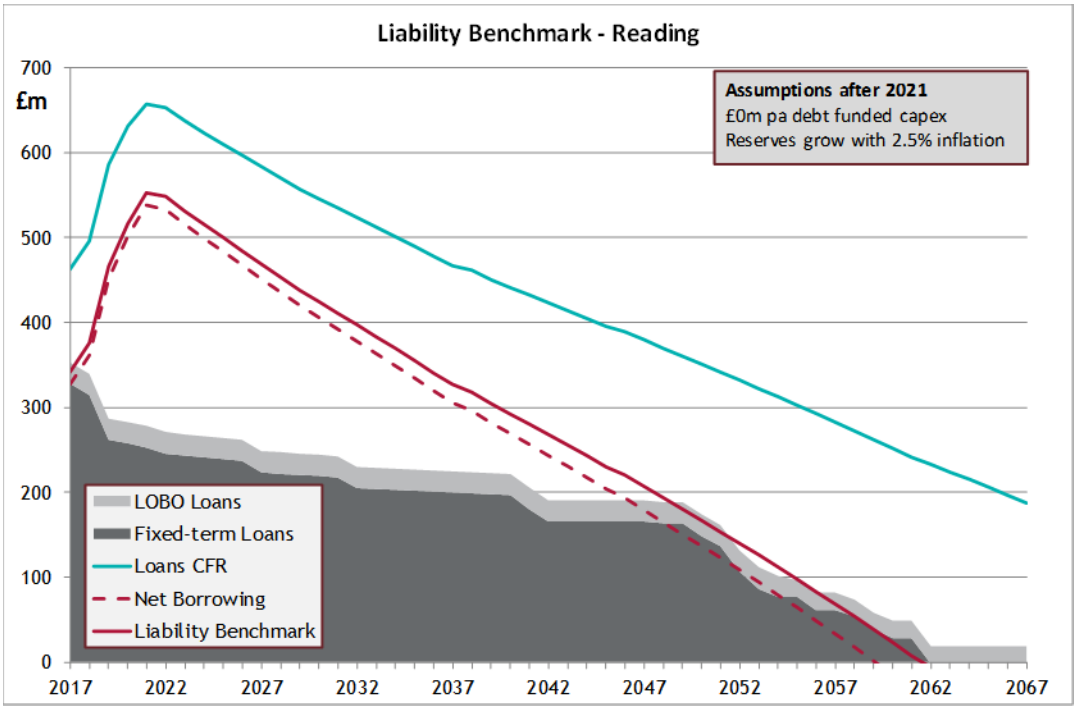
* PFI liabilities & Finance Leases that form part of the Council's total debt
** shows only loans to which the Council is committed and excludes optional refinancing

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. In recent years this has helped minimise net financing costs.

4.3 The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £290m over the forecast period, including c.£50m net during 2017/18 by the end of this financial year, and a further £144m next year. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2018/19, and throughout the forecast period.

4.4 To assist with its long-term treasury management strategy, the Council and its advisers have created a liability benchmark, which forecasts the Council's need to borrow over a 50 year period. Following on from the medium-term forecasts in table 1 above, the benchmark assumes:

- No significant capital expenditure funded by borrowing each year after 2021 (so the Liability Benchmark only covers the debt planned to the end of the present MTFS period in three years' time. Annex C shows an alternative benchmark assuming £20m borrowing each year thereafter, which leads to a need for up to £600m long term borrowing.
- minimum revenue provision on new capital expenditure based on a 25 year asset life
- income, expenditure and reserves all increase by 2.5% inflation a year (i.e. in real terms the Council's financial position is broadly stable)



4.5 The chart shows borrowing needing to rise from the current £350m level to around £550m by the early years of the next decade before then falling away. This very large increase reflects the Council's strategy to have a large capital programme funded by borrowing (which in a significant part is revenue generating, to fund the borrowing, and make a contribution to the Council's overall budget).

4.6 We should primarily plan to meet the above benchmark, assuming capital expenditure proceeds broadly as set out in the capital programme over the next couple of years; but be mindful that the longer term need may be more significant.

5. <u>Borrowing Strategy</u>

5.1 At 31 December, the Council held £352 million of loans, a slight decrease from the £359 million 12 months ago. The balance sheet forecast in table 1 shows that the Council expects to borrow up to c.£190m in 2018/19. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £520 million (and the operational boundary of £500m will only be exceeded on the specific approval of the CFO).

5.2 **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

5.3 **Strategy:** Given the significant real cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

5.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk at least in the immediate financial year. The benefits of internal and short-term borrowing will continue to be monitored regularly against the potential for incurring additional costs by deferring longer term (fixed rate) borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. However, we anticipate some longer term borrowing during 2018/19. Hitherto, we have financed our investment property purchases using short term borrowing, although appraisals are done taking account of longer term financing costs. Arlingclose have advised that we should consider financing at least some of this expenditure using fixed rate longer term borrowing, so that the expected returns do crystallise and we eliminate excessive treasury risk.

5.5 Alternatively, should market conditions warrant, the Council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. This would help mitigate the risk that borrowing costs were significantly higher than today at the peak of the liability benchmark above. We are also considering investigating this type of solution to manage the financing needs of Homes for Reading.

5.6 In addition, the Council may borrow short-term to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
- Any other party that establishes a presence in the LA market not covered by the above categories (as agreed by the CFO on advice of Arlingclose)

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

Operating and finance leases and hire purchase

Private Finance Initiative

Sale and leaseback

The Council has historically raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local council loans and bank loans that may be available at more favourable rates.

5.7 Municipal Bonds Agency: The UK Municipal Bonds Agency plc (MBA) was established in 2014 by the Local Government Association as an alternative to the PWLB. The Council, along with about 60 other authorities are shareholders. The MBA plans to issue bonds on the capital markets and lend the proceeds to local authorities. The Council approved the necessary cross guarantee arrangements to be able to participate in a bond issue some time ago. The MBA has been moving towards its initial bond issue for some considerable time, and provided our original rationale for investing remains true, subject to meeting the MBA's criteria the Council may be part of an MBA bond issue during the year. Should the terms of the cross guarantee arrangements have materially changed from those already agreed Policy Committee will need to approve the revised arrangements before proceeding.

5.8 LOBOs: The Council holds £25m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £20m of these LOBOS have options during 2018/19, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

5.9 During 2017/18, the Council has been contacted by a lender of £10m of the Council's LOBOS setting out outline terms to repay the loan, in a way that either the LOBO risk could be removed at no long term cost to the Council, or the opportunity taken to refinance the borrowing differently at a lower annual treasury cost, at least for the medium term financial strategy period. The proposal appears to have some merit, and the Council's treasury advisor has prepared a draft due diligence report, with a view to proceeding with a repayment during 2018. The loans are the most expensive LOBO loans the Council currently has and amongst the Council's most expensive long term borrowing (although they were originally arranged at then reasonably low rates in the market). The premium the Council will have to pay to replace these loans can be accounted for over the remaining period of the original loans and on initial inspection appears to offer some long term, and possibly shorter term advantages to the Council. As in previous years, total borrowing via LOBO loans will be limited to £40m, though assuming this restructure proceeds our actual LOBO portfolio will reduce to £15m.

5.10 Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

5.11 Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

6. Investment Strategy

6.1 The Council sometimes holds significant invested funds, representing income received in advance of expenditure and also has some limited balances and reserves. During 2017/18 to 31 December, the Council's investment balance has ranged between £19.8 and £70.8 million, and in the forthcoming year levels are generally expected to be between £15m and £25m (to ensure that we hold the minimum £10m liquid balance required to meet MIFID2 requirements, as well as the expected continuing holding of the CCLA property fund. Over the course of the year the balance could sometimes reach £50-£70m depending upon cash flow.

6.2 **Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

6.3 Negative interest rates: Should the UK enter into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

6.4 Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council moved the majority of its short term cash holdings to money market funds in 2015/16. With Arlingclose, we will consider options to further diversify into more secure and/or higher yielding asset classes during 2018/19. This diversification will represent a continuation of the new strategy adopted over the last couple of years.

6.5 **Ethical Policy:** The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's Corporate Plan and values. This would include institutions with material links to:

- human rights abuse (e.g. child labour, political oppression)
- environmentally harmful activities (e.g. pollution, destruction of habitat, fossil fuels)
- socially harmful activities (e.g. tobacco, gambling)

These principles will be applied to investments made by the Council.

6.6 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

<u>Table 2: Approved investment counterparties and limits</u>

Counterparty		Cash limit	Time limit †
Banks and other organisations and securities whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	£20m each #	10 years*
	AA+		5 years*
	AA		4 years*
	AA-		3 years*
	A+		2 years
	A		1 year
	A-		
The Council's current account, Lloyds Bank plc should circumstances arise when it does not meet the above criteria		£1m	next day***
UK Central Government (irrespective of credit rating)		unlimited	50 years**
UK Local Authorities (irrespective of credit rating)		£20m each	50 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher		£5m each	10 years**
UK Registered Providers of Social Housing whose lowest published long-term credit rating is BBB- or higher and those without credit ratings		£2m each	5 years
UK Building Societies without credit ratings		£10m each	1 year
Money market funds and other pooled funds (including the CCLA Property Fund)		Up to £20m each	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Council's treasury management adviser		£5m each	3 months
		£1m each	1 year
		£100k each	5 years

#In practice balances with individual counterparties are likely to be significantly less than £20m.

6.7 During recent years, Arlingclose have developed criteria for identifying which smaller building societies appear to have the most robust financial position, and the current recommended have been added below. Note that some banks on the list below currently have a nil counter party limit. The Council's S151 officer has authority to amend the list below at short notice on the advice of Arlingclose (subject to the Treasury Strategy as a whole).

Table 3: Proposed Counterparty List

Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Maximum Maturity Limit (term deposits and instruments without a secondary market)	Maximum Maturity Limit (negotiable instrument)
UK	Santander UK Plc (Banco Santander Group)	£10m		2 years	5 years
UK	Bank of Scotland (Lloyds Banking Group)	£20m	£20m	2 years	5 years
UK	Lloyds TSB (Lloyds Banking Group)	£20m		2 years	5 years
UK	Barclays Bank Plc	£20m		2 years	5 years
UK	HSBC Bank Plc	£20m		2 years	5 years
UK	Nationwide Building Society	£10m		6 months	5 years
UK	NatWest (RBS Group)	£0m	£5m (in the event the limit is raised)	2 years	5 years
UK	Royal Bank of Scotland (RBS Group)	£0m		2 years	5 years
UK	Coventry Building Society	£5m		6 months	n/a
UK	Leeds Building Society	£5m		100 days	n/a
UK	Darlington Building Society	£1m		100 days	
UK	Furness Building Society	£1m		100 days	n/a
UK	Hinckley & Rugby Building Society	£1m		100 days	n/a
UK	Leek United Building Society	£1m		100 days	n/a
UK	Loughborough Building Society	£1m		100 days	n/a
UK	Mansfield Building Society	£1m		100 days	n/a
UK	Market Harborough Building Society	£1m		100 days	n/a

UK	Marsden Building Society	£1m		100 days	n/a
UK	Melton Mowbray Building Society	£1m		100 days	n/a
UK	National Counties Building Society	£1m		100 days	n/a
UK	Newbury Building Society	£1m		100 days	n/a
UK	Scottish Building Society	£1m		100 days	n/a
UK	Stafford Railway Building Society	£1m		100 days	n/a
UK	Tipton & Coseley Building Society	£1m		100 days	n/a

Arlingclose's normal guidance is that such lists might be expressed as a percentage of the investment portfolio; however, given the limited size of the Council's portfolio, and the normal expectations of deal sizes, this list has been prepared to be practical in the market.

6.8 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

6.9 **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See 6.16 below for arrangements relating to operational bank accounts.

6.10 **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

6.11 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

6.12 Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made on the specific advice of the Treasury Advisor following an external credit assessment or to a maximum of £500,000 per company as part of a diversified pool in order to spread the risk widely. In practice this form of lending is not currently envisaged, but the possibility of doing it has been included on Arlingclose advice.

6.13 Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

6.14 Pooled funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

6.15 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. At the current time the Council has not used such funds.

6.16 Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore normally be kept below £1m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

6.17 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.18 Similar arrangements also apply in connection with other public sector organisations, so for example when Northamptonshire CC recently announced a freeze on all spending, given the uncertainty this presents, Arlingclose advised no new investments were made. (In practice this is not a practical issue for us at present as we do not have significant sums available for such investment).

6.19 **Other information on the security of investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

6.20 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

6.21 Specified investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - o the UK Government,
    - o a UK local Council, parish council or community council, or
    - o a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

6.22 Non-specified investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits are shown in table 3 below.

Table 3: Non-specified investment limits

	Cash limit
Total long-term investments	£25m (including at least £15m in CCLA property fund)
Total investments without credit ratings or rated below A-	£20m (Including CCLA PF)
Total investments (except pooled funds) with institutions domiciled abroad rated below AA+	£0m
Total non-specified investments	£5m+ CCLA Funds

6.23 Investment limits: The Council’s reserves available to cover investment losses are forecast to be £80 million on 31 March 2018 (i.e. broadly unchanged from the 31 March 2017 position, though the composition is likely to have changed, with more capital receipts being held, and fewer revenue balances). To avoid putting reserves at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million (and normally for only short periods). A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit (as last year)
Any single organisation, except the UK Central Government	£15m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	5m in total
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£5m in total
Money Market Funds	£20m each

6.24 Liquidity management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

6.25 Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the 2011 CIPFA Code or the CLG Guidance, the Council may also purchase property for investment purposes and may also make loans and equity investments to the Council's subsidiaries. Such loans and investments will be subject to the Council's formally agreed approval processes, which sits separately this treasury management strategy. When the final new MHCLG Guidance is issued the Council may need to review its Commercial Property Investment Strategy. Similarly, the Council's support arrangements for Homes for Reading Ltd may need review, though as was reported when the arrangement was approved, the Company's activities are closely linked to the Council's Housing strategy.

The Council's existing non-treasury investments are set out in Annex B. The Prudential Indicators below have at this stage only allowed for the Council's planned property purchases to the end of the 2018/19 financial year, as it will be appropriate to consider each year whether further purchases are appropriate.

7. Treasury Management Indicators

7.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit score	6.0

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing. This target has been increased from £10m to £15m to take account of the requirement from 3 January 2018 normally to hold £10m for MIFID 2 related reasons

	Target
Total cash available within 3 months (above estimated cash flow requirements)	£15m

7.2 **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments, as percentage of fixed rate debt).

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	110%	110%	110%
Upper limit on variable interest rate exposure	50%	50%	50%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

7.3 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Maturity Structure of Borrowing	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and within 20 years	100%	40%
20 years and within 30 years	100%	
30 years and within 40 years	100%	
40 years and within 50 years	100%	
50 years and above	100%	

For the purpose of this indicator, time periods start on the first day of each financial year and the maturity date of borrowing is the earliest date on which the lender can demand repayment (with the next LOBO option dates treated as the repayment date). Although these limits have not been changed, the under 12 month limit will be reached during 2018/19 (if the whole £193.5m borrowing identified above were taken, together with other borrowing due to mature within a year). To avoid a breach, the Council will normally explore options with our Arlingclose to extend maturities should the under 12 month maturing actual borrowing exceed 20% of all borrowing (i.e. currently when such borrowing reaches about £80m).

7.4 **Principal sums invested for periods longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	2018/19	2019/20	2020/21
Limit on principal invested beyond one year	£15m	£25m	£15m	£15m

(Note that Arlingclose advise that the limit for 2018/19 is set in line with the long-term investment limit under non-specified investments above. The limits for the later years are smaller, so limiting investments made for longer than 2/3 years).

8. Other Items

8.1 There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on the use of financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

8.2 **Policy on apportioning interest to the HRA:** Reform of the Housing Revenue Account Subsidy system was completed at the end of 2011/12, when we were required to pay DCLG £147.8m. Prior to 2012/13 we were required to recharge interest expenditure and income attributable to the HRA in accordance with determinations issued by DCLG. The Council has adopted a policy that it will continue to manage its debt as a single pool using a similar regime that applied prior to self-financing which will set out how interest charges attributable to the HRA will be determined, because self-financing did not result in a material change to the average interest rate paid by the Council.

However, during 2016/17 and 2017/18 some technical details of the methodology have been adjusted to recognise that in essence the £147.8m of loans the Council borrowed at the time of self-financing were primarily taken for HRA debt, and therefore the operation of the single pool should not lead to the average interest rate being charged to the HRA being less than the average rate on the remaining part of those loans (with the balance of HRA borrowing at the average of all other long term borrowing).

In addition to new borrowing for capital expenditure (which increases HRA debt) and the annual HRA minimum revenue provision (of 2% of the opening HRA debt for the year), the HRA "debt" also changes when assets are moved into or out of the account. In recent years and in the current year, this has included, transfers from the HRA to General Fund

(i) Hostels & temporary accommodation in 2016/17

(ii) The garage portfolio from 1 April 2018 (value £1.5m)

(iii) The shop portfolio from 1 April 2018 (value £4.83m)

Transfer from General Fund to HRA

(iv) Part of Norcot Youth & Community Centre site (for HRA New Build – valuation to be confirmed)

An adjustment of debt outstanding is required is to balance the appropriation in the accounts, and as the garage and shop amounts exceed the normal officer delegation you are asked to approve them as part of the budget setting process.

The HRA also has a notional cash balance which may be positive or negative. This balance is measured each month and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments (excluding the CCLA Property Fund) and short-term borrowing

8.3 **Investment training:** The needs of the Council's treasury management staff for training in investment management are periodically considered especially when the responsibilities of individual members of staff change. Staff regularly attend training courses or seminars provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, or other appropriate organisations. There will need to be a review of overall training needs during 2018/19 because of wider staff changes anticipated within the Finance function. The new Chief Accountant will ensure this review is undertaken.

8.4 Investment advisers: The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. We have at least two meetings per annum with Arlingclose, and make contact whenever advice is needed on treasury or related matters (including related capital accounting issues – for example during 2017/18 Arlingclose have provided assistance in resolving audit queries, including those related to PFI financing).

8.5 Investment of money borrowed in advance of need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

8.6 The total amount borrowed will not exceed the authorised borrowing limit of £520 million. The maximum period between borrowing and expenditure is expected to be less than 2 years, (as we would not normally borrow money that was not expected to be needed within the current or following financial year), although the Council does not link particular loans with particular items of expenditure.

9. Financial Implications

9.1 During 2017/18 the Council expects to earn around £60-70k on its cash balances. The estimate for investment income in 2018/19 is slightly higher (reflecting the November 2017 interest rate rise, but lower forecast cash balances) at c.£75k, based on an average investment portfolio of around £20 million at an interest rate just below 0.4%. The budget for debt interest paid in 2017/18 was £12.1 million but borrowing has been lower than forecast so costs will only be around £11.1m. The 2018/19 budget is £12.2m (of which £10.8m is currently committed), the overall budget being based on an average debt portfolio of £390 million at an overall average interest rate of c.3.15%). If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. The treasury position is managed as a whole, with the aim of operating within the agreed capital financing budget. A range of other lines are included; income on our CCLA Property Fund Investment, Interest on money lent to others (Reading Buses and Homes for Reading Ltd) as well as our MRP budget. £6.5m interest costs are estimated to be charged to the HRA.

9.2 Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director and Head of Finance, having consulted the Leadership believe that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Prudential Indicators and MRP Statement 2018/19[2]

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the Capital Programme in Appendix 8, and discussed in paragraph 7 of the main report.

Capital Expenditure and Financing	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
General Fund	67.2	122.5	132.6	104.9
HRA	12.1	25.3	14.5	8.5
Total Expenditure	79.3	147.8	147.1	113.5
Government Grants	17.0	28.6	25.2	13.9
Capital Receipts	1.7	5.3	4.2	1.0
S106	1.6	5.7	7.2	0.5
CIL	1.7	2.0	1.7	1.7
Borrowing	20.5	29.0	15.8	5.4
Investment Borrowing	30.6	71.0	85.0	85.0
Major Repairs Allowance	6.2	6.2	6.0	6.0
Total Financing	79.3	147.8	147.1	113.5

[2] As indicated above the TMSS and this template covers the requirements of the 2011 CIPFA Prudential Code (as amended in 2012). It also covers the requirements of the latest Guidance on Minimum Revenue Provision for an annual MRP statement (England 2012). The latest code removed explicit reference to HRA indicators, but recommended local indicators were used where the HRA was significant. In practice we intend to continue with the original agreed suite, given the HRA' significance in Reading).

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
General Fund	339.1	424.7	468.6	494.1
HRA	187.2	190.3	191.0	190.2
Total CFR	526.3	615.0	659.6	684.3

The CFR is forecast to rise by £160m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.18 Revised £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Borrowing	390.5	480.2	530.8	567.3
Finance leases	<1.0	**<1.0**	<1.0	<1.0
PFI liabilities	30.8	29.8	28.8	27.0
Total Debt	**422.3**	**510.0**	**560.6**	**595.3**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	**470**	500	530	560
Other long-term liabilities	**40**	40	40	40
Total Debt	**510**	**540**	**570**	**600**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over the operational boundary for unusual cash movements.

Authorised Limit	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	480	**520**	540	570
Other long-term liabilities	40	**40**	40	40
Total Debt	**520**	**560**	**580**	**610**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	7.3%	**8.4%**	10.6%	11.4%
HRA	25.1%	26.6%	26.8%	25.9%

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**
General Fund - increase in annual band D Council Tax	116.28	63.37	52.18
HRA - increase in average weekly rents	1.30	0.53	0.07

In 2018/19, around £94.50 of the incremental General Fund Increase is expected to be met from additional income sources.

Annex A – Annual Minimum Revenue Provision Statement 2018/19

Summary Introduction

This statement was last substantially revised in 2016/17. The revised approach was considered similarly prudent to the previous one overall as debt will be paid off over the same period of time (albeit to a different profile, or in the case of older debt and historically supported borrowing over a 50 year fixed period, (rather than never being fully repaid).

In addition the policy was extended to include a similar approach with PFI assets, and in connection with a funding strategy for our equal pay liability. The revised policy included some discretion in relation to capital receipts and making additional provisions. Over the life of assets all debt will be repaid, but the annuity method seeks to equalise total financing costs over the asset life with the consequence that generally less debt will be paid off in early years. These MRP arrangements have been applied since the 2015/16 financial year. Only minor changes have been made for 2018/19.

Statement of MRP approach

1. The Government's Capital Finance and Accounting Regulations require local authorities to make 'prudent annual provision' in relation to capital expenditure financed from borrowing or credit arrangements. This is known as Minimum Revenue Provision or MRP, but it is often referred to as a provision for "debt repayment" as a shorthand expression. The Government has also issued statutory guidance on MRP, to which the Council is required to have regard.

2. This policy applies to the financial years 2017/18 and 2018/19, and is intended to apply for years thereafter subject to annual review as part of the budget. Any interpretation of the Statutory Guidance or this policy will be determined by the Chief Finance Officer (taking advice as necessary from the Head of Legal & Democratic Services and the Council's treasury advisor, Arlingclose).

3. Principles of debt repayment provision - The term 'prudent annual provision' are not defined by the Regulations. However, the statutory Guidance says "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant". The Guidance does not prescribe the annual repayment profile to achieve this aim, but suggests four methods for making MRP which it considers prudent, and notes that other methods are not ruled out. The Council regards the broad aim of MRP as set out above as the primary indicator of prudent provision, whilst recognising the flexibilities which exist in determining an appropriate annual repayment profile.

4. The Council considers that 'prudent' in this context does not mean the quickest possible repayment period, but has regard to the prudent financial planning and management of the of the overall financial position, recognising the flow of benefits from the capital expenditure, and other relevant factors.

5. This MRP Policy therefore takes account of the financial forecast in the Council's medium term plans, and a general assessment by the Director of Finance of the likely position in the years after that in determining what is a prudent MRP in the circumstances. In particular, this takes account of the Council's funding approach to equal pay settlements (paragraph 14 below) and the need for an orderly financial transition as the Council manages the grant reductions announced by Central Government through to 2019/20 (that in 2018/19 are linked to the NNDR Berkshire Pilot).

6. Consistent with the Statutory Guidance, the Council will not normally review individual asset lives used for MRP as a result of any changes in the expected life of the asset or its actual write off. Inevitably, some assets last longer than their initially estimated life, and others will not; the important thing is that the Director of Finance is satisfied that a reasonable estimate has been made at the time of capital expenditure. (Normally this will range between 5 years for some vehicles and IT equipment, though some assets in these categories could be longer, to 60 years for major new buildings (such as new school buildings). As a guide we use the following standard asset lives
   - major new buildings on Council owned land where a 40-60 year asset life (unless the design life is demonstrably shorter) will be appropriate
   - freehold land – 60 years
   - leasehold land – the life of the lease
   - major extensions to existing buildings, or major remodelling of infrastructure – where a 20-40 year asset life may be more appropriate (according to the design life of the extension/remodelling)
   - major refurbishment of existing buildings – where a 20 year life can reasonably be presumed
   - major transport infrastructure or regeneration schemes (i.e. new roads or major remodelling of junctions) – 30 years (or according to the design life of the infrastructure/regeneration if materially different)
   - other transport capital expenditure – 20 years
   - small items capitalised revenue expenditure – 10 years
   - vehicles, where typically a 5 year life will be reasonable for smaller vehicles; in some cases (e.g. refuse freighters 7-8 years, in line with maintenance contracts) a longer life will be appropriate

   but we will keep this categorisation under review, and individually consider all material asset additions funded from borrowing

7. General Fund - Borrowing funded assets from prior to 2007/08 – For this historic borrowing the Council does not hold detailed records that match borrowing to assets, and until 2015/16 had been making MRP at 4%pa on a reducing balance basis. For the reasons outlined in 3 & 5 above the Council now considers that an approach consistent with paying the remaining debt off at 2% of the 31/3/11 level pa for 50 years would now be appropriate, but for

the period 2015/16-2019/20 considers an annuity approach based on a 46 year annuity from 2011/12 provides an appropriate transition from its approach hitherto to the long term intended approach. Therefore from 2020/21 the annual MRP will be fixed at the same cash value so that the whole debt is repaid after 50 years (from 2007/08), subject to adjustment in the event of appropriation of land between the HRA and General Fund. Debt for this purpose is measured on the historic “credit ceiling” basis, so includes repayment of the adjustment in the basis of MRP on moving from the 1989 Act system in 2004 (“Adjustment A”). The total of MRP subject to this process can be adjusted when appropriations occur between the HRA and General Fund.

General Fund MRP policy: borrowing funded assets after 2007/08

8. The general repayment policy for new prudential borrowing is to repay borrowing within the expected life of the asset being financed. Normally asset lives will be a maximum of 20 years in the case of major refurbishment or transport infrastructure, but longer periods may be used for new buildings or other major assets where the council puts in place an appropriate long term funded cyclical maintenance programme. This is in accordance with the “Asset Life” method in the Guidance. The repayment profile will follow an annuity repayment method, (like many domestic mortgages) which is one of the options set out in the Guidance.

   This is subject to the following details:

   8.1 An average asset life for each project will normally be used. There will not normally be separate MRP schedules for the components of a building (e.g. plant, roof etc.), unless other component accounting requirements (which rarely apply in Reading) indicate such an approach would be appropriate. Asset lives will be determined by the Director of Finance, taking advice from appropriate technical experts (within the Council wherever possible). A standard schedule of asset lives will generally be used, but where borrowing on a project exceeds £5m, specialist advice from appropriate external advisers may also be taken into account.

   8.2 MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets where over £1m financed from borrowing is planned, where MRP will be deferred until the year after the asset becomes operational. (In connection with this, the MRP for the Civic Offices was adjusted in 2015/16 so all the borrowing finance is repaid over the same (60 year) period starting in 2015/16, as the asset became operational in late autumn 2014.

   8.3 Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Director of Finance.

   8.4 If appropriate, shorter repayment periods (i.e. less than the asset life) may be considered for some or all new borrowing.

8.5 Where the Council incurs debt on the purchase of an investment property, in the event of a vacancy of tenancy, the Director of Finance may suspend MRP for up to 2 years, provided it is reasonable to assume a new tenant will be identified.

Housing Revenue Account MRP policy

9. The statutory MRP Guidance states that the duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure on HRA assets. This is because of the different financial structure of the HRA, in which depreciation charges have a similar effect to MRP. However, since the Government's HRA self-financing settlement, which introduced a cap on HRA borrowing, which was established in April 2012, the Council has made a minimum revenue provision of 2% of outstanding debt. This will continue (though is seen as part of the depreciation charge in the HRA business plan). The charge in any year will also take account of the HRA business plan, and the context of HRA debt within the authority as a whole (taking account of the Council's single debt pool approach to managing its borrowings. (For the immediate future this means the charge will be at least the 2% minimum). In principle, the Council will also seek to deliver a reduction in HRA debt per dwelling (though our ability to do this may depend upon RTB volumes). Additional voluntary HRA debt repayment provision may be made from revenue or capital resources (that have been derived from the disposal of housing assets).

Concession Agreements and Finance Leases

10. From 2015/16 MRP in relation to concession agreements (e.g. General Fund PFI contracts) and finance leases will be calculated on an asset life method using an annuity repayment profile, consistent with the method for prudential borrowing in paragraph 8 above. The Director of Finance may approve that such debt repayment provision may be made from capital receipts rather than from revenue provision (subject to Policy Committee approval of the draft accounts outturn report).

MRP & Capital Receipts

11. Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years. The Chief Finance Officer will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts, and the Council's wider financial plans. If capital receipts are utilised to repay debt in year, the value of MRP chargeable will normally be reduced by the value of the receipts utilised.

13. Statutory capitalisation - Expenditure which does not create a fixed asset, but is statutorily capitalised, will follow the MRP treatment in the Government guidance, apart from any exceptions provided for below.

Cash flows

14. Where a significant difference exists between capital expenditure accrued and the actual cash flows, MRP may be charged based on the cash expended at the previous year end, as agreed by the Director of Finance. The reason for this is that, if expenditure has been accrued but cash payments have not yet been made, this may result in MRP being charged in the accounts to repay borrowing which has not yet been incurred.

Equal Pay settlements

15. During 2017/18 the Council has begun making payments in respect of its equal pay settlement liabilities. The MTFS envisages they are funded using capital receipts. Based on our current estimate of the liability, we currently hold enough receipts, but it is feasible that our estimate may change, as may use of receipts and we may find that not all the required receipts have yet been received. As there are risks to the timing and quantum of future capital receipts, as a risk management mechanism, MRP may be reduced in 2017/18 or 2018/19 if there are insufficient capital receipts to fund equal pay settlement costs in that (or the following year in the case of 2017/18). The revenue saving will then be used to meet the settlement costs.

16. Any such reduction will be made good by setting aside equivalent future capital receipts to provide for debt repayment, when there is a surplus of capital receipts available after funding equal pay settlements. As a minimum, any such reduction in MRP will be repaid over 20 years as a charge to revenue account on an annuity profile.

Capitalised loans to others

17. MRP on capitalised loan advances to other organisations or individuals will not normally be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. (i.e. MRP will be made and funded from the agreed debt repayment) However, revenue MRP contributions would still be required equal to the amount of any impairment of the loan advanced.

Investments

18. Where investments are made in financial instruments that score as capital expenditure where the Council expects full repayment, no MRP will be made

Voluntary repayment of debt

19. The Council may make additional voluntary debt repayment provision from revenue or capital resources. In this case, the Director of Finance may make an appropriate reduction in the same or the following year’s levels of MRP.

20. Where it is proposed to make a voluntary debt repayment provision in relation to prudential borrowing from 2007/08 under the asset life method, it may be necessary to decide which assets the debt repayment relates to, in order to determine the reduction in subsequent MRP. The following principles will be applied by the Director of Finance in reaching a prudent decision:

- where the rationale for debt repayment is based on specific assets or programmes, any debt associated with those assets or programmes will be repaid;
- where the rationale for debt repayment is not based on specific assets, debt representative of the service will be repaid, with a maturity reflecting the range of associated debt outstanding;

Subject to the above two bullet points, debt with the shortest period before repayment will not be favoured above longer MRP maturities, in the interests of prudence, to ensure that capital resources are not applied for purely short term benefits.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Based on the Council's latest estimate of its Adjusted Capital Financing Requirement estimated[3] at 31 March 2018, the budget for MRP has been set as follows:

	31.03.2018 Estimated Adjusted CFR £m	**2018/19 Estimated MRP £**
Historic capital expenditure prior to 31.03.2008	**67.2**	677
Capital expenditure after 2008/9-2016/17	**154.7**	6,278
Estimated capital expenditure 2017/18	**44.5**	977
Total General Fund	**266.4**	**9,932**
Total Housing Revenue Account	**187.2**	**3,745**
Total	**453.6**	**11,677**

[3] Adjustments were made to the CFR when the system changed in 2008 to ensure a smooth transfer from the previous system involving the credit ceiling (a slightly different measure of debt) and MRP.

Annex B – Arlingclose Economic & Interest Rate Forecast January 2018

Underlying assumptions:

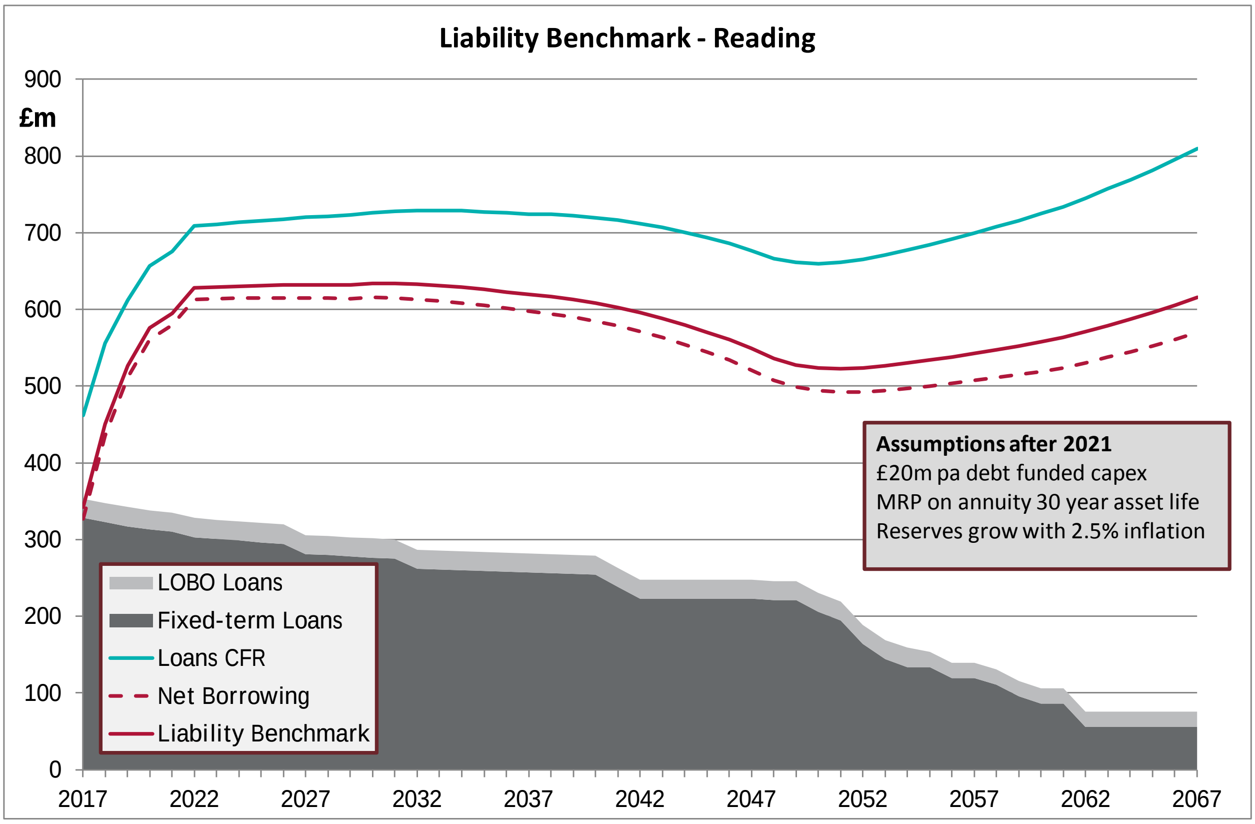
- The MPC increased Bank Rate in November 2017 to 0.5%. The rise was questionable based on the available economic data. Market rate expectations are broadly unchanged since the rise and policymakers continue to emphasise that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have revised lower the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2. Forecasts for future GDP growth have generally been revised downwards.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- More recent labour market data suggested that employment has plateaued, although house prices (outside London) appear to be relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger global and Eurozone economic expansions.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- The MPC increased Bank Rate largely to meet expectations they themselves created. Expectations for higher short term interest rates are now relatively subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.17**
3-month LIBID rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.23**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.22**
1-yr LIBID rate														
Upside risk	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.28**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.78**
Downside risk	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.92**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.35**
10-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.60**	**1.38**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.34**
20-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**2.10**	**1.95**
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.41**
50-yr gilt yield														
Upside risk	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	**0.33**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**2.00**	**1.84**
Downside risk	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.41**

Annex C - Alternative Liability Benchmark

The graph in 4.4 shows the position over the present MTFS period, but assumes no significant borrowing after that. Arlingclose also recently prepared the benchmark assuming £20m per annum is spent on per annum thereafter.



This shows a long term debt around £600m from the beginning of the next decade

Annex D - Existing Investment & Debt Portfolio Position

	31/12/17 Actual Portfolio £m	31/12/17 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	**259.4**	**3.65**
PWLB - Variable	**4.8**	**1.03**
Other Local authorities (short term)	**58.0**	**0.43**
LOBO loans from banks	**25.0**	**4.21**
Banks – Fixed Rate (ex Barclays LOBO)	**5.0**	**3.99**
Total External Borrowing	**352.2**	**3.12**
Other Long Term Liabilities:		
PFI	31.0	
Finance Leases	0.7	
Total Gross External Debt	383.9	
Investments:		
Money Market Funds	2.5	0.33
Bank Call Accounts	5.9	0.40
Pooled Funds (CCLA Property Fund)	15.0	c.4.86
Total Investments	23.4	
Net Debt	360.5	
Non-treasury investments:		
Investment property	**45.0**	
Shares in subsidiary	**1.7**	
Loans to subsidiary	**1.7**	**3.13%**
Lease to subsidiary	**7.8**	
Total non-treasury investments	**56.2**	
Total investments	79.6	

OUTLINE CAPITAL STRATEGY 2018/19

There is a new explicit requirement that has been introduced in the 2017 revision of the (Chartered Institute of Public Finance and Accountancy) CIPFA Prudential Code for authorities to publish a capital strategy. The code says

> *"The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability"*

In the consultation paper introducing the code changes CIPFA made it clear that the strategy was intended to be quite a short document written in accessible language.

It was not possible to draft this strategy in time for pre-budget scrutiny at Audit & Governance (A&G) Committee. Nevertheless, A&G's scrutiny of the draft Treasury Management & Investment (TM&I) Strategy Statement identified several issues that are intended to be covered within this document.

Given the detail in the TM&I Strategy, the new code permits it to be considered and agreed by a committee, rather than needing to be approved by Council as a whole, though a small number of Prudential Indicators, (such as the Authorised Borrowing Limit; the maximum amount of money the Council is permitted to borrow) remain formally a Council decision as part of the budget.

The Code guides that the chief finance officer (CFO) must report on the affordability and risk associated with the capital strategy. The strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives consideration to risk, reward and impact on the achievement of the Council's priorities.

The capital strategy should form a part of the authority's medium to long term forward financial planning processes as it provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. CIPFA intend that all councillors should have a full understanding of the overall strategy, governance procedures and risk appetite. There should be sufficient detail to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.

The code sets out 5 areas that should be included

- Capital Expenditure
- Debt and Borrowing and Treasury Management
- Commercial Activities
- Other long-term liabilities
- Knowledge and skills

The following sections set out the present position in these areas

Capital expenditure

Capital Expenditure is expenditure that will provide benefits for several forward years. It ranges from the purchase of vehicles and equipment where the benefit may only last 3-5 years to new buildings where the benefit should be at least 40-60 years, and the purchase of freehold land where the benefit might continue indefinitely. It includes public infrastructure works, such as the road network, parks and public open spaces, and may also include grant expenditure to others to provide such things.

The Council has a forward capital programme, which is agreed each financial year as part of the budget, but subject to periodic updating in-year as plans change and are updated. In principle all capital expenditure must have Policy Committee or Council approval, though the CFO has a delegation to approve expenditure that is funded by grant where the grant requires reasonably specific use of the money.

Capital expenditure generally supports the Council's wider service delivery strategies, for example by ensuring there are sufficient, quality school places in the town, the road network operates as efficiently and effectively as possible, and at a more basic level ensuring we have sufficient vehicles and IT to meet day to day service needs. Currently the programme is normally presented in groupings linked to the Council's Strategic Priorities.

Expenditure is monitored throughout the year and progress reported at each Policy Committee alongside revenue budget monitoring. In principle, if only at year end, the Council considers accounting for all items that meet the capital definition as capital expenditure.

Capital expenditure is funded through various sources of finance:

- Capital Grants from Government (or others)
- Section 106 Planning Income
- Community Infrastructure Levy (also related to Planning)
- The HRA Major Repairs Reserve for expenditure on Council Housing
- Capital Receipts arising from the sale of the Council's assets
- Borrowing, which has to be repaid (with interest) over the expected life of the asset from revenue
- Revenue, including contributions from schools towards capital schemes in the school

Normally the preferred order of using finance available is broadly as above. However, up until 2022 Government rules permit capital receipts to be used to meet equal pay settlements and the revenue costs of reforming services that then reduces on-going running costs. Given the lack of available revenue funding, the use of receipts for these purposes (rather than for capital expenditure) is being prioritised. The CFO will finally determine the funding of the capital programme as part closing the accounts and determining the outturn expenditure each year.

Some items within the capital programme are linked to the Council's asset management planning processes to ensure the Council's operational infrastructure (operational buildings, vehicles and IT estate) remain fit for purpose. If we did not include these items, in general higher revenue costs (on repairs, vehicle maintenance, arising from IT failure and inefficient staff time use) would tend to result.

The Housing Revenue Account (HRA) capital programme includes both some new build housing as well as major repair programmes to the existing stock. Within the HRA there is a formal government set debt cap of £209m, whereas General Fund borrowing is constrained by locally determined affordability considerations.

Debt, Borrowing and Treasury Management

The Council's Treasury Management Strategy Statement deals in detail with debt & borrowing. At the end of 2017 the Council had over £300m borrowing outstanding and the Council's 2018/19 strategy shows that increasing over the next 3-4 years to over £600m. Much of this significant increase is associated with the Council's financial strategy, which includes the purchase of income generating property within the Borough, including housing for rent through the Council's Homes for Reading subsidiary and commercial investment properties.

Whilst these are clearly large sums of money it should be observed that the Council's assets are valued at over £1bn on the balance sheet. Although borrowing is not secured on assets (but instead on the Council's future income) these include all Council Housing (£466m), the road network (£215m) as well as all the Council's other operational land and buildings (£337m), so present borrowings are more than three times covered by our asset base.

Government rules however require us to calculate our historic debt through the "capital finance requirement"(CFR), which is basically a measure of unpaid historic borrowing associated with the purchase of capital assets. The CFR is normally higher than actual borrowing, as the Council holds some (limited) reserves, but also normally has a positive cash flow, so holds "working capital". As at 31/3/17 the CFR was £493m, and it is scheduled to rise to over £700m by 31/3/21. A large part of the difference between the CFR and actual borrowing outstanding is accounted for by "internal debt"; effectively the use of working capital and reserves to avoid borrowing, and the financing costs that go with it.

Forecasts for the next few years are as follows;

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
Total CFR	493.0	526.3	615.0	659.6	684.3
Less: Other debt liabilities (PFI)	- 31.8	- 30.8	- 29.8	- 28.8	- 27.0
Borrowing CFR	461.2	495.5	585.2	630.8	657.3
External borrowing	353.4	339.2	286.7	282.3	278.0
Internal borrowing	107.8	105.0	105.0	100.0	90.0
Forecast New borrowing Need	-	51.3	193.5	248.5	289.3

The TM&I statement includes a "liability benchmark" graph which shows how debt is expected to rise over the MTFS period in comparison with existing borrowing. Linked to these forecasts the Council is required by law to set a limit on its borrowing, known as the authorised limit, which is the maximum amount of borrowing that can be outstanding at any point in time.

The Council's budget is required to include a provision for the repayment of debt (minimum revenue provision - MRP) over the life of the assets. The full MRP statement appears as an Annex to the TM&I Strategy. However its key requirement includes the repayment of debt using an annuity based approach over the asset life (so effectively this will work like a repayment mortgage, though as the debt reduces interest payment reduces, and therefore principal payments will rise over time).

Commercial Activities

There are two broad developing strands to the Council's commercial activities; Reading Direct Services offers a service to residents and businesses in and near the borough, as well as providing some services for other local authorities. Generally these are moderate to lower risk commercial activity built upon the Council's internal capability to deliver its own services. In relation to capital expenditure, Direct Services will need some capital assets to deliver to its customers.

More significantly in relation to capital and with a different risk profile the Council has approved a property investment strategy, and formed Homes for Reading Ltd (HfR). In both cases the Council borrows money to purchase property on which a rent will be received. Whether directly (commercial property) or indirectly through the HfR company there is the risk that rental income may not be sufficient to meet borrowing and other costs. Therefore, the Council has developed appraisal models and tools to assess risk and forecast net income in each case, and only proceeds with purchases that meet the agreed criteria. In the case of commercial property purchases the Council normally operates via an agent independent of the Council and carries out external due diligence before proceeding including taking independent expert advice.

Other long-term liabilities
In addition to traditional borrowing, the Council also has liabilities associated with its private finance initiative (PFI) contracts and some leasing liabilities. These will slowly decline over their contract lives.

Knowledge and skills
Within the Finance function the Council employs a range of staff with the necessary skills to manage the Council's treasury position. This includes staff able to manage day to day movements on the Council's bank account; staff who ensure that capital assets are accounted for properly; and staff who assess complex investment property opportunities. The Council also has access to Treasury Advisors who offer proactive guidance and advice with almost all aspects of the Council's capital activity. As a typical local authority, we have a relatively low risk appetite, but recognise that no capital/treasury activity is without risk and therefore we undertake appropriate risk assessments as a matter of routine.

This outline capital strategy is intended to strike a balance between detail and accessibility to councillors. The strategy suggests some initial and on-going A&G scrutiny so that the strategy is developed over time between councillors and officers. In preparing the Chief Finance Officer's statement on the robustness of estimates, adequacy of reserves and the management of risk (contained in the main budget report), the CFO has considered the affordability and risk associated with the capital strategy, which has informed his conclusions set out in section 6.1 of the report.

GENERAL FUND & SUMMARY COST CENTRE BUDGETS 2018-2019, 2019-2020 & 2020-2021

	PAGES	ESTIMATE 2018/2019		ESTIMATE 2019/2020		ESTIMATE 2020/2021	
		£'000		**£'000**		**£'000**	
Resources	2	12,279		12,467		12,787	
Environment & Neighbourhood Services	3	23,812		19,517		17,997	
Childrens, Education & Early Help Service	4	41,569		41,868		41,337	
Adult Care & Health	5	37,479		37,950		41,267	
Total Directorate Requirements		115,139		111,802		113,388	
Capital Financing Costs		11,680		13,680		14,880	
Insurance Costs		1,143		1,200		1,260	
Property & Pensions Liabilities, Environment Agency Levy, NNDR Levy, Other Provisions & Cross Council Savings		1,734	cr	1,383		1,600	
Contribution to LEP		6,250					
Savings Contingency		3,677		4,322		4,322	
Redundancy Provision		800		800		800	
		136,955		**133,187**		**136,250**	

Budget Funding Measures

Equalisation Reserve Transfers	3,275		433	cr	1,994	cr
Grants	3,819	cr	3,585	cr	3,205	cr
Use of General Fund Balance	2,500		0		0	
Budget Requirement	**138,911**		**129,169**		**131,051**	

Less

Reading Share of Business Rate Income	128,700		66,548		68,212	
Business Rate Tarrif Payment	81,037	cr	28,977	cr	29,701	cr
Revenue Support Grant	0		1,998		0	
Reading's Share of Collection Fund Surplus/Deficit	4,586		0		0	
Council Tax Requirement	**86,662**		**89,600**		**92,540**	

COUNCIL TAX LEVELS

2017-2018 £		2018-2019 £
1,148.88	Council Tax at Band A	1,217.75
1,340.36	Council Tax at Band B	1,420.71
1,531.85	Council Tax at Band C	1,623.68
1,723.33	Council Tax at Band D	1,826.63
2,106.29	Council Tax at Band E	2,232.54
2,489.25	Council Tax at Band F	2,638.46
2,872.21	Council Tax at Band G	3,044.38
3,446.66	Council Tax at Band H	3,653.26

RESOURCES SERVICES DIRECTORATE

DIRECTOR - JACKIE YATES (wef 19/3/18)

	2018-19 Budget Breakdown				2018-19	2019-20 Budget		2019-20	2020-21 Budget		2020-21
	Employee Costs	Running Costs	Gross Expenditure	Income	Estimate Budget	Gross Expenditure	Income	Estimate Budget	Gross Expenditure	Income	Estimate Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
MANAGING DIRECTOR & CUSTOMER SERVICES											
Managing Director's Office	187	101	287	0	287	295	0	295	304	0	304
Business Improvement Team	1,666	90	1,755	-348	1,407	1,803	-350	1,453	1,852	-350	1,502
IT Services	314	4,730	5,044	-138	4,906	5,426	-138	5,288	5,513	-138	5,375
Customer Services	1,208	264	1,471	-146	1,325	1,504	-146	1,358	1,536	-146	1,390
Entitlement and Assessment	2,252	662	2,914	-2,061	852	2,447	-2,066	381	2,362	-2,066	296
Housing Benefit & Council Tax	0	78,080	78,080	-77,930	150	77,955	-77,930	25	77,955	-77,930	25
Reading UK CIC	0	0	0	0	0	0	0	0	0	0	0
Registration & Bereavement Services	643	406	1,049	-2,586	-1,537	1,076	-2,586	-1,510	1,097	-2,586	-1,489
Voluntary Sector Support Team	26	318	344	0	344	329	0	329	238	0	238
MANAGING DIRECTOR & CUSTOMER SERVICES TOTAL	**6,296**	**84,651**	**90,944**	**-83,209**	**7,734**	**90,835**	**-83,216**	**7,619**	**90,857**	**-83,216**	**7,641**
FINANCIAL SERVICES											
FINANCIAL SERVICES TOTAL	**2,756**	**831**	**3,588**	**-645**	**2,944**	**3,653**	**-195**	**3,458**	**3,808**	**-195**	**3,613**
LEGAL, HUMAN RESOURCES & DEMOCRATIC SERVICES											
Legal Services	3,837	2,634	6,471	-4,417	2,054	6,555	-4,417	2,138	6,640	-4,417	2,223
Committee Administration	318	18	336	-14	323	342	-14	328	348	-14	334
Human Resources & Payroll	2,209	491	2,700	-928	1,773	2,752	-956	1,796	2,807	-971	1,836
Elections/Electoral Registration	204	321	525	-103	422	529	-103	426	533	-103	430
LEGAL, HUMAN RESOURCES & DEMOCRATIC SERVICES TOTAL	**6,568**	**3,464**	**10,032**	**-5,462**	**4,572**	**10,178**	**-5,490**	**4,688**	**10,328**	**-5,505**	**4,823**
COMMUNICATION											
Marketing + Pub.Relations	362	71	433	-20	413	434	-30	404	445	-35	410
Mayoralty & Lord Lieutenant	66	36	102	-55	47	104	-55	49	106	-55	51
COMMUNICATION TOTAL	**428**	**107**	**535**	**-75**	**460**	**538**	**-85**	**453**	**551**	**-90**	**461**
Resources Directorate Services Total	16,048	89,053	105,099	-89,391	15,710	105,204	-88,986	16,218	105,544	-89,006	16,538
Recharge to non General Fund Services				**-3,431**	**-3,431**		**-3,751**	**-3,751**		**-3,751**	**-3,751**
RESOURCES DIRECTORATE TOTAL	**16,048**	**89,053**	**105,099**	**-92,822**	**12,279**	**105,204**	**-92,737**	**12,467**	**105,544**	**-92,757**	**12,787**

ENVIRONMENT AND NEIGHBOURHOOD SERVICES DIRECTORATE

DIRECTOR - ALISON BELL

	2018-19 Budget Breakdown				2018-19 Estimate Budget	2019-20 Budget		2019-20 Estimate Budget	2020-21 Budget		2020-21 Estimate Budget
	Employee Costs	Running Costs	Gross Expenditure	Income		Gross Expenditure	Income		Gross Expenditure	Income	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
TRANSPORTATION AND STREET CARE											
Neighbourhood Services	4,348	1,782	6,130	-2,930	3,200	5,620	-3,240	2,380	5,607	-3,257	2,350
Streetcare Services	2,917	2,319	5,238	-2,793	2,444	5,224	-2,743	2,481	5,261	-2,768	2,493
Network and Parking Services	1,125	4,769	5,892	-10,916	-5,025	6,005	-11,766	-5,761	6,168	-12,919	-6,751
Waste Disposal	236	25,518	25,753	-17,658	8,096	25,449	-17,658	7,791	25,954	-17,658	8,296
Transportation Services	696	7,104	7,800	-876	6,924	7,637	-876	6,761	7,545	-876	6,669
TRANSPORTATION AND STREET CARE TOTAL	**9,322**	**41,492**	**50,813**	**-35,173**	**15,639**	**49,935**	**-36,283**	**13,652**	**50,535**	**-37,478**	**13,057**
PLANNING, DEVELOPMENT & REGULATORY SERVICES											
Sustainability	117	77	193	-219	-26	197	-219	-22	200	-219	-19
Corporate Facilities Management	3,386	5,213	8,598	-4,651	3,948	8,715	-4,651	4,064	8,588	-4,651	3,937
Land & Property Development	287	286	573	-4,955	-4,382	592	-5,455	-4,863	618	-5,955	-5,337
Regulatory Services	3,187	1,104	4,289	-2,395	1,895	4,339	-2,676	1,663	4,440	-2,689	1,751
Planning	1,183	259	1,442	-1,324	119	1,485	-1,434	51	1,529	-1,434	95
Building Control	558	54	612	-429	183	625	-429	196	639	-429	210
Health & Safety	196	23	219	-67	152	226	-67	159	232	-67	165
Property Development	296	220	515	-512	3	524	-512	12	534	-512	22
PLANNING, DEVELOPMENT & REGULATORY SERVICES TOTAL	**9,210**	**7,236**	**16,441**	**-14,552**	**1,892**	**16,703**	**-15,443**	**1,260**	**16,780**	**-15,956**	**824**
HOUSING & NEIGHBOURHOOD SERVICES											
Libraries	768	462	1,230	-203	1,027	1,207	-203	1,004	1,248	-203	1,045
Community Safety and Neighbourhood Initiatives	564	46	610	-549	61	588	-549	39	602	-549	53
Housing Building Maintenance	4,744	5,517	10,259	-10,259	0	10,287	-10,285	2	10,314	-10,312	2
Housing GF	1,294	7,982	9,276	-6,681	2,595	8,570	-6,391	2,179	8,517	-6,391	2,126
HOUSING & NEIGHBOURHOOD SERVICES TOTAL	**7,370**	**14,007**	**21,375**	**-17,692**	**3,683**	**20,652**	**-17,428**	**3,224**	**20,681**	**-17,455**	**3,226**
ECONOMIC & CULTURAL DEVELOPMENT											
Sports & Leisure	1,879	1,008	2,887	-2,069	818	1,302	-1,089	213	1,348	-1,089	259
Business Development	205	20	225	-475	-250	233	-885	-652	241	-995	-754
Arts Venues	1,175	2,773	3,949	-3,616	332	3,972	-3,636	336	0	0	0
Town Hall & Museum	1,234	761	1,996	-1,094	901	2,077	-1,194	883	2,154	-1,194	960
Records and Archives	639	379	1,018	-900	118	1,052	-900	152	1,090	-900	190
New Directions	1,090	398	1,489	-1,481	8	1,508	-1,481	27	1,529	-1,481	48
ECONOMIC & CULTURAL DEVELOPMENT TOTAL	**6,222**	**5,339**	**11,564**	**-9,635**	**1,927**	**10,144**	**-9,185**	**959**	**6,362**	**-5,659**	**703**
DENS Directorate	**859**	**8**	**867**	**-197**	**671**	**895**	**-473**	**422**	**924**	**-737**	**187**
ENVIRONMENT & NEIGHBOURHOOD SERVICES TOTAL	**32,983**	**68,082**	**101,060**	**-77,249**	**23,812**	**98,329**	**-78,812**	**19,517**	**95,282**	**-77,285**	**17,997**

DIRECTORATE OF CHILDRENS, EDUCATION AND EARLY HELP SERVICES

DIRECTOR - ANN MARIE DODDS

	2018-19 Budget Breakdown				2018-19	2019-20 Budget		2019-20	2020-21 Budget		2020-21
	Employee Costs	Running Costs	Gross Expenditure	Income	Estimate Budget	Gross Expenditure	Income	Estimate Budget	Gross Expenditure	Income	Estimate Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CHILDREN'S SAFEGUARDING											
Children's Management and Training	810	136	945	0	945	971	0	971	993	0	993
External Placements	0	12,356	12,356	-51	12,306	12,138	-51	12,087	11,912	-51	11,861
Family Support	4,918	650	5,567	-114	5,452	5,738	-114	5,624	5,913	-114	5,799
Placement Choice	2,530	6,172	8,702	-113	8,589	8,781	-113	8,668	8,858	-613	8,245
Safeguarding	1,232	314	1,545	-80	1,465	1,598	-80	1,518	1,648	-80	1,568
Children's Safeguarding Total	**9,490**	**19,628**	**29,115**	**-358**	**28,757**	**29,226**	**-358**	**28,868**	**29,324**	**-858**	**28,466**
EARLY HELP SERVICES											
Early Help Management	468	9	377	-100	377	403	0	403	436	0	436
Children Centres	1,337	291	1,627	-869	757	1,659	-1,020	639	1,688	-1,229	459
Targetted Youth Services	614	102	716	-165	551	716	-165	551	707	-215	492
Other Early Help Services	2,480	205	2,687	-1,295	1,392	2,717	-1,305	1,412	2,625	-1,320	1,305
Specialist Youth Services	788	119	907	-463	444	922	-463	459	926	-463	463
Early Help Services Total	**5,687**	**726**	**6,314**	**-2,892**	**3,521**	**6,417**	**-2,953**	**3,464**	**6,382**	**-3,227**	**3,155**
EDUCATION SERVICES AND SCHOOLS											
Education General	672	312	985	-114	870	1,007	-138	869	1,029	-150	879
Early Years	798	13,355	14,152	-553	13,601	14,175	-553	13,622	14,200	-553	13,647
School Improvement	743	200	943	-660	129	958	-814	144	974	-814	160
Special Education & Children's Disability Team	1,518	18,813	20,332	-121	20,211	20,365	-121	20,244	20,255	-121	20,134
Asset Management	417	261	678	-627	51	680	-627	53	683	-627	56
Schools - ISB *	0	44,941	44,941	0	44,941	44,952	0	44,952	44,964	0	44,964
Schools Block *	0	5,232	5,232	-79,361	-74,129	5,232	-79,361	-74,129	5,232	-79,361	-74,129
Education Services and Schools Total	**4,148**	**83,114**	**87,263**	**-81,436**	**5,674**	**87,369**	**-81,614**	**5,755**	**87,337**	**-81,626**	**5,711**
GOVERNANCE AND BUSINESS SUPPORT											
Governance and Business Support Total	**1,427**	**-71**	**1,356**	**0**	**1,356**	**1,400**	**0**	**1,400**	**1,443**	**0**	**1,443**
TRANSFORMATION AND IMPROVEMENT											
LSCB & Safeguarding	1,214	34	1,248	-34	1,213	1,200	-34	1,166	1,223	-34	1,189
Performance Data CSC & Education	445	21	466	-90	376	482	-90	392	492	-90	402
Transformation and Improvement Total	**1,659**	**55**	**1,714**	**-124**	**1,589**	**1,682**	**-124**	**1,558**	**1,715**	**-124**	**1,591**
DIRECTORATE MANAGEMENT											
Directorate Management Total	**991**	**0**	**991**	**-319**	**672**	**862**	**-39**	**823**	**1,010**	**-39**	**971**
CHILDRENS, EDUCATION & EARLY HELP SERVICE TOTAL	**23,402**	**103,452**	**126,753**	**-85,129**	**41,569**	**126,956**	**-85,088**	**41,868**	**127,211**	**-85,874**	**41,337**

DIRECTORATE OF ADULT SOCIAL CARE AND HEALTH SERVICES

DIRECTOR - SEONA DOUGLAS

	2018-19 Budget Breakdown				2018-19 Estimate Budget	2019-20 Budget		2019-20 Estimate Budget	2020-21 Budget		2020-21 Estimate Budget
	Employee Costs	Running Costs	Gross Expenditure	Income		Gross Expenditure	Income		Gross Expenditure	Income	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ADULT SERVICES											
ASC Management	329	563	893	-2,222	-1,330	904	-2,329	-1,425	1,178	-1,087	91
Group Homes and Properties	19	83	102	-342	-239	102	-382	-280	102	-382	-280
Adult Social Care Activities	8,492	1,088	9,578	-4,695	4,883	9,571	-4,695	4,876	9,785	-4,695	5,090
Safeguarding	422	195	617	-201	416	638	-226	412	656	-226	430
Mental Health Support	329	2,482	2,811	-397	2,416	2,802	-405	2,397	3,169	-405	2,764
Learning Disability Support	1,093	16,001	17,094	-1,411	15,684	17,381	-1,420	15,961	17,897	-1,420	16,477
OP/PD Support	0	19,133	19,133	-5,519	13,615	19,502	-5,537	13,965	20,288	-5,537	14,751
ADULT SERVICES TOTAL	**10,684**	**39,545**	**50,228**	**-14,787**	**35,445**	**50,900**	**-14,994**	**35,906**	**53,075**	**-13,752**	**39,323**
Commissioning and Improvement	855	25	880	0	880	911	0	911	940	0	940
Preventative Services	119	1,055	1,174	-635	540	1,161	-635	526	1,166	-635	531
Public Health	749	9,009	9,759	-9,759	0	9,500	-9,500	0	9,242	-9,242	0
WELLBEING TOTAL	**1,723**	**10,089**	**11,813**	**-10,394**	**1,420**	**11,572**	**-10,135**	**1,437**	**11,348**	**-9,877**	**1,471**
DIRECTORATE OTHER TOTAL	**581**	**64**	**645**	**-31**	**614**	**659**	**-52**	**607**	**535**	**-62**	**473**
ADULT SOCIAL CARE & HEALTH TOTAL	**12,988**	**49,698**	**62,686**	**-25,212**	**37,479**	**63,131**	**-25,181**	**37,950**	**64,958**	**-23,691**	**41,267**

Discretionary Rate Relief 2017/18 update & 2018/19

In the Spring 2017 Budget, the Government announced that it would make available to local government an additional £300m over 4 years to implement discretionary rate relief schemes to help mitigate the impact of the 2017 revaluation of business rates.

Government decided to distribute the money based on properties with rateable values up to £200k, but reminded authorities that allocations to individual businesses are subject to State Aid Rules. (These rules are intended to stop unfair market competition arising from government financial support (in a wide context) being given to a business in excess of a threshold). In effect the rules require us to make appropriate checks with potential recipients of the relief that their receipt of it would not constitute a breach of the rules (which limit support to 200,000 Euro (c. £175k) in any 3 year period).

At September 2017's Policy Committee we explained that each billing authority was required to devise its own local Discretionary Relief Scheme and that there was a requirement to consult with relevant major precepting authorities; (in our case the Fire Authority), but that the precise distribution is at the discretion of the Council as a local authority, though the money was intended to relieve increases in business rates.

Reading's allocation from the £300m is as follows:

2017/18	£1,014k
2018/19	£ 492k
2019/20	£ 203k
2020/21	£ 29k

In connection with revaluation changes introduced in 2017/18 the Government had already set (and funded) a transitional relief scheme, which limited increases in rates for properties with a large rv increase to

12.5% + inflation for properties with a new rv under £100,000
42.5% + inflation for properties with a new rv over £100,000

Taking account of this we initially introduced a scheme that extended the 12.5% + inflation band to properties with an rv £100,000-£200,000. We contacted all relevant ratepayers and 53 from 122 property occupiers responded accepting the relief, and we were able to reduce their increases to 12.5% + inflation (from various higher levels up to the 42.5% + inflation). £474k of relief was given in this way. A small number of property owners declined relief (for State Aid reasons), and about half did not reply, despite reminders.

In order to spend the remaining £540k of the available allocation just after Christmas we broadened the scheme to take in rv's in the range £100,000-£250,000. This extended the potential relief to 41 more properties. These properties together with those who had not replied were contacted in early January and asked to reply by the end of January, indicating whether or not they wished to receive relief. As a result of this we were able to grant relief to 4 more properties using a further £39,148 of the sum available.

In the circumstances of needing to use the money by 31 March (which practically means by the end of February because we need to complete the scheme ahead of needing to bill for the 2018/19 financial year), at this point officers considered how the scheme should be redesigned, and now propose the following to ensure the full allocation is spent in 2017/18

Reason for Allocation	Approx. £ allocated
Relief Already in Place cannot be changed unless ratepayer moves	506,073
Extra Applications Agreed in response to January Mailshot on the same basis	39,148
Relief to the Council's Voluntary Sector Partners	47,000
Relief to small responsible ratepayers known to be struggling to pay (the increase) this year (	33,000
Extending Pub Relief (double the Government's £1,000)	17,000
Other Applications anticipated	50,000
Extending the DRR Scheme to reduce increases to as low an increase above Inflation as possible - up to	351,918
Total, if all the above is done	1,044,140
Allocation	1,013,000
so scale back extension by	-9%

The changes proposed are therefore as follows

(i) We now propose granting relief from business rates in 2017/18 to the Council’s key voluntary sector partners. As these are charitable organisations they already benefit from 80% charity relief, so doing this provides relief to c.28 more properties using c.£47k of the money available.

(ii) Taking account of comments made by Customer Services staff responsible for collecting business rates, we are aware of a number of very small businesses who struggle to pay their rates. These are often one person businesses, operating on a “hand to mouth” basis on a day to day basis (i.e. they are relying on day to day business takings to meet their own living costs and pay their business bills, which they take seriously. We propose making some discretionary awards of the money available (of about 20% of the full bill to help these businesses, as it would appear to make a real difference to them. These will be done at the discretion of the Head of Customer Services in consultation with the Head of Finance. Whilst we do not propose inviting applications because of the time, should other businesses feel they are in this category, they will need to advise Customer Services by a week before the practical deadline for completing this year's scheme, so their circumstances can be considered.

(iii) We are currently checking with a small number of prospective applicants for a response (where we do not immediately think State Aid will be an issue – in general these appear to be Reading based businesses (rather than the Reading office of a much larger business)

(iv) Further extending the Government's pub relief of £1,000 (which we could choose to double to support 17 local pubs who have received relief this year)

(v) Further extending the relief granted to existing applicants; effectively this year we would give more relief to those who have already applied, reducing their rates increase to as close as possible to the 2% RPI inflation that would ordinarily have applied as the available allocation will permit. Based on current estimates these properties would have a 2-3% effective increase, rather than 12.5% after the DRR scheme to date and up to 44.5% in the context of the original Government Transition Scheme. However, we would couple this proposal with a different approach in 2018/19.

The key point to note is that if the money is not used by the end of March, the related grant has to be returned to Government, as there is no year end flexibility.

2018/19

For 2018/19, taking account of the challenges we have faced in 2017/18 we propose a different approach. Instead of focusing the available relief on larger properties with rv above £100,000, those of which are eligible will have received significant relief in 2017/18 (some of which may effectively be a credit on the account at the year end, as many businesses have paid in full by now), we will focus the relief in the first instance on smaller properties with rv's under £100,000. We will continue with the same exclusions as this year's scheme (the Council itself, other public sector and charitable organisations, large chains etc.), but focus the relief on reducing their bills to the equivalent of inflation only increases since 2016/17 (i.e. to make sure the bill is as close to 5% more than 2016/17 whereas in some cases the bill could be up to c. 30% (for those in maximum transition who will have had 14.5% increases in 2017/18 and be facing a further 15.5% 2018/19 increase. We have not yet been able to fully model this scheme, but propose reporting back to Policy Committee (either as a stand alone report or alongside the NNDR collection performance in Budget Monitoring) on progress.

If there is money left over from the reduced 2018/19 allocation once we have done the above we will (subject to State Aid checks) give this relief to the initial cohort of 2017/18 applicants.

For logistical reasons it may be difficult to grant relief in time for the initial billing, and in general we propose that the State Aid position for the smaller properties will be checked om a “negative assurance” basis (i.e. we will assume it is not an issue and grant the relief, but in advising those eligible that if State Aid is an issue for them they should contract us, so the relief can be adjusted/removed.

We will publish the formal scheme on the website and may update it during the year, but other basic conditions of the scheme (about being in occupation etc.) will be as in 2017/18, set out at Policy Committee in September.

As this scheme is slightly wider, you are asked to put in place a wider delegation to the Head of Customer Service and Head of Finance to operate the scheme which will be used in consultation with the Leadership and Chair of Audit & Governance Committee.

Appendix 8

DRAFT CAPITAL PROGRAMME	2017/18	2018/19	2019/20	2020/21	Funding 2017/18 £' 000					Funding 2018/19 £' 000					Funding 2019/20 £' 000					Funding 2020/21 £' 000				
	revised budget				Grant	S106/CIL	Other *	Borrowing	Total	Grant	S106/CIL	Other *	Borrowing	Total	Grant	S106/CIL	Other *	Borrowing	Total	Grant	S106/CIL	Other *	Borrowing	Total
Safeguarding and protecting those that are most vulnerable																								
Voluntary Sector Support	50	-	-	-				50	**50**				-	**-**				-	**-**				-	**-**
Oxford Rd Community Centre	66	100				16		50	**66**		100			**100**					**-**					**-**
Supported Living - Avenue Site	100	-						100	**100**					**-**					**-**					**-**
Disabled Facilities Grants (Private Sector-Ringfenced Grant)	1,006	600	630	650	1,006				**1,006**	600				**600**	630				**630**	650				**650**
Disabled Facilities Grants (Local Authority Tenants)	390	500	450	400			390		**390**			500		**500**			450		**450**			400		**400**
Small Adults Services Schemes (incl implementation of ETR and Caspar)	50	47			50				**50**	47				**47**					**-**					**-**
	1,662	1,247	1,080	1,050	1,056	16	390	200	**1,662**	647	100	500	-	**1,247**	630	-	450	-	**1,080**	650	-	400	-	**1,050**
Providing the best life through education,early help and healthy living																								
Mainstream School Schemes																								
Primary Schools Expansion Programme - 2013-2017	1,719	-			1,719				**1,719**					**-**					**-**					**-**
Moorlands Primary School 1FE Expansion - 2016-2018	60	2,300	1,700	40	60				**60**	2,300				**2,300**	235			1,465	**1,700**	40				**40**
Schools - Fire Risk Assessed remedial Works	373	-	200	200	373				**373**				-	**-**				200	**200**				200	**200**
Critical Reactive Contingency: Health and safety (Schools)	200	500	500	500	200				**200**	500				**500**				500	**500**	500				**500**
Ranikhet School Roof - Repair or Renewal (Lease Obligation)	-	-		1,377	-				**-**				-	**-**					**-**	1,280			97	**1,377**
Heating and Electrical Renewal Programme	180	311	700		180				**180**	311				**311**				700	**700**					**-**
Additional School Places - Contingency	59	350	1,548		59				**59**	350				**350**	1,548				**1,548**					**-**
Education Asset Management Unit - Cost to Capital	400	400	400	400	400				**400**	400				**400**	400				**400**	400				**400**
Crescent Road Playing Field Improvements	30	195			30				**30**	195				**195**					**-**					**-**
North Reading School Places feasibility	20	-			20				**20**				-	**-**					**-**					**-**
New ESFA funded schools - Phoenix College	40	75			40				**40**	75				**75**					**-**					**-**
New ESFA funded schools - St Michaels	35	56			35				**35**	56				**56**					**-**					**-**
Additional Secondary School Places / Bulge Classes	-	500							**-**	500				**500**					**-**					**-**
Green Park Primary School	10	500			10				**10**	500				**500**					**-**					**-**
Early Years Schemes																								
Alfred Sutton - additional Nursery Class 30 Hrs Childcare, 26 places	259	20			259				**259**	20				**20**					**-**					**-**
English Martyrs School - additional Nursery Class 30 Hrs Childcare, 26 p	368	20			368				**368**	20				**20**					**-**					**-**
Meadway Early Years Building Renovation	30	-			30				**30**				-	**-**					**-**					**-**
SEND Schemes																								
Blessed Hugh Faringdon - Asperger Unit 30 place expansion (SEN)	100	1,800	50	10	100				**100**	1,800				**1,800**	50				**50**	10				**10**
Avenue Expansion	339	-			339				**339**					**-**					**-**					**-**
SEN Expansion Scheme	51	-			51				**51**				-	**-**					**-**					**-**
Special Provision Fund projects	-	-	274	274					**-**	-				**-**	274				**274**	274				**274**
	4,273	7,027	5,372	2,801	4,273	-	-	-	**4,273**	7,027	-	-	-	**7,027**	2,507	-	-	2,865	**5,372**	2,504	-	-	297	**2,801**
Providing homes for those most in need																								
Housing Revenue Account-Major Repairs	7,248	7,100	6,812	6,387			6,210	1,038	**7,248**			6,100	1,000	**7,100**			5,950	862	**6,812**			6,387	-	**6,387**
Housing Revenue Account-Hexham Road	1,200	1,200	1,400	950			1,200		**1,200**			1,200		**1,200**			1,400		**1,400**			950		**950**
Housing Revenue Account-New Build and Acquisitions	1,000	7,900	4,030				300	700	**1,000**			2,370	5,530	**7,900**			1,209	2,821	**4,030**					**-**
General Fund-New Build and Acquisitions	1,000	4,100	1,870				300	700	**1,000**		1,900	660	1,540	**4,100**			561	1,309	**1,870**					**-**
Housing Revenue Account-New Build - Conwy Close	2,028	7,618	936				608	1,420	**2,028**			2,285	5,333	**7,618**			281	655	**936**					**-**
Lowfield Rd temporary accommodation	1,742	50					523	1,219	**1,742**			15	35	**50**					**-**					**-**
Housing Revenue Account-Fire Safety works	-	900	800	700					**-**				900	**900**				800	**800**			63	637	**700**
Private Sector Renewals	280	300	300	300				280	**280**				300	**300**				300	**300**				300	**300**
Dee Park Regeneration	200	200	200	200				200	**200**				200	**200**				200	**200**				200	**200**
Dee Park Regeneration - Housing Infrastructure Fund (school)	-	-		6,000					**-**					**-**					**-**	6,000				**6,000**
Wholly-owned housing company (set-up costs)	300	-						300	**300**					**-**					**-**					**-**
Wholly-owned housing company	8,000	20,000	35,000	35,000				8,000	**8,000**				20,000	**20,000**				35,000	**35,000**				35,000	**35,000**
St George's Church Affordable Housing scheme	-	-	302						**-**					**-**			302		**302**					**-**
	22,998	49,368	51,650	49,537	-	-	9,141	13,857	**22,998**	-	1,900	12,630	34,838	**49,368**	-	-	9,703	41,947	**51,650**	6,000	-	7,400	36,137	**49,537**
Keeping the town clean,safe,green and active																								
Hosier Street Regeneration	120	-						120	**120**					**-**					**-**					**-**
Community Resilience	179	50	50	50				179	**179**				50	**50**				50	**50**				50	**50**
The Keep	6	94						6	**6**				94	**94**					**-**					**-**
Mapledurham	-	85				-			**-**		85			**85**					**-**					**-**
Whitley Wood Community Art	79	-				79			**79**					**-**					**-**					**-**
Oxford Road Streetscape	110	-				110			**110**					**-**					**-**					**-**
Central Pool Regeneration	25	1,400	75					25	**25**	1,400			-	**1,400**				75	**75**					**-**
Small Leisure Schemes	317	350	500	500		317			**317**		350			**350**		500			**500**		500			**500**
High Ropes Youth Play Initiative	63	-	-					63	**63**				-	**-**				-	**-**					**-**
Abbey Quarter	1,944	366	217		1,466	478			**1,944**		366			**366**		217			**217**					**-**
Tree Planting	62	25	25	25				62	**62**				25	**25**				25	**25**				25	**25**
Invest to Save Salix (match funding for Energy Efficiency Schemes)	142	358	250	250				142	**142**				358	**358**				250	**250**				250	**250**
Invest to save energy savings - Street lighting	3,370	-			2,359			1,011	**3,370**					**-**					**-**					**-**
	6,417	2,728	1,117	825	3,825	984	-	1,608	**6,417**	1,400	801	-	527	**2,728**	-	717	-	400	**1,117**	-	500	-	325	**825**
Providing infrastructure to support the economy																								
M4 Junction 11	60	60	60				60		**60**			60		**60**			60		**60**					**-**
Local Traffic Management and Road Safety Schemes	199	-			149	50			**199**					**-**					**-**					**-**
South Reading MRT (Phases 1 & 2)	3,120	1,003			3,120				**3,120**	650	353			**1,003**					**-**					**-**
South Reading MRT (Phases 3 & 4)	500	6,100	6,000		500				**500**	6,100				**6,100**	4,000	380	1,620	-	**6,000**					**-**

Appendix 8

DRAFT CAPITAL PROGRAMME	2017/18	2018/19	2019/20	2020/21	Funding 2017/18 £' 000					Funding 2018/19 £' 000					Funding 2019/20 £' 000					Funding 2020/21 £' 000				
	revised budget				Grant	S106/CIL	Other *	Borrowing	Total	Grant	S106/CIL	Other *	Borrowing	Total	Grant	S106/CIL	Other *	Borrowing	Total	Grant	S106/CIL	Other *	Borrowing	Total
Green Park Station	789	6,032	9,229		789				**789**	3,732	2,300			**6,032**	6,929	2,300			**9,229**					**-**
East Reading MRT (Phases 1 & 2)	735	5,577	13,188	4,367	735				**735**	5,577				**5,577**	9,288		3,900	-	**13,188**	3,500		867	-	**4,367**
NCN Route 422	439	680			389	50			**439**	630	50			**680**					**-**					**-**
Reading West Station	-	200							**-**		200			**200**					**-**					**-**
CCTV	33	-				33			**33**					**-**					**-**					**-**
Car Parks Partnership	225	226	226	226				225	**225**				226	**226**				226	**226**				226	**226**
Bridges and Carriageways	2,035	1,882	1,322	1,259	1,528			507	**2,035**	1,472			410	**1,882**	1,322				**1,322**	1,259				**1,259**
Car Parking - P&D, Red Routes, Equipment	303	100						303	**303**				100	**100**					**-**					**-**
West Reading Transport Study - Southcote/Coley Improvements	-	400				-			**-**				400	**400**					**-**					**-**
Smart City Cluster project and C-ITS	80	1,350	550		80				**80**	1,350				**1,350**	550				**550**					**-**
Lease to RTL (Bus Purchase)	1,552	1,000						1,552	**1,552**				1,000	**1,000**					**-**					**-**
Superfast Broadband	-	20							**-**				20	**20**					**-**					**-**
Culture & Leisure facilities	198	100	100	200				198	**198**				100	**100**				100	**100**				200	**200**
Demountable Pool	2,205	60						2,205	**2,205**				60	**60**					**-**					**-**
Leisure Procurement	80	96						80	**80**				96	**96**					**-**					**-**
Cemeteries and Crematorium	19	80						19	**19**				80	**80**					**-**					**-**
Rivermead Essential Works	5	-						5	**5**				-	**-**					**-**					**-**
	12,577	24,966	30,675	6,052	7,290	133	60	5,094	**12,577**	19,511	2,903	60	2,492	**24,966**	22,089	2,680	5,580	326	**30,675**	4,759	-	867	426	**6,052**
Remaining financially sustainable to deliver these service priorities																								
ICT Infrastructure (Invest to save)	806	3,264	1,708	1,000				806	**806**				3,264	**3,264**				1,708	**1,708**				1,000	**1,000**
Replacement Vehicles	2,763	1,090	350	460				2,763	**2,763**				1,090	**1,090**				350	**350**				460	**460**
Invest in council buildings/Health & safety works	2,666	2,500	2,000	1,500				2,666	**2,666**				2,500	**2,500**				2,000	**2,000**				1,500	**1,500**
Purchase of Commercial Property	21,300	50,000	50,000	50,000				21,300	**21,300**				50,000	**50,000**				50,000	**50,000**				50,000	**50,000**
Libraries invest to save proposal	30	-						30	**30**					**-**					**-**					**-**
Community Hubs	1,760	694			500	500		760	**1,760**				694	**694**					**-**					**-**
Capitalisation	380	230	230	230				380	**380**				230	**230**				230	**230**				230	**230**
Accommodation Review - Phase 1A	717	25						717	**717**				25	**25**					**-**					**-**
Accommodation Review - Town Hall	579	1,000						579	**579**				1,000	**1,000**					**-**					**-**
Accommodation Review - Henley Road Cemetery	302	348						302	**302**				348	**348**					**-**					**-**
Accommodation Review - Phase 2A & B	-	650							**-**			350	300	**650**					**-**					**-**
Accommodation Review - Phase 2C (19 Bennet Road)	-	2,690	2,953					-	**-**				2,690	**2,690**				2,953	**2,953**					**-**
Mosaic' System Upgrade	76	-			76				**76**					**-**					**-**					**-**
	31,379	62,491	57,241	53,190	**576**	**500**	**-**	**30,303**	**31,379**	**-**	**-**	**350**	**62,141**	**62,491**	**-**	**-**	**-**	**57,241**	**57,241**	**-**	**-**	**-**	**53,190**	**53,190**
	79,306	**147,827**	**147,135**	**113,455**	**17,020**	**1,633**	**9,591**	**51,062**	**79,306**	**28,585**	**5,704**	**13,540**	**99,998**	**147,827**	**25,226**	**3,397**	**15,733**	**102,779**	**147,135**	**13,913**	**500**	**8,667**	**90,375**	**113,455**
Less HRA	**12,066**	25,318	**14,528**	**8,537**	**0**	**0**	**8,708**	**3,358**	**12,066**	**0**	**0**	**12,455**	**12,863**	**25,318**	**0**	**0**	**9,290**	**5,238**	**14,528**	**0**	**0**	**7,800**	**737**	**8,537**
Less Lease to RTL	**1,552**	1,000	**0**	**0**				**1,552**	**1,552**				**1,000**	**1,000**				**0**	**0**				**0**	**0**
General Fund	**65,688**	121,509	**132,607**	**104,918**	**17,020**	**1,633**	**883**	**46,152**	**65,688**	**28,585**	**5,704**	**1,085**	**86,135**	**121,509**	**25,226**	**3,397**	**6,443**	**97,541**	**132,607**	**13,913**	**500**	**867**	**89,638**	**104,918**
	-	-	-	-																				

* "Funding - Other" includes the Housing Major Repairs Funding, Capital Receipts, and in later years some potential S106/CIL receipts, where the receipt is not yet certain

20/02/2018

Dedicated Schools Grant

The Schools' Budget is funded through a combination of the Dedicated Schools Grant (DSG) and income from the Education & Skills Funding Agency (ESFA).

The DSG is ring-fenced in order to fund education provision and from 2018-2019 is split into four blocks:

- the Schools Block;
- the new Central Block;
- the Early Years Block; and
- the High Needs Block

Local Authorities can transfer funding between the 4 blocks after consultation with schools and Schools Forum but cannot divert funding away from the DSG. The ESFA have restricted movement of funds from the Schools Block up to the limit of 0.5% of the total Schools Block.

The Schools Block and schools funding formula for 2018-19 are based on the October 2017 census of pupil numbers. The provisional Early Years Block funding published by the DfE is based on January 2017 census. The funding of free entitlement to 3 and 4 year olds through the Early Years National Funding Formula (EYNFF) will be based on participation each term.

The table below provides information on the funding allocation for each block.

2018-19 DSG funding allocation as at January 18 (£m) (before academy recoupment)	**Early Years (Provisional)**	**Schools Block**	**High Needs**	**Central Block**	**2018-19 Total**
Schools Block Guaranteed unit of funding per pupil		86.824			**86.824**
Central functions				**1.305**	**1.305**
High Needs			19.296		**19.296**
Early Years 15hrs Free entitlement	9.007				**9.007**
Early Years 2 Year old entitlement	1.467				**1.467**
Early Years Pupil Premium	0.138				**0.138**
Maintained Nursery Transition Grant	0.332				**0.332**
Disability Access Fund	0.033				**0.033**
Indicative 30hrs Allocation (Additional 15hrs)	2.454				**2.454**
Total funding available	**13.432**	**86.824**	**19.296**	**1.305**	**120.856**

The DSG for 2017-18 was £114.49m with the agreed split being Early Years (£12.47m), Schools & Central Block (£83.83m) and High Needs (£18.19m).

Schools Block

The council is responsible for the allocation of formula funding from the Schools Block to schools, after consultation with Schools Forum. Following government consultation a national funding formula will be implemented in 2020-2021. The council officers with Schools Forum reviewed the 2017-2018 local formula and agreed steps to move towards the published national formula. The formula in 2018-2019 will look like the national formula but with some national rates not being fully implemented. This is to give schools time to transition from the current funding arrangements to the expected national funding formula in 2020-2021.

The Local Authority received additional grant within the schools block for 2018-2019, and it was agreed by Schools Forum to use this increase:

- to help the transition to the new formula; and
- to make sure that all schools receive an increase in per pupil funding from 2018-2019.

Growth Fund
The growth fund is set at £1.0m (in 2017-18 this was £0.9m) and includes the planned primary schools expansion programme and provision for schools experiencing a short term reduction in pupil rolls. These elements were approved by Schools Forum in December 2017.

Movement between blocks
All Schools were consulted and Schools Forum approved in December 2017 the Local Authority's proposal to transfer 0.5% of the Schools Block to the High Needs Block. This will be used to reduce the continuing deficit, which is estimated to be £3.7m at 31 March 2018.

De-delegation
All of the de-delegations proposed by the Local Authority were agreed by primary and secondary members of the Schools Forum in December 2017. De-delegations will not be allowed within the National formula and so the council has taken steps to reduce some of the de-delegations and to promote service level agreements with schools instead. Schools Forum also made the decision to remove the "Schools in Financial Difficulty" de-delegation for 2018-2019. The table below shows the amount of de-delegated funding agreed by the Schools Forum: -

De-delegations	£m
Behaviour Support (Primary Only)	0.18
Support for under-achieving and EAL ethnic groups (Primary Only)	0.04
Staff Supply cover – Union duties (Primary Only)	0.04
School Improvement (Primary and Secondary)	0.14
Schools in Financial Difficulty (Primary and Secondary)	removed
Education Services Grant – general duties (Primary Only)	0.08
Total de-delegated Retentions	**0.48**

Academies and free schools receive funding using the same local formula as maintained schools. The total formula funding (before de-delegations) by phase is: Primary £53.5m and Secondary £31.9m.

Central Block
The new Central Block does not contain new funding, the funding for this block was previously within the Schools Block.. The change has happened to

assist the government in implementing the national formula.

There are set criteria, to be approved by the Schools Forum, for any funding that is centrally retained; the majority of this expenditure cannot be increased, which places additional pressures on the Local Authority's budget. There are exceptions to this which include admissions and Education statutory duties.

All of the central retentions proposed by the Local Authority were agreed by primary and secondary members of the Schools Forum in December 2017. The table below shows the amount of centrally retained funding agreed by the Schools Forum: -

Central Retentions	**£m**
Contribution to combined services	0.63
Prudential Borrowing	0.05
Admissions	0.21
Servicing of Schools' Forum	0.02
Education Services Grant - statutory duties	0.39
Total Central Retention	**1.30**

Early Years Block

The Early Years National Funding Formula (EYNFF) was implemented In April 2017. The national formula consists of a universal base rate with adjustments to reflect the variation in local costs. The rate for all Early Years settings stays at the 2017-2018 level of £4.80 per hour. This is due to the Early Years Block not receiving a funding uplift per pupil within 2018-2019. The rate covers all universal 15 hours entitlement and the additional 15 hours for working parents that started in September 2017.

Two year old funding will continue at the same rate as 2017-2018 (£5.55 per hour)

Early Years Pupil Premium will continue at the same rate as 2017-18 and the criteria will be used to fund the deprivation supplement within the national formula (53p per hour).

High Needs Block

The High Needs Block is funding that the Local Authority receives from the Education and Skills Funding Agency (ESFA). This includes the funding previously allocated for Special Schools, Resource Units and funds held centrally for Cranbury College. Other services such as post-16 SEN funding are also funded from this block.

The Local Authority has agreed the number of places available for SEND and alternative provision within the Borough's boundaries. The Local Authority, as a commissioner of specialist provision, holds a central budget for SEND Services and support that is allowed to be funded by the High Needs Block and to provide top up funding for those children and young people assessed as requiring additional support through an Education, Health and Care Plan. Schools Forum received a detailed report on the use of this budget in October 2017 and an update in December 2017.

Like many other Local Authorities, the High Needs Block has come under significant financial pressure in 2017-2018 with an expected in-year overspend of £2.5m (and a deficit of £3.7m in total due to the £1.2m deficit from 2016-17). This is a result of increased population, limited available provision within the Borough, increased demand and level of need, extending provision to 16 to 25 year olds and that funding for this block is largely set at the 2011/12 level.

The government has introduced a national formula for the High Needs Block in 2018-2019 that uses many current pupil factors and historic spends. The block has increased since 2017-2018.

DSG deficit and recovery plan

At the end of this financial year, it is anticipated there will be a net DSG deficit of £3.7m, which will require approval from the Schools Forum in March 2018. Schools Forum will be asked to partially fund the deficit from the Schools Block which reduces the overall amount that each school receives.

This issue represents a significant risk to the Local Authority and Schools within the Borough as any shortfall is likely to impact significantly on future funding. The new formula will not take account of a historic deficit position. Therefore, the Local Authority and Schools will need to address this in a measured and disciplined way over the short to medium term.

The Local Authority has created a working group of the SEND Strategy Board to review the internal and external processes of all SEND functions. This will support a future plan on how to address the SEND needs for Reading children while reducing the in-year deficit and overall pressure of the High Needs Block.

Other Grants

2018-19 Pupil Premium illustrative allocation tables are expected to be published by the DfE in the summer term 2018. The confirmed rates will remain at the 2017-18 levels except for the looked after children plus rate which will increase from £1,900 to £2,300.

Pupil Premium, Universal Infant Free School Meals (£2.30 per meal) and School Sports Grants, are largely passed directly to schools using the DfE allocation approach.

HOUSING REVENUE ACCOUNT

	2017-18 Budget	2018-19 Budget
Expenditure		
	£'000	£'000
Responsive & Planned Repairs (1)	5,865	5,690
Major Repairs (1)	7,541	8,300
Major Repairs - Hexham Road	1,400	1,200
Major Repairs c/fwd (2)	0	0
Major Repairs - Hexham Road c/fwd (2)	0	0
Emergency Provision	200	200
Total Repairs	15,006	15,390
Managing Tenancies	1,926	1,928
Management, Policy & Support	4,259	5,001
PFI	6,746	6,823
Rent Collection	963	1,013
Building Cleaning, Warden, Concierge & Energy Costs	2,017	2,327
Rents, rates and other	303	276
Total Supervision & Management	16,214	17,368
Capital Financing costs (3)	10,500	10,325
TOTAL HRA EXPENDITURE	41,720	43,084
Income		
Dwelling rents (4)	34,300	33,637
Garages (5)	443	0
Heating Charges	200	140
Shop Rents (5)	200	0
Total Rents	35,143	33,777
PFI Allowance	3,997	3,997
Interest on Revenue Balance	110	110
Service Charges	803	968
Other Income	185	172
Total Other Income	5,095	5,247
TOTAL HRA INCOME	40,238	39,024
Net Expenditure/(Income)	1,482	4,059

(1) Outlined in 2018/19 Programme of Works to Council Housing Stock
(2) There has been a shift in the spend profile for some of the major repairs projects. For example £0.38m previously agreed expenditure is being carried forward into 17/18.
(3) The scope for additional voluntary debt repayment will be reviewed.
(4) Social rents are subject to a 1% reduction (2018/19 is year 3 of 4) as outlined in the Welfare Reform and Work Act 2016
(5) Garages and shops transfer to the General Fund in 2018/19