READING BOROUGH COUNCIL

REPORT BY THE CORPORATE MANAGEMENT TEAM

TO:	**POLICY COMMITTEE AND COUNCIL**		
DATE:	**13 / 21 FEBRUARY 2017**	**AGENDA ITEM:**	**6**
TITLE:	**BUDGET 2017-2020**		
LEAD COUNCILLOR:	**COUNCILLOR LOVELOCK**	**PORTFOLIO:**	**POLICY & FINANCE**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
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At the time of despatch of this report we had not received the Final Local Government Finance Settlement for 2017/18 or notification of the Fire Authority Precept. When these become available it may be necessary to re-issue an updated version. (The LGFS is expected to be available by the time of Council despatch).

1. PURPOSE AND SUMMARY OF REPORT

1.1 This report sets out the General Fund budget and indicative capital programme for the Council covering the forecast capital and revenue expenditure and resources for 2017/18 for decision by Councillors. It also explains how the 2016/17 budget overspend will be financed.

1.2 The Council is facing a very serious budget challenge. This time last year we reported to Council that the effect of the significant loss of Revenue Support Grant from Government in the medium term has put major pressure on the budget leading to a much heavier reliance on raising funding locally to deliver services. The Council's government funding is reducing by £57.5m between 2011/12 and 2019/20; £49.1m of this has been lost already.

Alongside this although the Council will be required to collect more Business Rates next year, almost all the extra collected will go to the Government, so that of the £124m we will collect, only £31m will be kept for Reading Borough Council services.

1.3 In the context of the financial challenge the Council faces, this report sets out necessary advice for Councillors on:

- The financial position of the Council;
- The context for service delivery;
- National and local financial matters affecting the Council's services for residents and businesses;
- Proposals about how to address these issues;
- Revenue budgets for service delivery, pressures, savings and income generating solutions and proposed fees and charges;
- The capital programme 2017/20 (which includes updates for 2016/17 to reflect recent decisions and progress);
- The risks associated with the financial position in the short and medium term; and
- The Equality Impact Assessment of the overall budget.

1.4 During 2016/17 the loss of Revenue Support Grant has been coupled with further pressures on Children's services that have led to a significant budget overspend in order to meet demand while Adult Social Care continues to see rising demographic demand for services. This has meant that although the Council has agreed just over £70m savings in the period 2010 to 2016, there is a continuing budget gap of £44m over the next three years. £24.2m of this gap is in 2017/18.

1.5 We have had a number of rounds of agreeing budget savings between July 2015 and December 2016 and £20.7m of savings had been identified for 2017/18. This is higher than has been agreed in any previous budget.

1.6 Due to the serious financial position and lack of reserves, we have further assessed the risks of non-delivery or slippage associated with the unprecedented scale of the savings agreed for 2017/18 and concluded that £7.7m is at high risk. Therefore for budget planning purposes, this sum has been added to the draft 2017/2018 budget as a contingency. This reduces the savings we expect to deliver to £13.0m.

1.7 The effect of continuing pressures on council services, cuts in funding and the risk of non-delivery of savings that we must plan for means that there remains a residual gap in 2018/19 and 2019/20 of £18.7m. The Council will need to put in place a plan to address this gap by the end of the second quarter of 2017/18 to ensure a full year effect in 2018/19.

1.8 A revision of the Corporate Plan and Medium Term Financial Plan will be undertaken in the first part of 2017/18. The key priority for future budget setting will be to develop a service offer that is affordable and radically changes the way we work to move to a sustainable financial position. This will inevitably mean cuts in services with consequent cuts in staff and services purchased.

1.9 This report also sets out proposals for the Housing Revenue Account. 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 2016/17. This report recommends a revised rent policy to re-let vacant HRA housing at target (formula) rent on all relets with a tenancy commencement date of 1 April 2017 or later and proposes a 2.0% garage rent increase, in line with normal rent policy.

Key summary points from the Director of Finance on the budget position

1.10 For the three year period 2017/20, after assuming for total Council Tax increases of 4.99% in 2017/18 and 2018/19 and 2% in 2019/20 (subject to Member agreement), total savings required are £44.0m, £24.2m in 2017/18, as discussed above, with a further £10.4m in 2018/19 and £9.4m in 2019/20.

1.11 For 2017/18 the total gap before savings is £24.2m, i.e. comprising overspend brought forward, inflation, other growth pressures and loss of Revenue Support Grant in 2017/18 but partially offset by business rates and tax income including the proposed Council Tax increase.

1.12 Our assessment of the plans to close the gap means that up to £11.1m will need to be funded from one-off resources; this includes the contingency sum mentioned above to reflect the assessed level of risk associated with the scale of savings and timescale to deliver in 2017/18.

1.13 As a consequence, putting forward a balanced budget for 2017/18 can only be achieved by exhausting all available General Fund reserves and all available General Fund capital receipts from 2016/17 and £8.3m of those due to be received by the end of 2017/18. This leaves the Council in a fragile state as there are still significant risks and dependencies in delivering the savings proposed.

1.14 Therefore, the Council no longer has an adequate level of reserves, except a £5m minimum General Fund balance, only a £4.5m insurance reserve is planned, and is exposed to even modest shocks. However the provision for Equal Pay is preserved, (the liability will need to be paid using capital receipts).

1.15 The position for 2018/19 onwards is currently not sustainable unless deliverable measures are agreed early in 2017/18 to reduce the budget requirement from 2018/19.

1.16 Having used reserves of £11.1m to set the budget, only £13m of savings have actually been made in 2017/18, so from the original £44m gap there remains a total gap of £31.0m before savings required for 2018/19 and 2019/20 combined. Savings planned in those years of £12.3m are at an early stage of implementation with a significant amount still to be found of £18.7m, £13.7m in 2018/19 and £5.0m in 2019/20.

1.17 The development and delivery of a fundamental review of the Council's service offer and how the Council operates is crucial to deliver a sustainable position from 2018 onwards. The recourse set out above for 2017/18, which is drawn from one off measures, has exhausted reserves except for maintaining the absolute minimum level.

1.18 The Council will need to produce a realistic plan for reducing the budget requirement for future years by quarter 2 of 2017/18 otherwise the Council's Chief Financial Officer will be required under the Local Government Act to issue a statutory report to all councillors which will have the impact of freezing all new expenditure until the position is addressed. Further detail is set out in paragraphs 5.6 and 5.7.

2. RECOMMENDED ACTIONS

Policy Committee proposes the following recommendations to Council:

2.1 The General Fund Budget and Council Tax in 2017/18 as follows:

SETTING THE COUNCIL TAX FOR THE READING BOROUGH COUNCIL AREA

1) That the following, as set out in this report by the Interim Managing Director and Interim 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 2017/20 (Appendix 6)**
- **b) The specific revenue estimates for 2017/20**
- **c) The capital programme for the period 2017-20 including the 2016/17 update (Appendix 7)**

2) It be noted that on 24 January 2017 the Council calculated the Council Tax Base 2017/18 for the whole Council area as 53671 [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 2017/18 as £1,490.56.

4) That the following amounts be calculated for the year 2017/18 in accordance with Sections 31 to 36 of the Act.

a) **£**413,593,113 **,113** **being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of**

the Act.

b)	£333,593,000 ,000	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
c)	£80,000,113	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)	£1,490.56	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
£	£	£	£	£	£	£	£
993.71	1159.32	1324.94	1490.56	1821.80	2153.03	2484.27	2981.12

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 2017/18 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	113.52	132.44	151.36	170.28	208.12	245.96	283.80	340.56

6) That it be noted that for the year 2017/18 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 Service	**41.65**	**48.60**	**55.55**	**62.49**	**76.37**	**90.26**	**104.14**	**124.98**

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 2017/18 for each of the categories of dwelling shown below:

Valuation Bands

A	**B**	**C**	**D**	**E**	**F**	**G**	**H**
£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
1148.88	**1340.36**	**1531.85**	**1723.33**	**2106.29**	**2489.25**	**2872.21**	**3446.66**

2.3 Committee/Council is requested to note the savings and income proposals outlined in Appendices 1a and 1b that were approved at a various earlier meetings of Policy Committee, and authorise officers to implement the additional savings proposals outlined in Appendix 1c subject to any necessary consultation and equality impact assessments being undertaken and the outcomes being reported back for consideration by the relevant committee.

2.4 Committee/Council is requested to agree that, after considering the statutory advice of the Interim Finance Director in accordance with S25 of the Local Government Act 2003 on the robustness of the budget adequacy of financial reserves in Appendix 4, summarised in section 5, the minimum level of General Fund balance to be maintained over the year to 31 March 2018 be set at £5m (Appendix 4).

2.5 In the event that the Council decides to set a General Fund balance which is less than that advised by the Interim Director of Finance then the reasons for this difference be recorded in the Minutes of the Council Meeting.

2.6 Committee/Council is asked to approve the arrangements set out in paragraphs 4.25 to 4.33 in connection with capital receipts, the Council's Equal Pay Provision and the Minimum Revenue Provision to balance the 2016/17 financial position and proposed 2017/18 budget, and authorise the Director of Finance in consultation with the Leader and Chair of Audit & Governance Committee to determine the final detailed arrangements for 2016/17 in closing the accounts.

2.7 Committee/Council is requested to approve the Treasury Management and Investment Strategy and the Prudential Indicators set out in Appendix 5 and approve the revised MRP Statement to apply for 2017/18 in Annex D of the strategy.

2.8 Committee/Council is asked to approve the Community Infrastructure Levy (CIL) protocol as set out in Appendix 8.

2.9 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.

2.10 Committee/Council is asked to approve the Housing Revenue Account budget for 2017/18 set out in Appendix 10, and note the outcome of the consultation with tenant representatives, and authorise the Head of Housing & Neighbourhoods to implement the revised rent policy to re-let vacant HRA housing at target (formula) rent on all relets with a tenancy commencement date of 1 April 2017 or later, (as explained in section 4.37 of the report).

2.11 That Policy Committee approves a 2.0% garage rent increase, in line with normal rent policy. (CPI + 1%).

3. CONTEXT

3.1 The Council continues to operate in very challenging conditions and the Council's financial position has worsened during 2016/17. Since 2010/11 the Council has managed a significant reduction in resources available to fund services. By the end of the financial year 2016/2017, the Council had agreed savings of just over £70m from its budget since 2010. However reports to Policy Committee in July, September and December of 2016 have highlighted a deteriorating financial position during 2016/17 because of further emerging pressures on the budget with a consequent serious impact on the medium term budget gap. This report sets out the current forecast of that gap and the work the Council has done during 2016/2017 to bring forward further budget proposals to close the gap over the medium term.

3.2 This is in the context of a cut in the Council's government funding between 2011/12 and 2019/20 of £57.5m. Perhaps the most significant change to grant was the additional cut of £5m announced in December 2015 to that which had been anticipated in 2016/17 arising from changes to the distribution methodology. The short notice of this reduction meant there was insufficient time then to safely recommend further savings to bridge the identified funding gap for 2016/17. The planned use of reserves in 2016/17 coupled with the significant overspend, mainly within Children's Services (arising from additional care demands) have seriously compromised the Council's overall financial position.

3.3 The budget report to Council in February 2016 set out outline savings proposals and other measures to balance the budget, and explained they would require delivery plans to be developed during the 2016/17 along with further options to reduce our overall budget over the period to 2019/20 that would need to be considered.

3.4 Further budget proposals were subsequently brought forward and agreed to reduce spend and increase income during 2016/17. Our approach has used the following framework to assess budget proposals:

3.5 Managing Demand

We are home to 161,700 people comprising around 70,300 households. Our population has grown by 9% over the last 10 years and will continue to grow. Reading has a younger population than the average for England. 24,587 pupils attend Reading Schools, with an increasing proportion of pupils whose first language is not English.

There is a smaller proportion, (12%, 19,400) of older adults living in the area compared to other localities, however the overall population of Reading is projected to increase by 9% between 2011 and 2026. Reading's population is ageing in line with the national picture and will mean there will be increasing demands on care services. The forecast change in those aged over 65 is 9% by 2020.

Rising demand for services driven by increased needs through population growth and demographic trends have placed increased pressure on both Children's and Adult Social Care Services.

Children's Services are focussing attention on early intervention to reduce demand on statutory services, in addition greater attention is being paid to the reunification of children looked after by the Local Authority with their families where it is safe to do so and returning children placed away back to Reading.

We have developed plans to ensure a greater focus is given to prevention within Adult Services which means closer working with the independent and voluntary sector community to support self-help. This helps to stabilise conditions and reduces the need for long term care and support. We are currently rolling out in partnership with our Health colleagues, assistive technology which facilitates earlier discharge from hospital and keeps people safe and independent at home for longer.

3.6 *Generating Income*

The Council also focuses on business development to increase income where possible in areas of the Council which operate in a commercial environment.

Many of the Council's statutory services are fee-based such as registration, planning and regulatory services and much of the cost of these services is recovered through fee income. Discretionary services, such as leisure and arts facilities are reliant on the income they can generate to fund them. In addition, the Council is continuing to grow its commercial direct services model where it sells a range of core services, such as commercial waste collection, housing repairs and highways/ground maintenance services to a wider market, in order to generate additional income to help support the delivery of key services.

3.7 *Increasing Productivity*

The Council has driven efficiency in service delivery and support functions over many years. We continue to explore and implement further efficiencies to improve productivity. We are utilising technology to reduce cost for example by providing as many services as possible via our website.

3.8 *Service Delivery Models*

We have taken a pragmatic approach to models of service delivery and we already have a variety of shared service relationships with partners across Berkshire, for example in the areas of legal services, waste disposal, and we are exploring other opportunities to consolidate across the region. We have also externalised some services, for example ICT provision and much of Adult Social Care provision is commissioned from the private sector.

However, we recognise there are further opportunities that need to be considered and the Council is currently considering the potential for other models such as for delivery of Leisure Services.

3.9 *Reductions in services*

The Council's financial situation is such that we have already cut, and we will need to make further cuts in services to set an affordable budget in the future. Some examples of difficult decisions the Council has made are included below:

- Closure of Arthur Hill Pool in East Reading ahead of seeking a partner to replace it with modern and less expensive-to-run facilities;
- Reviewing high cost care packages for vulnerable people;
- Cutting library hours and reducing the amount we spend on library books; and

- Cutting Council funding to the town's voluntary and community sector.

Other impacts on the Budget

3.10 Following the Ofsted report which judged Children's Services inadequate in August 2016 we have been focussing on developing and implementing our improvement plan ensuring adequate resources are in place to deliver services which keep children safe. We have been working to move to a steady state with a focus on early help and prevention to manage demand in the medium term. The Secretary of State subsequently appointed a Commissioner for Children's Service who has indicated he will make his final recommendation in April. At this stage the cost of that recommendation to the Council is uncertain. There may be significant additional costs to both in 2017/18 and later years which the Council will need to budget for. When we have the recommendation, we'll be in a better position to estimate its costs and decide how to finance it in the context of the Council's then financial position.

3.11 As well as local issues as indicated above, the Council has had to respond to a range of other issues not within our control which have increased budget costs and widened the gap between need and resources. These include:

- Changes to requirements (sometimes in general legislation) affecting IT costs (e.g. Information Security, Data Protection, costs of handling Freedom of Information requests) - £1.1m;
- In 2016/17 changes to National Insurance that increased pay costs by 3% with no specific funding - £3m;
- In 2017/18 the introduction of the Apprenticeship Levy which adds a further 0.5% to pay costs (though we are exploring how to recoup as much of this extra cost through qualifying training/learning expenditure) -£0.3m;
- In 2017/18 the actuarial revaluation of the Berkshire Pension Fund which has increased estimated employer contributions by around £2.8m and will necessitate increasing the on-cost from the 17.7% agreed in the budget guidelines to 21.9%; and
- The introduction of and real increase over time in the national living wage, which affects both some lower paid staff, and indirectly affects contractors, particularly in the care sector - £2.5m over 3 years to 2019/20.

Local Government Finance Settlement

3.12 On 9 February 2016, the then Secretary of State for the Department for Communities and Local Government, Greg Clark MP, announced the Local Government Finance Settlement (LGFS) for 2016/17. This included indicative funding allocations for the subsequent three financial years up to and including 2019/20 and confirmed that the

Government would offer any council wishing to take it up, a Four-year Funding Settlement running from 2016/17 up to 2019/20, with a requirement to submit a financial sustainability plan by 14 October 2016. The only change from the provisional settlement was the inclusion of transitional funding of c £400,000 for 2 years.

3.13 The Council approved and submitted a Financial Sustainability Plan in October last year which was accepted by DCLG, along with those of 97% of authorities. This means we have reasonable certainty up to 2019/20 of the grant settlement. However over the 4 years from 2016/17 to 2019/20 the Revenue Support Grant income Reading receives will fall by 92%. This is a cash reduction of £22m - from £24m to less than £2m.

3.14 On 15 December 2016 the Secretary of State formally announced the 2017/18 LGFS and grant in line with the indicative figure provided 12 months earlier.

Adult Social Care Precept – additional Council Tax charge

3.15 In 2016/17 the chancellor announced that Social Care authorities could implement an Adult Social Care Precept to help offset some of the financial pressures faced by that service. This is an extra amount of money that councils can add to the local council tax charge for Social Care for adults. The money raised this way must only be spent on Adult Social Care and not on anything else that the Council does. However, the grant cut each year has been greater than the additional charge the Council can set, so effectively this change has moved the funding of Adult Social Care from central to local taxation. This was initially set at 2% pa and the original intention was to continue this into the following three years, therefore a total of 8%.

3.16 In announcing the Local Government Finance Settlement (LGFS) for 2017/18, the government changed the plan so we can bring forward the remaining total 6% increase to be spread over two financial years rather than three. This means a 3% increase in the charge is proposed for 2017/18 which will generate £2.28m, £0.76m more than originally planned, although the overall amount does not change by 2019/20.

This year the Government is also introducing additional requirements to demonstrate how the money is being spent on Social Care, which may include a requirement to publish those details on the Council's website. Those details are expected to be announced at the time of the final LGFS. Services will still continue to target support to those in most need, and on specific service responses that help vulnerable people regain independence. This will generally mean that people who do not meet national eligibility standards will not get Council funded support.

Other grant changes affecting the budget

3.17 The Government has also changed several other grants:

New Homes Bonus (NHB) will fall from £4.6m to less than £4.4m next year, despite the largest actual increases in properties in Reading since NHB began. Further reductions will arise in later years, as the Government will stop paying NHB on the first 0.4% of growth (around 300 properties in Reading). The 0.4% threshold is higher than was originally proposed in the consultation.

3.18 Schools are not funded by Council Tax, but instead funded by the Dedicated Schools Grant (DSG). The DSG also funds Early Years Services (where there are changes due to the implementation of a new national funding formula this year), and services for young people with High Needs. The total DSG in 2017/18 is £114m, although some of this will be recouped for Academies before reaching the Council. Appendix 9 sets out in some detail how this money is distributed between schools, Early Years and High Needs, and in outline the detailed distribution arrangements. In due course the detailed distribution will be published on the Council's website. All schools will be funded at, or very close to the minimum funding guarantee, which is a real cut of 1.5% per pupil, that on a like for like basis with 2016/17 is a total cut for Reading Schools of £1m. (The actual grant does increase but pupil numbers are rising faster).

3.19 Education Services Grant (£1.1m this year) is both being cut and transferred into the Dedicated Schools Grant (where additional rules apply), though there is a transitional grant and some cost will transfer with the funding (total £0.8m in 2017/18). However there is a further cut estimated at just over £0.5m in 2018/19.

3.20 For 2017/18 (and only in that year currently) the Government has introduced an Adult Social Care reform Grant; our allocation is £572k, (funded at a national level from the reductions made to New Homes Bonus).

3.21 In total these other grant changes are neutral on our budget position in 2017/18. The revised New Homes Bonus regime (with a threshold of 0.4% at Band D together with a further proposal not to pay NHB on properties built following planning appeal, as well as the general reduction (grant is paid for one less year)) create greater uncertainty in this grant stream to 2019/20. However, the changes in business rates infer at this stage that we will be paying an additional levy next year; estimated at £1.5m.

3.22 Public Health Grant is dealt with later in the report.

Addressing the Budget Gap

3.23 The consequent impact of the changes to income and emerging pressures has meant that a significant widening of the budget gap has now been identified over the period 2017/2020 to a figure of £44.0m. Section 4 of the report sets out in detail what the Council proposes doing to address the immediate gap in 2017/18. A substantial amount remains to be found for the period 2018/2020.

3.24 To ensure that the Council will have additional income to provide services for the population which continues to increase the Council is proposing to increase Council Tax by 1.99%. Therefore, overall it is proposed that the Reading Council Tax would go up 4.99%, subject to Council approval, including the Adult Social Care Precept and general Council Tax increase. The Council Tax detail is set out in Appendix 2.

3.25 Furthermore, officers are advising that income should also be increased by:

- Changing some fees and charges; and
- Securing a fair and statutory compliant process with NHS organisations which ensures that the funding obligations are met in full and not at the disadvantage of the Council or individual residents.

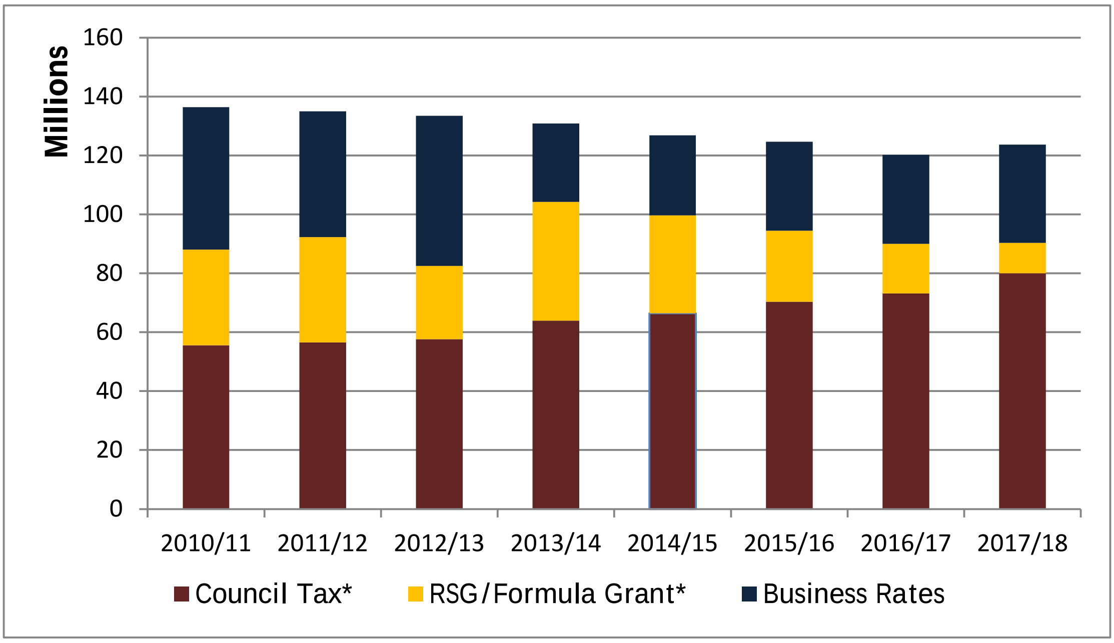
3.26 It is clear that the budget position is not sustainable into the future and even taking into account all the work the Council is doing to reduce costs. We will need to make further unprecedented cuts to services with the possibility of levels of job losses not seen before.

4. GENERAL FUND BUDGET

4.1 The Council is required to set a budget for day-to-day expenditure for each financial year starting on 1 April. It is a legal requirement for the Council to set a balanced budget within its Budget Framework by 17 March 2017. This is called the revenue budget and it is the money the Council needs to provide services during the year.

4.2 Funding to provide services comes to us in four ways: Central Government Grant (Revenue Support Grant), Council Tax, Business Rates, income from fees, charges and rents. However the Council's budget has become increasingly reliant on Council Tax income over time, with the Revenue Support Grant falling each year since it took its present form in 2013/14 and much smaller increases in the business rates income the Government has allowed us to keep since then. The table below shows how this has changed over the last few years with the loss of both business rates available to use locally and the drop in Revenue Support Grant.

Budget Funding over Time



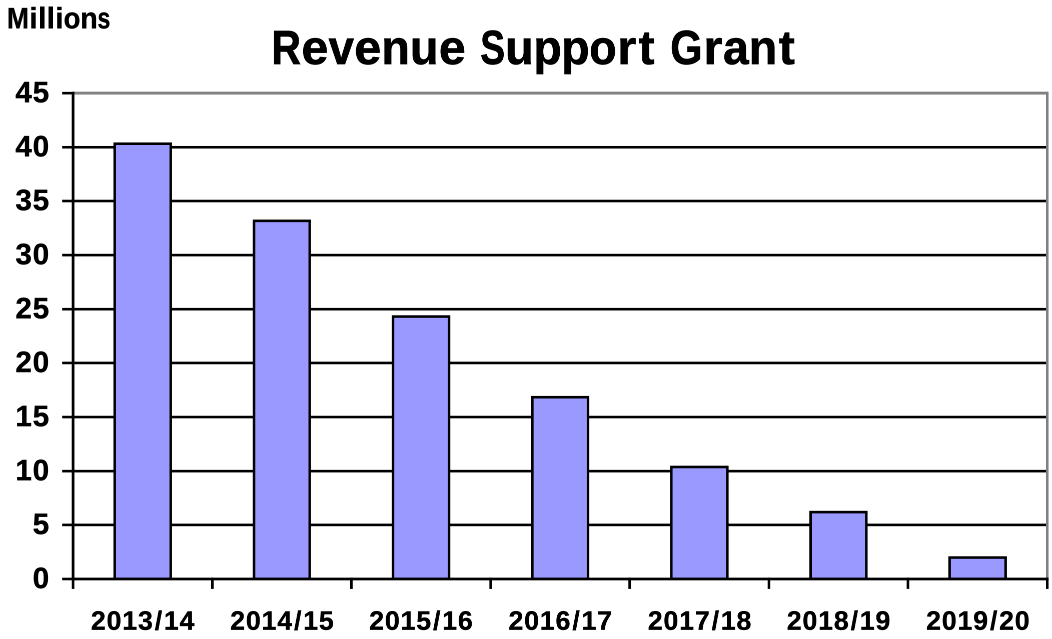
*Tax & RSG figures prior to 2013/14 have been adjusted to take account of the reform in that & previous years

4.3 Since 2010, the amount of money we receive from the Government has reduced significantly. The Local Government Finance System was changed substantially in 2013/14 with the localisation of half of business rate income. The following table shows how our funding from central government - Revenue Support Grant - has already fallen over the last few years.

	RSG (from 2013/14) £m	Change from previous Year	Percent change
2011/12		*-£9.2m	- 7.6%
2012/13		*-£3.1m	- 4.3%
2013/14	£40.3m	*-£6.9m	-14.6%
2014/15	£33.2m	-£7.1m	-17.6%
2015/16	£24.3m	-£8.9m	-26.8%
2016/17	£16.8m	-£7.5m	-30.7%
2017/18	£10.4m	-£6.4m	-38.4%
Total		-£49.1m	

*changes in formula and other grants as reported in budget reports

4.4 Further cuts of £4.2m pa are scheduled for each of the next two years, thus reducing the RSG by 95% from £40.3m in 2013/14 to under £2m and the chart below shows the stark drop in the grant:



4.5 In terms of the loss per head of population, since 2013/14 when the present grant regime was introduced we have lost £185 per head over the 4 years while our immediate neighbours in Wokingham have only lost £115 and West Berkshire £129. By 2020 we'll lose £237, and Wokingham only £116.

4.6 Reading's estimated loss of Revenue Support Grant for 2017/18 is in line with England as whole at £40 loss per head of population but other authorities in Berkshire have a better grant settlement, losing an average of £36 per head, only Windsor & Maidenhead, losing £30 per head being significantly better than the County average.

Council Tax

4.7 The proposed level of Council Tax for Reading is £1,490.56 at Band D, an increase of £70.97 over the 2015/16 Council Tax of £1,419.59. This represents an increase of £1.29 per week at Band D. After taking account of the increases set by the Police and Crime Commissioner Thames Valley (PCCTV) (1.99%) and assuming an increase by the Royal Berkshire Fire and Rescue Service (1.99%) the overall increase in Council Tax at Band D will be £73.34 equivalent to £1.35 per week.

4.8 Most properties are in Band C or below, so the Reading tax will be £25.48 a week for most households and the increase about £1.21 a week. The Council Tax increase, more than half of which arises from the Government's expectation that councils will raise tax by 3% specifically to spend on Adult Social Care, so the total Social Care Precept from the while Borough will be £3.8m in 2017/18, an increase of £2.4m on the £1.4m raised by the 2016/17 precept. Overall, with additional council tax payers, and the tax increase, Reading residents will pay £7.53m more Council Tax in 2017/18. 85% of this money simply replaces the lost revenue support grant.

Business Rates Income

4.9 This year, for the first time since 2010, the business properties will be revalued for the purpose of calculating business rates. Across Reading, total rateable value increases from £253m to £305m, a larger increase than the national average.

At a national level Government has increased total business rates by inflation. To compensate for the higher property values from revaluation, it has therefore reduced the rate per pound charged to individual businesses[1] so the amount collected nationally rises by only 2% inflation. Because of the large increase in rateable values in Reading, we expect that the rates that we will have to distribute will increase by £14.9m from £109.4m (in 2016/17) to £124.3m (2017/18).

4.10 However, the Council will not be able to keep much of the extra money. Although the Council's 49% share of the increase is £7.3m, the tariff we have to pay to the Government (within the Grant Settlement) has increased by £5.1m from £22.4m to £27.5m. Furthermore, we anticipate over 2016/17 and 2017/18 we will have £1.5m additional levy to pay over the budget so the net increase arising from underlying rates growth is actually £0.7m.

4.11 There remains considerable uncertainty regarding the impact that full retention of Business Rates by local government as a whole from around 2020 will have in funding our budgets. Put simply, at this stage we do not know how much of our Business Rates will be clawed back by central government after 2020 to be redistributed, as it will depend upon the amount of rates we collect at the time and how our needs are assessed relative to other authorities in a revised funding formula.

In respect of the prospects for Reading, CIPFA's Director of Local Government has advised that;

"While 100% localisation is a long term opportunity for local government it comes with significant short to medium term risks. Contrary to the impression that some may have, it absolutely does not mean an individual local authority will keep all its own business rates. Instead, because business rate capacity is not correlated with need to spend at the local authority level, the final scheme design will take into account that some areas have relatively poor capacity to raise business rates and some a much larger capacity. For this reason, the proceeds of growth will be redistributed periodically. Furthermore, government will be transferring new spending responsibilities to local government when the move from 50% retention to 100% occurs. Of course, the risk is that the associated cost profile is worse than the additional retained income. Most fundamentally, under the heading of the "Fair Funding

[1] Individual business bill is calculated by multiplying the property value and rate per pound.

Review" the government will kick off the scheme with a redistribution of resources between councils based on a new relative needs formula as yet announced. Finally, the earliest that a new scheme will be applied is 2019/20."

4.12 Government has announced that Business Rates will be retained locally by 2020, but this is at a national level. From 2013/14 to 2016/17 the Council has kept only 27p for every £1 of business rates generated in the town. Following revaluation this will fall to around 25p (because of increased tariff and levy payments). Government officials have yet to set out a clear plan how Business Rates will work in the future and whilst there may be opportunities to retain more of the Business Rates from 2020, there may also be significant risks for places like Reading with a large business rate income. The timetable the Government is working to beyond the next few months is also not clear.

4.13 The financial forecast includes a share of locally retained business rates income. In the Autumn Statement in both 2013 and 2014 the Government decided to limit increases to 2% rather than RPI, which has been used, in line with the legislation every other year since setting business rates was nationalised in 1990. Government also made changes to the Small Business Rate supplement. Both of these changes continue to be compensated for through a government grant, and the initial estimate is that grant in Reading will be £1.2m (after an adjustment the Government is making because of revaluation). However, this grant is more than wiped out by the levy on Reading's share of business rate growth.

4.14 Therefore, overall, whilst we estimate that after allowing for losses and the impact of appeals we will collect £124.0m of Business Rates, of which the Council will keep £31.2m.

The detailed apportionment is as follows:

Apportionment of Business rate Income	£m
Central Share to DCLG (50%)	62.000
Tariff to DCLG	27.484
Levy to DCLG (estimate)	2.100
Fire Authority Share (1%)	1.240
Reading BC share (49% less tariff & levy)	31.176

4.15 Since 2013/14, when the Local Government Finance regime was changed to localise up to 50% of rates income, retention of Business Rates has significantly shifted risk from Central Government to Local Government. Variations in collection and the impact of appeals are now shared with the Government. Any reduced income in Business Rates need to be recognised in year and must be taken account of in setting the following year's budget. Our estimate of the appeals liability is regularly reviewed during the year, and the latest estimate of the outstanding appeals liability is around £13.9m, (£13m of which needs to be set aside by the end of 2016/17 in connection with the transitional arrangements for funding pre 2013/14 appeals). The above estimate of business rate income allows for most of this; however, there is a risk that appeals are settled more quickly or more expensively (to the Council) than resources are available which will require additional budget reductions in future years.

Service growth and pressures and impact on the Budget Gap

4.16 The impact of the cut to Revenue Support Grant and the loss of Business Rates means that Council is not being adequately funded for the additional cost pressures we must budget for:

- General inflation;
- Increases in the number of children and young people needing support and rising levels of need;
- Cost pressures in the care sector, particularly caring for the elderly;
- Increases in demand for everyday services as the population grows;
- Significant pressure on homelessness budgets; and
- Increases in core costs, including pension contributions.

4.17 For 2016/17 we included approximately £6.4m of service pressures when setting the budget. In setting the budget for 2017/18 as well as managing growth in demand and service pressures we must also allow for:

- Invest to save and invest to protect costs;
- Shortfalls in forecast income; and
- Unachieved Savings.

4.18 We are recommending that £10.2m is allowed within the revenue budget for service growth and pressures. This includes £7.3m in Education and Children's Services which allows for the 2016/17 overspend and responds to the recommendations of Ofsted. In addition, £0.9m is needed within Corporate Support, mainly within Customer Services (£0.5m) to deal with housing benefit costs (both grant loss and administrative costs), but also to invest in ICT to (£0.3m) support efficiencies and improved productivity.

4.19 Adult Services faces increasing demands that account for most of £0.9m and Environment & Neighbourhood Services £0.7m. We have funded £1m for other costs that may arise in the course of the year and £0.3m to meet the apprenticeship levy.

4.20 Taking into account the forecast income for future years and continuing pressures on the budget, the estimated gap for 2017/2020 is now £44.0m before any planned savings.

Budget Savings to bridge the gap

4.21 We have previously built in some savings for future years. Policy Committee in 2016/17 agreed further savings and income proposals. In total, this amounts to over £32.7m of savings. All of these agreed savings are outlined in Appendices 1a and 1b and need to be delivered by service areas otherwise they will add to the forecast funding gap.

4.22 In addition there is a further £0.3m savings proposed in this report (Appendix 1c) providing a total savings and income target of £33m:

- Reconfiguring the services of the Homelessness Pathway Contract which proposes savings of £245k as set out in the report elsewhere on the agenda; and

- Reduction in staffing in Democratic Services and a small reduction in Members' training budget which provides a proposed saving of £38.5k.

4.23 A risk assessment of the planned savings has been undertaken in recognition of their scale and limited timescale to deliver them, particularly in 2017/18. As a result, £7.7m has been identified as high risk and the budget has been built to include a contingency for non-delivery and/or slippage. This is considered an imperative in order that a robust budget can be set.

Balancing the Budget

4.24 The Council needs to balance both the 2016/17 budget in the context of the in-year overspend and the 2017/18 budget position as set out in this report. The available resources to do this are as follows:

The Council brought £16.8m of General Fund reserves into 2016/17. During the year we have completed an actuarial review of the self-insurance reserve which has identified £1.1m of this is available for use. By the end of the year we expect to use £1.5m of the organisational change reserve (mainly on redundancy costs). The £4.3m self-insurance reserve is not available leaving £11m of reserves that could be used as shown in the table below:

RESERVES	Position at 31/03/16	Movement in 16/17	Position at 01/04/17 before balancing the budget
Emergency Planning	200		200
Legal & Taxation	250		250
Organisational Change	5,000	- 1,500	3,500
Pension Liabilities	300		300
Property	200		200
Prudential	5,450	1,100	6,550
Total available	**11,400**		**11,000**
Self-Insurance	5,400	- 1,100	4,300
Total	16,800		15,300

4.25 The Council brought a General Fund balance of £5.6m in 2016/17, £0.6m above the minimum requirement.

4.26 The Council also holds general fund capital receipts of £7.6m and expects to receive further receipts by the end of 2017/18 of at least £8.3m from the sale of assets.

4.27 Therefore the total available resources are £27.5m comprising available reserves, balances above the £5m minimum and General Fund capital receipts.

4.28 In the 2016/17 budget the Council agreed to fund £6.8m of that year's budget from reserves. Subsequently as has been reported throughout the year the budget has overspent by £7.6m. Therefore the Council will need to use £14.4m of these total available resources in the current financial year.

4.29 There is a gap in 2017/18 of £11.1m (including the savings contingency) after taking account of agreed savings. This must be closed to set a lawful budget and necessitates the use of the remaining available resources.

4.30 The total requirement across the 2016/17 and 2017/18 is therefore £25.5m. Capital resources cannot generally be used for revenue purposes. However over past years the Council has established an Equal Pay revenue provision of £11.4m. Most capital receipts can legally be used to meet equal pay costs. We can therefore use this revenue provision to add the available resources to fund the gap across the two years while funding the Equal Pay liability from capital receipts where we are allowed to do so. The use of capital receipts of £4.5m to fund the remaining gap will need to be achieved in accordance with paragraph 11 of Annexe D (The Minimum Revenue Provision Statement) of Appendix 5 and reducing the minimum revenue provision in 2016/17 by this sum.

4.31 Whilst the measures described above will fund the gap, it should be noted that this leave available resources of only £2.0m.

4.32 The table below outlines the forecast budget requirement and funding available to the Council to show the funding gaps.

2017-20 Financial Forecast

	2017/18	2018/19	2019/20
	£'000	£'000	£'000
Budget Requirement (previous year):	**120,197**	**125,327**	**124,719**
One off measures from previous year	6,826	11,141	
Grant (& Levy) Changes	1,500	2,419	120
Pay Award and Increment (& Pension change)	2,072	1,607	1,588
Pension Costs Change (2017/18)	2,800		
National Living Wage (pay costs)	100	1,000	1,000
Non pay inflation	1,467	2,040	1,899
Capital financing cost	3,973	2,302	1,547
Service Pressures	10,158	0	2,000
Reinstatement of annual Organisational Change contribution	800	0	0
Transition Grant	**-387**	**387**	
Draft Budget before Savings	**149,506**	**146,223**	**132,873**
Savings measures agreed in earlier years (Appendix 1a)	-6,663[2]	-96	
Savings measures agreed in 2016/17 (Appendix 1b)	-14,036[3]	-7,525	-4,387
Savings measures now proposed (Appendix 1c)	-39	-183	-61
Further Savings needed in future years		-13,700	-5,000
Contingency for undeliverable/high risk savings	7,700		
Use of Balances	**-11,141**		
Budget Requirement	**125,327**	**124,719**	**123,425**
Funding of Budget Requirement			
Estimated Government Grant (RSG)	10,368	6,209	1,998
Estimated NNDR Local Share	33,276	33,607	33,838
Council Tax Income #	80,000	84,903	87,589
Collection Fund Council Tax Surplus	800		
Collection Fund NNDR Surplus	883		

assumes maximum increase in each year (without referendum), subject to annual Council decision.

[2 & 3] £1.704m of the savings that were originally agreed by Policy Committee can no longer be delivered and total and phasing have been adjusted accordingly.

Capital Investment Programme

4.33 The Council continues to invest in Reading to provide new school places, homes, transport infrastructure and improve our facilities. Importantly the programme focuses on a range of projects that will help to reduce revenue costs in the longer term. This includes progressing a review and consolidation of our buildings, replacing street lighting and improving ICT to deliver services as efficiently as possible including helping residents to self-serve. The capital programme is funded by a range of means, including grant from central government or other organisations or developer contributions, neither of which can normally be used to run day-to-day council services. In some cases we will need to borrow money to fund "invest to save" proposals, and/or invest in our assets and the cost of this borrowing will impact on the Council's revenue budget. Target levels of borrowing are consistent with our revenue budget forecasts.

4.34 The Capital Programme for 2017-21 in outlined in Appendix 7 and key areas of investment in the proposed Capital Programme include:

Education and Early Help

4.35 The Council's major Primary School expansion programme will have virtually been completed by the end of 2016/17 and has delivered over 2,500 permanent new school places for children in Reading. Over £18m of investment into our existing schools is planned over the next 3 year period. This includes more primary school places in West Reading and ensuring that our school buildings remain safe and fit for purpose. The Council has successfully secured external grant funding of £0.5m to help deliver additional Early Years childcare spaces needed for 2 year olds. A Higher Needs Expansion plan for accommodation is being developed, with an Asperger unit being delivered as a first phase in 2017/18 which will add a further 15 spaces to meet need.

Homes for those in most need

4.36 The Council incorporated Homes for Reading Ltd, a wholly-owned housing company in 2016 which, when it starts to trade will buy residential property in order to rent. The company's (draft) business plan envisages that it will borrow, or receive in share, capital of £125-150m from the Council over 5-6 years. 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.

4.37 Although much reduced due to previous changes to government legislation, the new council house building programme is planning to deliver 57 new affordable homes at Conwy Close. In addition, 28 additional temporary housing units at Lowfield Road are in the pipeline to help meet the needs of homeless families in Reading. The Council plans to continue to invest between £8m and 9m per annum in its existing housing stock via the HRA over the next 3 years. The retained element from ‘Right to Buy’ receipts from the sale of council houses are utilised wherever possible, to help fund new affordable housing, or other housing relayed expenditure though at the current time we are unable to meet the spending constraints associated with the 1-1 element so for the immediate future will pay that element to DCLG.

Providing Infrastructure and Remaining Financially Sustainable

4.38 The Council has been successful in securing major Growth Deal funding through the Local Enterprise Partnership which, combined with developer contributions has enabled it to commence delivery of a new £13.75m station and interchange at Green Park. A further £5.62m grant from the Growth Deal will also help fund the first 2 phases of the Southern Mass Rapid Transit (MRT) and provide additional capacity for fast and frequent bus services along the A33 corridor. Similarly, the first Phase of the East Reading MRT has received provisional funding of £19.5m and is planned to be delivered over the 3 year period. A further total investment of £1.3m is being made to the National Cycle Network number 422 which runs east-west through Reading. The Council continues to invest in maintaining its highway assets, including a £9.8m “invest to save” street light replacement programme. It also anticipates carrying out a range of more local highway improvements and road safety schemes as well as continuing to invest in our existing transportation infrastructure.

4.39 The Council is progressing the review of its principal leisure facilities and is about to commence a competitive process to secure a commercial operator. Key elements of capital expenditure include the provision of a demountable swimming pool at Rivermead, to provide continuity of provision following the planned closure of Central Pool. The successful bid to the Heritage Lottery Fund has enabled a £2.8m investment in the Abbey Quarter over the next 3 years, along with a rolling programme of developer-funded improvements to parks and open spaces. An additional budget has also been identified to fund works to our parks and open spaces to deter illegal incursions.

4.40 A range of “Invest to Save” initiatives, costing approximately £22m, is a key component of the capital programme, and includes investment in Digitisation and ICT, replacement fleet vehicles, and the continued rationalisation of council buildings, including the creation of community hubs bringing a range of services closer to our most deprived neighbourhoods.

Housing Revenue Account

4.41 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 2016/17. The budget for the account in 2017/18 is set out in Appendix 10 and it is intended to report more detailed information to Housing, Neighbourhoods & Leisure Committee on major repair works and publish the information on the Council's website.

4.42 The Welfare Reform and Work Act 2016 required that social housing rents reduce by 1% a year for 4 years, which started from 2016/17. The Council decreased rents by 2% mid-way through 2016/17, which met both the requirement for a 1% reduction in 2016/17 and the further requirement for another 1% reduction in 2017/18. The legal requirement is that "in relation to each relevant year, registered providers of social housing must secure that the amount of rent payable in respect of that relevant year by a tenant of their social housing in England is at least 1% less than the amount of rent that was payable by the tenant in respect of the preceding 12 months." Therefore, no general rent change is needed in April, though the Council does have an option to increase rents in line with its normal policy in the PFI area. However, as we have not hitherto differentiated, there is no proposal in this report to pursue such a change.

4.43 The Council's HRA Business plan has been updated to reflect the required 1% p.a. reduction, with the consequence that much of the previously planned new build Council housing programme is unaffordable. There is sufficient borrowing headroom to fund a limited new build housing programme currently including the development of 57 homes at Conwy Close which is in the process of commencing on site. We will explore the opportunity to be able to build more housing within the programme as the HRA business plan is periodically updated.

4.44 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'. Whilst we have to apply the 1% rent reduction across all non-exempt stock for existing tenants, legislation allows the Council to set the rent levels in line with Target Rent whenever a property is *re-let.* Target rent of individual properties will also reduce by 1% each year from 2016/17 to 2019/20, and in some cases the move to target rent will be a reduction, but as indicated above, over the very long run, once most properties have changed tenancies the revised policy will increase rent income by 6%.

4.45 By changing actual rents to target level, as these are generally increases, the change will increase the HRA's resilience, and therefore when considering the possibility of further new council house building in the context of rising homelessness acceptances, increase the likelihood of that being affordable. Council is asked to agree this change to rent policy from 1 April 2017.

Public Health Grant

4.46 Public Health receives specific grant funding and our spend is targeted to identified strategic needs that meet the grant conditions. Reading's grant for 2017/18 is £10.0m and the key areas of spending include Public Health Nursing Service 0 -19 (25 Years), Smoking Preventions, Sexual Health services, Health Checks, supporting people with drug and alcohol addictions and a wide range of public health prevention, promotion and information services, including TB, weight management and diabetes. The Government will make savings in local authority Public Health spending averaging annual real terms savings of 3.9% until 2020 by cutting the grant.

4.47 Although the ring-fence on public health spending will be maintained in 2017/18 no decision has been made on the continuation of the ring-fence in later years. Further discussions are currently taking place to review what councils are spending their grants on and this may result in the ring-fence conditions changing. Reductions to the Public Health budget will continue to have a significant negative impact on the essential prevention and early intervention services provided by the Council. When business rates are localised, Public Health grant funding is expected to end, and be replaced by retained rates receipts, an arrangement that Greater Manchester authorities are piloting from this coming year.

5. RISK MANAGEMENT

5.1 The Local Government Act 2003 states that when a local authority is making its budget "the chief finance officer of the authority must report to it on the following matters—

(a) the robustness of the estimates made for the purposes of the calculations, and
(b) the adequacy of the proposed financial reserves."

And goes on to state that the authority "shall have regard to the report when making decisions about the calculations in connection with which it is made."

5.2 This report has been prepared by the Chief Finance Officer to fulfil her duty and gives the required advice relating to the 2017/18 financial year including, a consideration of the budget proposal as a whole and all the financial risks facing the Council in this year. Also, it identifies the Council's approach to budget risk management, and assesses the particular risks associated with the 2017/18 budget to inform the advice on robustness.

5.3 The report is included at Appendix 4, and highlights the current financial position is fragile. For 2017/18, a financial balance is possible but only with some very significant risks and dependencies in delivery.

5.4 Putting forward a balanced budget for 2017/18 can only be achieved by exhausting almost all available reserves and all General Fund capital receipts from 2016/17 and those not yet delivered in 2017/18. The Council's General Fund no longer has an adequate level of reserves, except a £5m minimum balance and a £4.5m insurance reserve, and is exposed to even modest shocks.

5.5 The position for 2018/19 onwards is currently not sustainable in the absence of deliverable plans being produced during 2017/18 and affecting the base budget for 2018/19.

5.6 The Council will need to produce a realistic plan for reducing the budget requirement for future years by quarter 2 of 2017/18 otherwise the Chief Finance Officer will be required to produce a section 114 report.

5.7 Section 114 of the Local Government Finance Act 1988 requires a report to all the authority's members to be made by the s151 officer, in consultation with the Council's Monitoring Officer and Head of Paid Service, if there is likely to be an unbalanced budget. In this event the Council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take to bring the budget into balance. The publishing of the report starts an immediate 'prohibition period'. This means that all persons have delegated authority to enter commitments, that such powers are suspended during the prohibition period.

6. RESERVES

6.1 Reserves are held for a number of reasons to enable the Council to:

- Deal with unexpected events;
- Manage changes in demand for services; and
- To fund specific projects or liabilities.

6.2 The assessment of reserves is based on the following:

- The level of risk within the budget;
- Judgement on the effectiveness of budgetary control with the Council; and
- The degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

6.3 As set out above the level of risk within the budget has significantly increased in 2016/17. Paragraph 4.29 shows the reserves we brought into 2016/17 and the subsequent paragraphs explain that it is necessary to use almost all these reserves in order to set a lawful budget for 2017/18.

6.4 In developing future plans beyond 2017/18, the Council will need to rebuild reserves to at least the level brought into 2016/17.

6.5 In 2017/18 the only General Fund reserve we will hold will be the self-insurance reserve which is required in connection with the proper management of the Council's insurance arrangements. The arrangements set out in paragraphs 4.25-4.33 to balance the budget leave an excess of £2m which is likely to be needed to meet organisational change costs, including redundancy costs. (The only specific budget for these is the £800k annual contribution).

6.6 Therefore the Council no longer has an adequate level of reserves, and only holds a £5m minimum General Fund balance and the insurance reserve and consequently is exposed to even modest shocks.

7. TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS)

7.1 There is a requirement for the Council to have all of the following:

- Treasury Management Strategy for 2017/18;
- Annual Investment Strategy for 2017/18;
- Prudential Indicators for 2017/18, 2018/19 and 2019/20; and
- Minimum Revenue Provision Statement (in connection with debt repayment

7.2 The Treasury Management Strategy, enclosed within Appendix 8, brings these together and the statement explains:

- 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; and
- how we manage treasury risk overall.

7.3 In line with recommended practice, a draft of the statement was presented to Audit & Governance Committee, at its January meeting. The "liability benchmark" graph included in the Treasury Management Strategy identifies that within the next couple of years the Council will need over £110m additional long term borrowing in 2017/18 for around 15-20 years to finance its present capital plans.

The cost of funding this additional borrowing has been built into the Financial Plan.

8. COMMUNITY ENGAGEMENT AND INFORMATION

8.1 The specific savings and income proposals set out in this budget were approved by Policy Committee in July and December 2016, subject to consultation where required.

9. EQUALITY IMPACT ASSESSMENT

9.1 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.

9.2 The equality duty is relevant to the development of the Budget. The specific savings and income proposals set out in this budget were approved by Policy Committee in July and December 2016, subject to consultation and equality impact assessment where required.

9.3 The additional savings proposals (Appendix 1c) referenced in this report will be subject to any necessary consultation and equality impact assessments being undertaken and the outcomes being reported back for consideration by the relevant committee.

10. 3-YEAR FORWARD IMPLICATIONS

How this could impact on residents, businesses and partners

10.1 Reducing the Council's budget by a further 37% over the next three years on what we are actually spending in 2016/17, on top of what we have already saved, means that future savings and service options will need to be significantly altered. It is clear that this will have a further impact on residents, businesses and partners. As part of the proposals that will be developed for Councillors to consider through 2017, we will outline in more detail what the potential impacts could be, how we can try and mitigate this and in some cases perhaps not be able to mitigate any impacts.

10.2 We will also be clear about the positive impact of what we are doing with the money we will still have to provide services.

Legal

10.3. There is a legal requirement to set a balanced budget.

Financial

10.4 The financial implications are set out throughout this report. Our financial situation is extremely challenging and over the next year. A fundamental review of council functions and services is required, to enable officers to provide Councillors with options to significantly reduce spending and to increase income further to bring the budget into a sustainable balance.

10.5 A revision of the Corporate Plan and Medium Term Financial Plan will be undertaken in the first part of 2017/18. The key priority for future budget setting will be to develop a service offer that is affordable and radically changes the way we work to move to a sustainable financial position. This will inevitably mean cuts in services with consequent cuts in staff and services purchased.

11. BACKGROUND PAPERS

11.1 Appendices:

- 1a) Savings and income proposals for 2017/18 agreed in previous years
- 1b) Savings and income proposals for 2017/18 agree at Policy Committee during 2016/17 (July and December 2016)
- 1c) Additional savings proposals for 2017-20
- 2) Calculation of Council Tax
- 3) Fees and Charges Summary Statement
- 4) Robustness of Budget Estimates & Adequacy of Balances 2017-18 (Statutory Advice)
- 5) Treasury Management Strategy Statement
- 6) General Fund and Summary Cost Centre Budget
- 7) Capital Programme
- 8) CIL protocol
- 9) Dedicated Schools Grant
- 10) HRA Budget 2017/18

Appendix 1a

Savings and income proposals agreed in previous years to be delivered in 2017/18 and 2018/19

Saving/income proposals	2017/18	2018/19
Increase independent travel to schools where most children receive transport, parents who choose to place their children in faith schools will no longer be eligible for free transport (subject to consultation).	95	
Extra Care Housing Older People so that they no longer have to live in expensive residential placements.	350	
Control the rate at which new Adult Social Care packages (residential and nursing) are commissioned, reduce the number of higher cost placements and offer new service users needing a care home placement options from a wider geographical area. Reduce care packages as people achieve greater independence.	250	
Continue move to a new care model of services for older people with a focus on the reduction of residential placements and reduction in small domiciliary care packages to support people to be more independent.	100	
Review care packages for people receiving Learning Disability Services; supporting greater independence and changes to way care is provided.	500	
Continue to move away from Residential placements by supporting older people through Extra Care and care and services provided at home.	250	
Work with Health partners to change the way people are cared for and to deliver different services. A less dependent focus and review of proven treatment options. This should result in less referrals to Adult Social Care.	450	
Changed model of support and increased focus on prevention reduces workforce requirements in Social Care.	375	
Commission a new Nursing Home with a reduction in costs compared to current activity.	98	
Reduced Social Care funding to voluntary and community sector via a review of the grants and re-focus via a commissioning process.	223	
Increase income generated through baby naming and renewal of vows ceremonies, nationality checking services and memorial sales. Promote online appointment bookings and certificate applications.	17	
Deliver on line services using digital technologies, both for the provision of customer services and to engage with residents.	45	
Re-phasing of 15/16 saving which was removed through budget pressures and also revenue moved to capital in previous year but saving not taken.	25	
Adult Social Care - older people staff reductions, changes in home care, transformation of learning disability and mental health	1490	
Town Hall and Museum - increase income by hosting Berks Coroners Service and generate additional income through service development.	195	

Saving/income proposals	2017/18	2018/19
Parks and Grounds Maintenance - review of current operating methods to increase productivity and removing duplication and wasteful processes. To generate additional income through increasing market share of arboriculture and grounds maintenance services.	80	
Waste Operations - optimising collection routes to reduce number of rounds, generate additional income by increasing trade waste customers.	394	
Highway Engineering - systems reviews and adopting asset management approach. Increased commercial activity. Savings from LED streetlighting.	258	
Fixed penalty noticing and enforcement overrunning road works.	40	
Introduction of Red Routes.	100	
Parking - increasing available parking in Reading.	125	
Library Services – there is a separate report on the agenda regarding this saving.	280	
Property & Health and Safety – Management and Operational Savings.	175	40
Building Cleaning and Public Conveniences - closure of some PC provision and reduce building cleaning costs.	59	
Deliver more services on line.	120	
Implement a new commissioning approach for services from the voluntary sector with reduced funding targeted to meet local needs.	510	106
Stop funding of Reading CIC	44	
Review of supplies and services (Stationery)	50	
Concessionary Fares	-35	-50
TOTAL	**6663**	**96**

Appendix 1b

Savings and income Proposals agreed at meetings of Policy Committee April – December 2016

Saving/income proposals	2017/18	2018/19	2019/20
Finance - Removal of vacant posts initially, and reduction of up to 6 posts over time as self-service and process efficiencies are delivered.	38	117	78
Finance Systems - systems saving costs.	80		
Removal of vacancy factor budget and general corporate provision from 2017/18 (already committed in 2016/17).	120		
Increasing income in cemetery and crematorium and new passport checking service.	60		
Restructure of Cemetery/Crematorium Team.	25		
Reduce tell us once offer to be only available on line by removing face to face appointments for Bereavement and Registrars service.	7		
Reduce staffing in funding services team as a result of the new commissioning model.	16		
Reduction in ICT support and application costs expected as we become a smaller organisation with less lines of business.	66	167	67
ICT Contract savings (had been one off in 16/17).	-225		
Blue Badges - increase charge to £10 which lasts for three years and will bring fees in line with national guidelines and other councils. The current charge is £5.52.	12		
Reduce number of National Management Trainees recruited in future years.	30	30	
Further reshape of CS including Customer Relations offer to reflect digitisation and shift to self-service within reducing budgets.	100	100	290
Cease the Employee Assistance Programme (17/18).	32		
Roll out mileage and expenses as self-service - remove payroll resource (17/18).	25		
Reduce the number of non-statutory bodies supported by the Committee Service by 40. Reduce the amount of non-committee work carried out by the Committee Service.	45		
The Legal Section will continue to adapt to the changing demands that a smaller council will require and will continue to generate and increase income from outside the Council. Whilst the savings will inevitably see a reduction of some FTE's posts Legal Services will be continuing to provide a professional and flexible service to facilitate and work with other services to meet the organisations changing needs.	69.2	35	89
This service provides specialist legal support across all six Berkshire authorities for child protection. Savings to reflect expected caseload and income.	50		
Reduce Occupational Health support.		30	

Saving/income proposals	2017/18	2018/19	2019/20
Reduce HR support as managers become more self-reliant (dependant on significant training of management) (19/20).			50
HR - Reduce recruitment resource (17/18).	20		
Renegotiation of Midland iTrent (HR payroll system) contract to remove bureau service. Dependant on creating an internal BACS system, maybe in collaboration with Finance (18/19).		20	
Cease South East Employers membership (17/18).	9		
Supplies/Services - Reduce budget by 10%.	12		
Communications - Reshape of service.	73		
Reduce Corporate Marketing budget.	30		
Delete Inside Reading budget for print copies (digital only).	5		
Joint administration fee for Lord Lieutenant's Office.	4		
Reduce the capacity of the Neighbourhood Officers team with the loss of 5 posts. The current Neighbourhood patches will be rationalised and the remaining NOs will carry out statutory highways inspection and management work rather than environmental enforcement and monitoring. This will result in a reduced level of service and it will no longer be possible to support Community initiatives or run RESCUE events.	184		
Transformation and rationalisation of the Neighbourhood Support Team, including waste minimisation support. The proposed staff reduction (3 posts) is only sustainable if supported by digital self-service for all transactions and enquiries dealt with by the team. A reduced Waste Minimisation function will compromise our ability to reach the recycling target of 50% by 2020.		141	
Increase Trade Waste Collection and Disposal service turn over by 100% (£650,000pa to £1.3m). This proposal depends on all service managers complying with the internal trading memorandum.	25	50	75
Parks and open spaces - Creation of 2 new works gangs, one to take on additional grounds maintenance work from internal and external sources and one to take on further external arboricultural and tree surveying works. Both proposals rely on compliance with the internal trading directive, sufficient administration support and full roll out of the digital agenda.		150	
Transformation of the Highways and Drainage Service: By generating additional income via investing in additional works / operational staff and equipment. Proposed Change to a 6 day working shift pattern to reduce the need for overtime and make the service more resilient, efficient and flexible. Review and rationalise use of Standby & Emergency Call Out payments.	267	204	

Saving/income proposals	**2017/18**	**2018/19**	**2019/20**
Transformation of the Highways and Drainage Service: By generating additional income via investing in additional works / operational staff and equipment. Proposed Change to a 6 day working shift pattern to reduce the need for overtime and make the service more resilient, efficient and flexible. Review and rationalise use of Standby & Emergency Call Out payments.	30	21	
Saving proposals for Highways Engineering include: Savings of around £450,000 on energy and maintenance costs as a result of new LED street lighting. Increased income generation of around £41,000from fees & charges from developers for supervision of road adoptions, road improvement works and accidents reclaims charges requirements. Restructure of Highway Engineering Team with loss of 1 x FTE post in 19/20 saving £ 55,000.	218	230	55
Review and rationalisation of Graffiti service to secure additional funding/ income, including the loss of 1x FTE staff. This may initially result in a longer response time.		50	
The re3 Strategy commits the re3 Partnership to a review of the operation of its two Household Waste Recycling Centres. This was brought forward by the re3 Board in response to the potential financial pressures of West Berkshire Council’s decision to bring to end reciprocal payments for use of re3 facilities by its residents. The re3 Partnership is introducing residency checks on July 1st 2016. In September 2016, the re3 Partnership will introduce controls on access by commercial vehicles and charges for some types of waste that are deemed to be non-household (in legal terms).	379		
Streamline and make more effective the Parking Contravention Notice challenge process using digital solutions and on-street capital investment. Introduction of further traffic and parking management controls across the town to help optimise network capacity in order to address increased demand arising from growth.	300		
More efficient use of staff transport by increased use of Pool cars.	97	97	73
Ceasing the operation of the “Front of House” service currently provided at Mereoak Park and Ride and replacing with an automated parking management system will remove the need to have ongoing staff management costs at the site, and increase security for access and egress to and from the site.	110		
(17/18) Remove Readybike subsidy and seek sponsorship	130		
(18/19) Remove Greenwave and Route 28 subsidy		120	

Saving/income proposals	2017/18	2018/19	2019/20
17/18) Revert to the standard English National Concessionary Travel Scheme (ENCTS) in terms of hours of operation and scheme criteria. This would include: - • Passes only valid from 09:30 to 23:00 Mon-Fri, and at any time on weekends and bank holidays. • Cease acceptance of Wokingham and West Berkshire pass holders between 09:00 to 09:30 Mon-Fri. • Cease acceptance of concessionary passes on football and rugby special services to/from the Madejski Stadium.	59		
Reduce Neighbourhood Initiative team by 2.4 posts. There will be little capacity to support initiatives outside of Housing estate areas. However, resource would be focused within areas with the highest levels of deprivation. Very minimal support to Neighbourhood Action Groups.	21	26	
Transfer all temporary accommodation for homeless households into the General Fund, which increases flexibility in rent setting. Change rents, including adult social care rental income to levels below LHA and affordable for those impacted by the further reduced benefit cap. [LHA is the amount which Housing Benefit will pay up to for rented accommodation.] Existing tenants would not be impacted. This proposal may be subject to Secretary of State consent to transfer stock (advice sought).	85	40	
Deletion of Housing Supply Enabling Officer role. All negotiations for Affordable Housing on new developments would be through the Planning service. This would increase pressure on a team for which a reduction in capacity/expertise is also proposed.	47		
The Housing Company Homes for Reading has potential to make a return to the General Fund. This is an income generation target and subject to market conditions, policy change and other variables outside the LA's control. This needs to be balanced against a need to secure sub-market rental properties (subsidised by full market rent) to meet acute housing need to accommodate homeless households and reduce the use of B&B.			350
Additional income raised from property holdings, running cost savings and management and staff savings in relation to the management of property. Commensurate with reduction in overall number of buildings owned and managed. Reduction of 10 posts which will result in loss of expertise, increased response times.	283	340	130
Reduction in resources in relation to environmental protection, Increase income from pest control service, Deliver a shared service with other Councils with associated management and back office savings. Reduction of 8 posts. This will result in a loss of expertise, increased response times, reduced influence over local priorities given broader shared service priorities, and reduced management capacity.	20	230	50

Saving/income proposals	2017/18	2018/19	2019/20
Berkshire Coroner - Re apportionment of costs across Berkshire. Reduction in higher skill resource replaced with improved software and lower skill level resource. IT capital investment required to maintain service performance.	10	70	
Reduction in professional specialist, management, enforcement and administrative resources; an increase to pre-planning application fees by 10%; Forecast increase in planning application fee income. Reduction of 5/6 posts. This will result in reduced capacity to negotiate wider community benefits including affordable housing, Increased response times and a reduction in enforcement capacity,	137	70	60
Undertake a review of existing provision to inform the closure of a number of public conveniences.	15	15	
Building cleaning - Management Savings and changes in service provision.	13		
Building cleaning - Management Savings and changes in service provision.	47		
Commensurate with the reduction in the Council's property holdings, it is proposed that there is a managed reduction in Corporate Health & Safety activity as risks reduce. Increased fee income and options to consider future delivery models. Reduction in staffing level. This is likely to result in reduced corporate support, and increased fees for customers of the service		60	80
Procure new leisure operator and implement proposals for provision of new and refurbished facilities to replace Central and Arthur Hill Pools as approved by Policy Committee in November 2015. Aspiration is for the service procured to be cost neutral - including covering the borrowing costs of the capital needed to deliver new facilities.			750
Increase income following refurbishment of South Street and introduction of membership schemes for both South Street and the Hexagon.	100	15	10
Further increase income following completion of reconfiguration to accommodate additional services and intensify commercial use. Potential delivery in 2018/19 but requires detailed business planning.		25	25
Further increase income following completion of reconfiguration to accommodate additional services and intensify commercial use. Potential delivery in 2018/19 but requires detailed business planning.		25	25
Reduction by 10 posts (10 out of 59 FTE posts) in back office specialist support team. Linked to a new model for back office specialist business support. This will also need to take account of co-location of services.	156	156	
Play service - Accelerate break even position and generate more income.	124		
Disposal or rental of site to save revenue running costs Majority of budget is spent on the Meadway building next to TVS. If Council can receive income/Rent to bring this down to cost neutral.	46		

Saving/income proposals	2017/18	2018/19	2019/20
Education - Annual Software relating to Pupil forecasting that is not required for the ongoing forecasting of school placements.	11		
Education - Budget allocation to Reading first partnership requires less money than was anticipated and has therefore reduced by this amount.	27		
Increase contribution from Early Years Dedicated Schools Grant to against current costs.	50		
Review to redesign the Early Years offer.		40	
Review support function for admissions to increase the online/ digital support and facility.		45	
Due to current School regulations the funding for Admissions could not increase since 2012. Growth in this area since then had to be funded by RBC. First indications of the new School Funding Formula suggests this could change and the service could be fully funded within the school central block.		55	
Elective home education - Reduction in the budget available for resources and materials to parents and carers educating their children at home.	5		
School travel - As outlined in business case, reduce demand, increase income, reduce discretion and build independence. Also procurement efficiency.	80	100	
Kennet Day Nursery - Set a surplus target for provision and working with other organisations to achieve 85% occupancy.	20	30	
Reshape the School travel arrangements.	37		
Review the Virtual School staffing arrangements.	43		
Review of the management arrangements in Education due to the savings being taken.		90	
Current review of the fostering service and commissioning arrangements will identify a range of savings across all functions and activities. This will be reported to ACE committee in early 2017. The range of options to ensure savings are made include. Fees to be based on Foster Carers assessed skills levels and children's identified needs. Improve procurement of Independent Fostering Agencies - to be linked to sufficiency strategy & needs assessment. Increased recruitment of in- house foster care provision Improve procurement & commissioning of residential placements for Looked After Children and children with Learning Difficulties and Disabilities. Move children to lower cost placements when safe to do so. Seek additional Health contributions to packages.	932	700	
Review of the non-statutory functions within the Children's Services Access and Assessment service.	200		
Pinecroft Residential Unit - Generate additional income as a result of selling a residential placement to other local authorities.	86		
Reshape of the conference and review service that provides a quality assurance function for Children’s Social Care.	77		

Saving/income proposals	2017/18	2018/19	2019/20
Review the Fostering and Adoption services prior to transfer to regional adoption arrangements being implemented.	200		
Review of Special Guardianship Order (SGO) payments to be in line with national allowance rate for SGO carers. This is likely to reduce the payments for some.	50	350	100
Reshape the family support offer in line with the Findings of the transformation project are being led by IMPOWER, a company who work solely with public sector organisations. A full proposal and likely public consultation will follow with a report to ACE committee in Autumn 2016.	280		
Reshape the Children's Centre offer in line with the recently completed review and finding of IMPOWER. Likely to reduce the number of hubs offering an integrated model, with Health visiting including in the offer. A full proposal and likely public consultation will follow with a report to ACE committee in Autumn 2016.	100	300	
Implement the Youth offer proposal to become a targeted youth service that has been reported at July 16 ACE Committee following a recent public consultation.	450		
Review of the Youth Offending Service that reshapes the blend of specialist and YOS officer posts.	100		
Review of the management arrangements in Early Help due to the savings being taken in 16-17.	200		
Special Education Needs and Children's Young People Disability - following the findings of the transformation project and bringing the two teams together it is expected that duplicated roles will be removed and single roles created.		50	
Education Psychology - Set a target and generate additional income from schools.			50
Restructure Directorate Management Team.		320	
Re-negotiate/ Re-procure/ Rationalise current contract for Information, Advice and Guidance.	150		100
Stop subsidising school contracts with Berkshire Health Care Trusts.		109	
Reduction in contracts in the voluntary sector that support children and families.	121		
Additional savings to be delivered through the Adult Social Care Transformation Programme.	400		
Review the use of Focus House Care Home, and services provided for people with mental health conditions. This will be with a view to moving service users to more suitable community based provision, and closing the home.		118	200
Commissioning, Performance and Procurement Management Re-structure.	151		
Commissioning, Performance and Procurement Teams Re-structure.	66		

Saving/income proposals	2017/18	2018/19	2019/20
Staffing Restructure - This would require a complete re-structure of all teams, including a centralisation and more generic working. Removing management layers.	106	318	
Physical Support (Adult Social Care) - This would require current care packages to be reviewed and potentially reduced, to meet assessed and eligible need. New clients would be supported to remain in their own homes where possible. Improvement to service planning at an earlier age to facilitate transition from Children's to Adult Services.		68	
Implement outcomes driven care plans and contracts, through continuous review for additional cohort of service users. Review existing care plans for people with learning disabilities to align the services provided to national eligibility standards. They could however be supported in other ways through the community. Some of this activity may result in service users moving from supported living to not requiring a service, following statutory reviews to meet eligible need.		585	
Deputies Team (Adult Social Care) - Review the charging policy in line with the Court of Protections Remuneration fees. For the Appointees the aim is to mirror the Deputies fees. This will generate income to that the service becomes cost neutral and align charges with the national standard set out in the system for fair and reasonable fees.	50		
Introduction of a charge for the collection of green waste	310		
Closure of Arthur Hill pool	120		-120
Strategy to develop a commercial property portfolio. This is scalable depending on availability of appropriate properties. A separate report is included in the 5th December Policy Committee agenda.	500		
Raise income from out-of-hours car parking on Council sites, for example use at evenings and weekends.	50	50	
Provisional Dividend from Reading Transport Ltd, subject to trading position.	100	100	100
Further income to be generated from advertising. A separate report is included in the 5th December Policy Committee agenda.	150		
Increase income within cemeteries, develop memorialisation across the bench and tree estate, license the Forbury Gardens bandstand and Caversham Court for weddings, and recruit and train a memorial mason apprentice to deliver masonry.	91		
Increase the take up of a range of support and direct services to schools.	300		
Discontinue cutting amenity grass adjacent to woodland areas. Reduce frequency of amenity grass cutting.	27		

Saving/income proposals	2017/18	2018/19	2019/20
Reduction in workforce through improved ways of working leading to efficiency savings.	53		
Funding of four posts by utilising Integrated Transport Block capital grant allocation.	170		
Reduction in external training and deliver training sessions through internal team.	4		
Environment Contract - Savings through renegotiation of existing contract.	100	400	
That a focussed recruitment exercise is carried out to fill substantive posts currently filled by agency workers or consultants. That there is a targeted approach to prioritise categories where the agency/consultant rate is significantly higher that the substantive rate.	500	1,000	500
Re-negotiation of contracts/review of contract management for greater savings, with reduction in spend in future years.	350	350	350
Review of the Council's management structure to move towards a more efficient operating model. This includes working towards a model that allows for greater accountability and decision making and the removal of unnecessary additional management structures.	500		
Stop subscriptions to publications / newspapers across all Directorates. The Legal Services Team will retain a reduced budget for the Law Library.	48		
Utilising a multi-disciplinary team will provide additional support options for service users rather than defaulting to traditional models of care.	400		
Improve Mobile Working and use of IT by providing front line staff, Social Workers and Occupational Therapists, with IT equipment to enable mobile working when visiting customers, and by using one IT system across Social Care and Health.	200		
Commission the service currently provided by the Community Reablement Team with a revised specification. A revised specification will increase flexibility and allow a more robust contract monitoring focus to deliver outcomes for the client.	800		
Stop or find more cost effective ways of delivering a range of non-mandatory services funded from the Public Health Grant.	143		
De-commission the service currently provided by Reading Your Way, which is group and one-to-one support for personal recovery from mental health problems, delivered primarily though peer mentoring. Sessions include drop-ins, social and sporting activities, hospital outreach and two women's groups.	76		
Delivering a West of Berkshire Public Health Local Authority Service or PAN Berkshire Public Health model.	100		
To review and transfer where appropriate the initial screening for Adult Social Care to improve the customer journey and make more efficient use of relevant staff.	100		

Saving/income proposals	2017/18	2018/19	2019/20
Combine the Transport Teams across Directorates.		30	
Creation of a single service for access to resources in children's services (including Special Education Needs and Disability). The main functions will be: foster carer recruitment, children's placements, commissioning of placement and support services, invoice processing and contract management.	312	250	250
Improve recruitment and retention of permanent Social Workers.	1,200	300	600
Review and re-launch a range of preventative services under a single arrangement. The services under consideration are: Drugs Workers, Multi-systematic Therapy and the Options Team.	25	25	
Subject to public consultation, a rebalancing of investment is proposed with a shift towards non-accommodation based support services and a reduction in Council-funded refuge bed spaces in line with similar authorities. This would result in an indicative reduction to the total domestic abuse services budget of £403k by £58k (to £345k). Part of the desired level of saving to include Public Health funding reductions.	9	9	
Renegotiation of previous Continuing Health Care applications that have been rejected. (One off)	700	-700	
Explore the possibility of disposing of some material held within the Civic Regalia Collection. Work will need to be carried out to trace the provenance of items and identify whether the council is legally free to dispose of an item. Agreements on disposal made with donors will also need to be taken into account; other factors include public benefit and local historical importance. Expert advice will be obtained and the views of stakeholders will be sought. (one off capital receipt).	200	-200	
TOTAL	**15,236**	**7,525**	**4,387**

Appendix 1c

Proposed Savings and Income Options 2017- 20

Saving/income proposals	2017/18	2018/19	2018/19
Homelessness – see report elsewhere on the agenda. Reconfiguring the services of the Homelessness Pathway contracts, the Floating Support contract and the Street Outreach contract.		183.4	61.1
Committee and Member's Services: Staffing reductions and a decrease in the number of meetings supported by Committee Services. Reduction in capacity for administrative support.	38.5		
TOTAL	**38.5**	**183.4**	**61.1**

Calculation of Council Tax
2017-18

Council 21 February 2017

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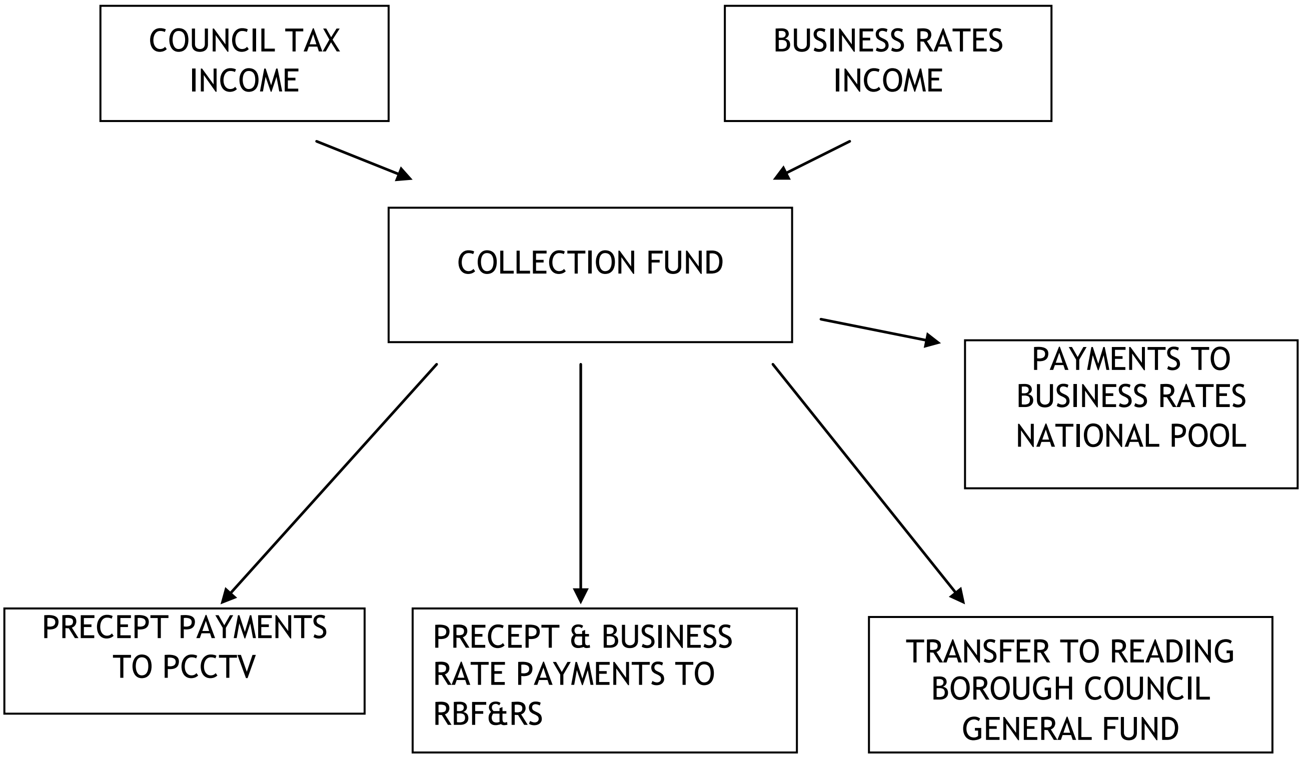
1. COUNCIL TAX COLLECTION FUND

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 Following the 2013/14 changes business rate income, including the impact of all adjustments (except transitional relief, where Government meet the cost or take the benefit) is 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). The formal in year transfer for 2017/18 to the General Fund is 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 2018, and taken account of in setting the budget and tax for 2018/19. Therefore, were there to be a deficit the 2018/19 budget would need to be reduced to take account of the position, and vice versa were a surplus to arise.

1.3 Government redistributes its 50% share, together with a central treasury allocation to all authorities as RSG which is paid to the General Fund, so tax precepts are calculated after deducting RSG from the overall Council budget.

1.4 In comparison to many other authorities Reading collect a high amount of Business Rates. A simple localised system of Business Rates would leave many authorities short of sufficient resources, so there is a process of applying tariffs to the local 49% share and levies if the Council's estimated income exceeds a predetermined government figure. Reading's tariff (in 2017/18) is £27.5m. Since 2013/14 our Business Rates have grown by more than inflation, and at the end of the financial year we will be required to report the final rates collected, and on this basis Government will issue a levy on the growth. We estimate that will be up to £1.5m higher than in 2016/17, and have included this within the budget (along with the extra rates).

1.5 Government also pay a grant to compensate for limiting the rise to 2% and the small business and retail relief schemes in past years), but this is also subject to the levy. Overall, this means that of the estimated 49% share of £60.8, only £31.2m (about 25% of the total rates of £124m we will have collected), is actually retained by the Council.

Business Rates (Non Domestic Rates) Payable

1.6 Prior to 2010/11 (based on the 1 April 2008 position) there was a revaluation on behalf of Government of Business Rate values. Originally, like each valuation since the 1988 one (applying from 1990) it was scheduled to last 5 years but the Government extended that to 7 years, so the next revaluation is in the process of being concluded so that it can take effect from 2017/18. As indicated in the main report, the Government has adjusted the Local Government Finance Settlement to take account of Revaluation). New properties are valued on the basis of 2008 rental values (which can be more than they are now actually rented for). To mitigate the impact of the 2017 revaluation there is a transition scheme that limited increases over RPI.

1.7 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 2017/18 is to be 46.6p (48.4p in 2016/17). (The multiplier has been reduced to reflect changes in valuation nationally with the aim of ensuring rates collected nationally rise by inflation).

The Secretary of State has estimated that the supplement to fund small business rate relief should be at 1.3p in 2017/18 (1.3p for 2016/17).

The provisional non-domestic multiplier will therefore be 47.9p in 2017/18 (49.7p in 2016/17).

In accordance with Schedule 7 to the 1988 Act, the multipliers will be confirmed after the Local Government Finance Report for 2017/18 has been approved by Parliament.

For 2017/18 we expect to collect around £124.0m in Business Rates (up from £107.3m in 2015/16, but much of the increase goes to the Government, so the additional retiled has been estimated as £0.7m (and is included in the budget)).

Council Tax Income

1.8 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 2018 and taken account of in setting the budget and tax for 2018/19.

1.9 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 24 January 2017 set a Council Tax base for 2017/18 of 53,671.

2.3 Policy Committee also received a report explaining the need to estimate the Collection Fund position as at 31 March 2017. This was done in accordance with Government Regulations and a £929k surplus was estimated in respect of Council Tax transactions. This surplus is split between the Council and precepting authorities as follows:

	£'000
Reading BC	800
Thames Valley Police	94
Royal Berkshire Fire & Rescue Authority	35
	929

2.4 A surplus was also estimated for NNDR transactions of £1.8m which is be apportioned according to Government rules as follows:

	£'000
Reading Borough Council	882
DCLG	900
Royal Berkshire Fire & Rescue Authority	18
	1,800

2.5 Table A sets out the amount to be collected from Tax Payers in 2017/18.

Table A

Budget	125,326,393
Council Tax Collection Fund surplus	-800,000
NNDR Collection Fund surplus	-882,000
Business Rates Income	-60,759,986
Tariff Payment	27,483,550
Revenue Support Grant	-10,367,845
Council Tax collected for Reading BC	80,000,113
Police and Crime Commissioner Thames Valley Council Tax	8,692,794
Royal Berkshire Fire & Rescue Authority Council Tax	3,190,115
Total amount to be collected from Council Tax payers	**91,883,122**

Forecast of Council Tax for 2017/18

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

Table B

		Reading	PCCTV £	RBFRS £	Total £
A	**6,254**	993.71	113.52	41.65	1,148.88
B	**13,851**	1,159.32	132.44	48.60	1,340.36
C	**28,594**	1,324.94	151.36	55.55	1,531.85
D	**10,796**	1,490.56	170.28	62.49	1,723.33
E	**5,412**	1,821.80	208.12	76.37	2,106.29
F	**3,273**	2,153.03	245.96	90.26	2,489.25
G	**1,829**	2,484.27	283.80	104.14	2,872.21
H	**79**	2,981.12	340.56	124.98	3,446.66
Total Properties	**70,088**				

APPENDIX 3: Revised Fees and Charges by Service Area

The review of fees and charges is a rolling programme with full reviews scheduled for implementation 1st April and 1st October in each financial year. The commentaries below set out the broad approach to the review of fees and charges adopted in each service area for April 1st 2017.

1. Directorate of Environment & Neighbourhood Services

1.1 Sports Centres (Leisure & Recreation)

A review of service fees and charges was completed for November 2016 with limited increases identified due to the competitive market that the Reading Sport and Leisure sites are operating in. The increases that were identified at that time have been implemented and no further increase is felt commercially viable at this time.

1.2 Parks (Leisure & Recreation)

The service proposes to increase allotment fees by 2%, reflective of inflation. This will generate additional income of £0.7k per annum. The service further plan to conduct a full review of the allotment service during 2017, the detail of which will be agreed with members prior to public consultation.

It is not proposed to increase mooring fees at this time as they are in line with those charged by other neighbouring authorities.

1.3 Transport

The service propose to increase the fee for the replacement of lost concession bus passes from £5 to £10. The rationale for this decision is the recovery of associated costs and extensive benchmarking of the fee charged by other local authorities, which identifies £10 as the average national charge.

It should be noted that this increase will not disadvantage those that have been the victim of crime/theft. Cards will continue to be replaced free of charge for those that provide a valid crime reference number.

All other fees will remain as currently published, as the service recently completed a comprehensive review of fees and charges.

1.4 Planning

Locally set fees were extensively reviewed and amended in November 2016. The benchmarking of fees charged by other service providers and neighbouring authorities does not provide scope for further increase at this time.

1.5 Highways

The majority of published fees have been increased by 2% and rounded to reflect inflation. The charge for a temporary traffic regulation notice has been increased by £80 to £500. Proposals follow the benchmarking of charges against other local authorities and market rates. This generates a modest additional income of £2.3k per annum.

1.6 Libraries

The published Library fees have not been increased since 2013 to encourage service uptake. Minor amendment to a number of fees (+/-) is proposed to bring them in line with other benchmarked local authorities.

1.7 Building Control

Whilst no fee increase is proposed through this process the service intend to undertake a full review of fees and charges in the first quarter of the new financial year. Delegation exists for the Head of Planning, Development and Regulatory Services (in consultation with the Lead Councillor) to implement fee increases as appropriate. Building Control operates within a competitive environment and future fee increases will be measured against the fees of competitors.

1.8 New Directions

Fees apply to the academic year September 2017 – July 2018. The service has increased published fees by 2% in line with inflation and has added a new service fee for Adult Safeguarded Learning (Large Groups). The revised fees will generate an additional £10.7k per annum income.

1.9 Streetcare Services

The service propose small increases to waste charges of between 2 – 4% to reflect inflation, allowing for rounding to the nearest 5/10p. This generates modest additional annual revenue of £1.2k.

Commercial waste charges have been removed from the schedule as these are considered commercially sensitive. This reflects standard practice within the commercial waste service industry, where contracts are invariably priced on application.

There are no proposed increases to other fees as these were reviewed for 1st November 2016 and remain in line with market rates.

1.10 Public Conveniences

No change to fee proposed as this was increased in November 16.

1.11 Community Safety

No increase proposed to these fees.

1.12 Regulatory Services

Licensing Fees: Whilst no fee increase is proposed through this process the service intend to undertake a full review of fees and charges in the first quarter of the new financial year. The review will robustly consider service-related costs and the structure of fees charged in compliance with governing legislation.

Food Safety: No increase to fees proposed through this process, the service will continue to monitor fees to ensure they remain in line with market/competition.

Pest Control: The full range of Pest Control and Dog Warden services and associated fees has been added to the schedule. The pest control fees are set by the contractor and whilst the fees are provided for transparency, the Council does not receive any income, but is able to provide a service at neutral cost.

LAPPC Fees: Statutory Fee informed by DEFRA, as of 17th January 2017 - no amendment to this fee has been proposed.

Trading Standards: reductions of between 0.67% and 4% proposed on a number of fees to ensure in line with other service providers as the Association of Chief Trading Standards Officer Guidance.

Private sector housing: A number of fees have been increased by between 1.8 – 2% to reflect inflation and allow for cost recovery. HMO licence fees are scheduled for full review in the first quarter of the new financial year.

1.13 Housing General Fund

A new charge for Temporary Accommodation (non-B&B) has been introduced to the schedule. The cost of temporary accommodation is currently handled within the Housing Revenue Account but the properties are being transferred to the General Fund. The published rates are for new tenants only. Existing tenants will continue to be charged at their current rate.

The new fee comprises of two parts:

i) **base rent** at £120.27 for all accommodation.
ii) **service charge** reflecting the size of the accommodation.

Both will be reviewed annually.

2. Corporate Support Services

2.1 Bereavement Services

Bereavement Services fees and charges have been subject to rigorous benchmarking against neighbouring crematoria and burial authorities. The service completes an annual review of charges which allows funeral directors appropriate time to consider and implement the Council's revised fees.

The majority of standard fees have been increased by between 1 – 4.5%, in consideration of both inflation and the results of benchmarking. A range of other increases are proposed that reflect the full service costs.

2.2 Registry Office

The service proposes fee increases of between 1 – 9% to the majority of fees. Proposals have been informed by robust benchmarking completed through membership of the South East Registration Group, bringing the fees charged by Reading Borough Council in line with its neighbouring local authorities, providing parity for service users.

No fee increase is proposed in respect of: Notice of marriage or partnership, Registrar's attendance at Register Office marriage or civil partnership, Registrar's attendance at outside church and Renewal of marriage or Civil Partnership licence, where fees are in line with the broader South East market.

A new service for the return of an EU passport is proposed at a charge of £20 inc VAT.

Proposals link directly to the Council's savings strategy and have been included within the budget build for 2017/18.

2.3 Customer Services (Blue Badge Scheme)

No amendment to published fees is proposed through this process. Fees were revised in November 16 and have been benchmarked in line with other local authorities.

2.4 GIS & Mapping

No increase in fees is proposed through this process. The Council raises income from street naming and numbering mainly through larger development fees, which are currently at the upper range of fees charged by other authorities.

2.5 Legal Services

No proposed increase to fees as part of this process. Fees were amended in November 16 and benchmarking indicates that they remain appropriate.

3. Directorate of Adult Care & Health Services

3.1 Adult Social Care Charges

Residential EMI weekly rate – Proposal to increase fee from £785 to £830. This takes into account an inflationary increase of 2% plus additional £30 a week for known increased overheads.

For a range of other proposed fees and charges related to Adult Social Care, please see the separate report on this agenda entitled: Review of Care and Support Charging and Financial Assessment Framework.

Robustness of and Risks within the Proposed Budget for 2017/18
Statutory CFO Report and Advice on the Robustness of the Budget and Adequacy of Reserves and Balances

1. Introduction

1.1 The Local Government Act 2003 states that when a local authority is making its budget,"the Chief Finance Officer of the authority must report to it on the following matters:—

(a) the robustness of the estimates made for the purposes of the calculations; and
(b) the adequacy of the proposed financial reserves."

And goes on to state that the authority "shall have regard to the report when making decisions about the calculations in connection with which it is made."

1.2 This report has been prepared by the CFO to fulfil her duty and gives the required advice relating to the 2017/18 financial year including a consideration of the budget proposal as a whole and all the financial risks facing the Council in this budget. Also, it identifies the Council's approach to budget risk management and assesses the particular risks associated with the 2017/18 budget to inform the advice.

<u>Executive Summary of the Director of Finance on the budget position</u>

1.3 For the three year period 2017/20, after assuming for Council Tax increases of 4.99% in 2017/18 and 2018/19 and 2% in 2019/20 (subject to Council agreement in each year), total savings required are £44.0m, £24.2m in 2017/18, with a further £10.4m in 2018/19 and £9.4m in 2019/20.

1.4 For 2017/18 the total gap before savings is £24.2m, i.e. comprising overspend brought forward from 2016/17, budgets updated for inflation, other growth pressures and loss of Revenue Support Grant in 2017/18 but partially offset by business rates and tax income including the proposed Council Tax increase, and other budget changes.

1.5 The assessment of the plans to close the gap means that up to £11.1m will need to be funded from one-off measures or resources; this includes a contingency sum of £7.7m to reflect the assessed level of risk associated with the scale of savings and timescale to deliver them in 2017/18.

1.6 As a consequence, putting forward a balanced budget for 2017/18 can only be achieved by exhausting all available General Fund reserves and all available General Fund capital receipts from 2016/17 and £8.3m of those due to be received by the end of 2017/18 (the majority of which is in contract). This leaves the Council in a fragile state as there are still significant risks and dependencies in delivering the savings proposed.

1.7 Therefore, the Council no longer has an adequate level of reserves, except a £5m minimum General Fund balance, and a £4.5m insurance reserve is planned, so the Council is exposed to even modest shocks. However the provision for Equal Pay liabilities is preserved, (although the actual liability will need to be paid using capital receipts).

1.8 The position for 2018/19 onwards is currently not sustainable unless deliverable measures are agreed early in 2017/18 to reduce the budget requirement from 2018/19.

1.9 Having used reserves of £11.1m to set the budget, only £13m of savings have actually been made in 2017/18, so from the original £44m gap there remains a total gap of £31.0m before savings required for 2018/19 and 2019/20 combined. Savings planned in those years of £12.3m are at an early stage of implementation with a significant amount still to be found of £18.7m, £13.7m in 2018/19 and £5.0m in 2019/20.

1.10 The development and delivery of a fundamental review of the Council's service offer and how the Council operates is crucial to deliver a sustainable position from 2018 onwards. The recourse set out above for 2017/18, which is drawn from one off measures, has exhausted reserves except for maintaining the absolute minimum level.

1.11 Unless the Council is able to produce a realistic plan for reducing the budget requirement for future years by quarter 2 2017/18, the s151 Officer will be required to produce a Section 114 report.

1.12 Section 114 of the Local Government Finance Act 1988 requires a report to all the authority's members to be made by the s151 officer, in consultation with the Council's Monitoring Officer and Head of Paid Service, if "the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure" (i.e. there is likely to be an unbalanced budget). In this event the Council must consider the report within 21 days and decide whether it agrees or disagrees with the views in the report and what action it proposes to take to bring the budget into balance. The publication of such a report starts an immediate 'prohibition period'. This mean for everyone who has delegated authority to spend the Council money, immediately has those powers suspended during the prohibition period, and only the CFO can authorise new commitments.

2. Report of the Chief Finance Officer in Respect of Statutory Duties

2.1 The Budget Report as a whole sets out the Council's financial position and budget. This Appendix is the formal report and is part of a continuum of professional advice and is the culmination of a budget process in which lots of detailed work has already taken place with Directors, Senior Managers and their teams and Members. This section provides a summary of the conclusions which are considered in more detail within this report and its appendices.

2.2 The Council is a multi-million pound organisation providing a wide range of statutory and discretionary services, which are subject to external influences outside the Council's direct control. The Council has some choice as to how statutory obligations are delivered.

2.3 In respect of the *robustness of estimates*, estimates have been prepared by Directors and their staff supported by appropriate finance staff in accordance with Budget Guidelines (with an adjustment to reflect the actuarial review of the pension fund) recommended to, and approved by Policy Committee. Where relevant money has been added to meet identified pressures and where savings have been agreed money has been removed from budgets to put that agreement into effect. In January 2017, a further review by the CFO in conjunction with CMT (Corporate Management Team) of budget proposals identified the need to build in a prudent £7.7m contingency into the overall budget, to mitigate the risk of savings that are now considered to be at high risk of not being realised in 2017/18. This contingency includes a general provision as well as allowances against various specific savings and is intended to increase confidence in the deliverability of the overall budget, especially when coupled with the inclusion of known pressures within the estimates, including Social Care.

2.4 The total known pressures of £10.2m has been added to ensure there should be enough money available to meet service demand and delivery costs as currently forecast. The budget additions are closely aligned to corporate priorities. The CMT has considered on several occasions during the development of the budget the financial pressures the Council is likely to face during 2017/18 and the need for additional resources in some service areas to meet the Council's corporate priorities.

2.5 The draft budget has been subject to the risk assessment process outlined below. In aggregate the 2017/18 budget includes £20.7m of savings that have already been formally agreed at various stages dating back to 2015. Lead Councillors have been fully briefed by Directors on savings and budget pressures in their areas of responsibility. Using a RAG basis, the current status of 2017/18 savings is:

	£000		**%**
Red	7,700	(as above)	37
Amber	11,795		57
Green	1,204		6
	20,699		

2.6 Some estimates incorporate allowances for demographic and similar change. These incorporate trend data, and other related information the Council holds about future service demand.

2.7 Annex A sets out further information to support the robustness of estimates. Taking all of the factors into account which are detailed in this report and the proposed minimum level of the General Fund balance of £5 million, the Council is setting a budget for 2017/18 which contains a greater level of risk than in any previous year.

2.8 Given the overspend in 2015/16 and 2016/17, taken together with those budget proposals deemed to be at high risk in January 2017, it is critical the monitoring arrangements are reviewed and strengthened to ensure prompt identification of any emerging issues.

2.9 Specifically, in 2016/17, the Council is experiencing a significant overspend estimated at £7.6m, of which £6m related to Children's Social Care costs arising from the unexpected and continued use of agency staff from 2015/16 into 2016/17, and higher than expected numbers of children. Also, the Ofsted reporting of 'inadequate' and the subsequent review by the Children's Commissioner who is expected to report early into 2017/18, alongside an identified need to improve internal systems and processes, has led to an increase in the expected budget requirement for this area of service. The impact of future reports regarding this service and specifically the financial plan to reduce these costs into the future, have yet to be determined and therefore the ongoing risk of increasing Children's Social Care costs, remains high.

2.10 In the context of this report as a whole, clearly the financial position is challenging, but the *CFO concludes that the estimates are robust*, in that they have been robustly constructed, but the Council must ensure regular monitoring arrangements are in place, are properly resourced, and any remedial action is taken promptly as it will be essential to keep net expenditure within the approved budget, since the Budget in 2017/18 has no significant capacity to meet unforeseen costs or income shortfalls.

2.11 With regard to the *adequacy of balances*, whilst the minimum level of General Fund balance of £5m is preserved, almost all other reserves and most capital receipts will be used up by the end of 2017/18, which the *CFO concludes is not an adequate level*. This exposes the Council to the risk of modest financial shocks damaging further the Council's financial position. Annex B provides further detail on the consideration of the adequacy of proposed financial reserves.

2.12 Consequently, the Council will need to identify deliverable plans by quarter 2 of 2017/18, to ensure the future budget position is sustainable. This needs to include, returning balances to a level which is at least adequate, and equal to the opening 2016/17 position in the medium term. This change programme for the Council must be appropriately resourced, well governed, and ensure the delivery of not only all expected savings but also the development of further proposals to mitigate the budget gap. Further comment from the Interim Managing Director on this and the overall budget is at Annex C.

2.13 Overall gross expenditure savings and income generation, of over £20.7m, including £6.7m identified in earlier years have been built into the 2017/18 budget, and the estimated need for further savings of £31.0m has been identified for the 2018/19 and 2019/20. For these two subsequent years, only £12.0m of required savings have been formally agreed in detail to date and a further £18.7m will need to be identified early in 2017/18 so that the full year effect can be delivered in the 2018/19 financial year.

2.14 Given the reserves position, the ***conclusion of the CFO is that whilst the estimates for 2017/18 are robust and the budget is lawful, the balances are not currently adequate*.**

Annex A Consideration of the Robustness Estimates in the Budget

A1 As indicated in the main report, budget estimates have been prepared by Directors and their staff, supported by appropriate finance staff in accordance with Budget Guidelines approved by Policy Committee (adjusted for the pension fund actuarial review). The starting point was the 2016/17 budget, and where necessary money has been added to meet identified pressures, and where savings have been agreed money has been removed from budgets. This Annex provides further supporting information.

A2 The Council has an established financial risk assessment process, and a specific budget risk management framework (for which supporting details are available on the website). The budget proposal as a whole has been assessed as part of the formulation of the advice on the robustness of the 2017/18 budget estimates and the consideration of the adequacy of the proposed financial reserves including the minimum general fund balance.

A3 The risks within the budget have been discussed by the Corporate Management Team (CMT) who collectively recognise that the significant risks associated with this year's budget are even greater than those significant risks of the prior year budget. Therefore, the context is one of an escalating risk position, which urgently needs to be addressed in a sustainable way to ensure the ongoing financial sustainability of the Council, and a safe balanced budget position.

A4 Applying the framework to the overall budget produces the scores shown in the table below. The scores for 2016/17 (as prepared in January 2016) are shown for comparison. Last year, when the budget was set the total inherent risk score was 223, and the changes for the assessment of the 2017/18 budget have led to an increased overall score of 251 (the (theoretical) scale ranging from 15 to 450). After allowing for mitigating action, the residual risk score has also increased from 158 to 173; i.e. an average score of 10 on all factors to an average score of 12. In the context of the risk management framework, this is an overall move from amber to red.

Inherent and Residual risks for the 2016/17 and 2017/18 budgets

Risk	**Inherent Score**		**Residual Score**	
Overall Budget: Expenditure	2016/17	2017/18	2016/17	2017/18
Inadequate allowance made for inflation (inc. pay award)	16	16	9	9
Underassessment of service demands from Customers	16	20	12	12
Unexpected increase in cost of Partnership Arrangements	6	6	4	4
Unexpected increase in Contract Payments	9	9	6	6
Increased costs due to Legislative Change	12	12	9	9
Increase in Project and other Workloads (capacity)	16	20	12	12
Impact of the economy	12	16	9	12
Overall Budget: Achievement of Income				
Stakeholder resistance leading to Modified Proposal	12	12	9	9
Delay in implementing Fee Increases	9	9	3	3
Customer resistance/reduced customers	12	12	9	9
Underachievement of grant funding	9	9	6	6
Increased/unexpected competition	6	6	4	4
Impact of the economy	12	16	9	12
Savings Options				
Delays in implementing/modified proposals	20	20	16	16
Unexpected or increased one-off costs	12	16	8	9
Value of saving proves to be too high	12	20	12	16
Lack of capacity to deliver – option delayed	16	12	12	16
Measures identified to deliver efficiency savings are not achieved	16	12	9	9
TOTAL Risk Score	223	251	158	173

A5 The higher overall risks recognise various issues

- As indicated elsewhere, in order to set a lawful budget we need to use all reserves save the minimum General Fund Balance, and there is a budget gap of £18.7m in the 2018/19 and 2019/20 years.
- The 2017/18 budget includes £20.7m of savings, the largest single year total the authority has ever had, and whilst there is now a £7.7m contingency for reasons explained elsewhere, with more savings being needed in future years the present position is not sustainable.
- Whilst many staffing structures have stabilised following the 2013-2015 changes, more reductions are needed in back office, senior middle management structures, including permanent appointments to the majority of the Corporate Management Team.
- Because of the resource/grant reductions the Council has experienced since 2011/12, and are set to continue for the remainder of the decade, there is reduced managerial and operational capacity to deliver

identified savings, and indeed develop further proposals to ensure the Council can continue to operate within its available resources.

- Although the Council was able to live within its approved budget up to 2014/15, at the end of 2015/16 it used £2.0m net reserves, and in 2016/17 budgeted to use £7.5m reserves and will actually use over £14m because of the major overspend in Children's Services.
- The Commissioner appointed by the Secretary of State for Education will make a final recommendation for the future of Children's Services early in 2017/18 which may lead to the need for unbudgeted cost to be incurred.
- The medium term budget strategy includes a plan to develop existing and new lines of income over the next three years and move Cultural Services into budget surplus.
- During 2016/17 for the first time since (HRA self-financing in) 2012 we have needed to do some borrowing. With many economic commentators anticipating interest rate increases the capital financing position will present an additional risk as the Council is likely to need around £110m additional short to medium term borrowing over the next financial year, rising to £170m in 2019/20.
- Whilst the pay assumption in the budget follows (1%) central government guidance, in a strengthening economy there remain pay and cost pressures, as for many roles the Council and many of our contractors have to compete in the wider local labour market to attract staff to deliver the Council's services. In the same way as the Council faces additional national insurance costs, employee contributions are also higher impacting "take home" pay. There labour costs, together with the potential impact of the Government's new National Living wage also impact many of our contract costs. There is therefore a risk that actual inflation pressures may be higher than we have budgeted for.

A6 The Council's budget since 2010/11 has been within the £120m-£130m range and in that context, taking account of historic Audit Commission and recently expressed CIPFA guidance that 5% of expenditure balance figure represents about 2 week's net expenditure, the Council has consistently been advised that we should operate within a budget framework with a minimum General Fund Balance of £5m over this period.

A7 Were the balance to fall below the minimum level, the CFO would need to advise the Council to implement measures to bring it back to the minimum as soon as reasonably practical. Ultimately, if measures were not implemented the CFO must issue a S114 report. This freezes all but essential spending and requires the Council to have a meeting to resolve the position.

A8 The recommended minimum level of £5m provides some "cover" against potential variances which despite the budgetary control arrangements in place across the Council have been significant and adverse over the past two years. For the present financial year continues to identify some more significant risks than in previous years of adverse variance.

A9 Maintaining this level of "cover" each year will provide the immediate flexibility necessary to deal with:

- Adverse budget variations;
- New and increased demands which were unforeseen when the budget was set;
- Ability to respond to opportunities requiring financial commitment from the Council which were not identified when the budget was set;
- Emergency situations which might require funding;
- "Bridging" or pump priming funding which might be needed pending receipt of grant funding, other contributions, or generation of capital receipts.

Maintaining a reasonable balance is a key element underpinning the sound financial management of an organisation. Whilst we might ideally have a minimum General Fund Balance at 5% of budget (£6-6.5m), there is not currently scope to increase the minimum £5m at this time. As explained elsewhere, as this the only uncommitted balance it is not adequate.

A10 Other Issues

The Dedicated Schools Grant (DSG) Budget also faces significant challenges, because of demand pressures on the High Needs Block. Despite some work with the Schools Forum in recent years to try to find a sustainable solution for the high needs block, by the end of 2015/16 the overall Dedicated Schools Grant was in a deficit position. This is likely to remain the case at the end of 2016/17. There is a need for a robust recovery plan over time to restore a balanced position on the DSG. The position on the various DSG blocks (schools, early years and high needs) will requires the specific approval of the Independent Schools Forum and likely changes to national funding in this area in 2017/18 coupled with issues flowing from academy conversions and growing free schools may substantially limit flexibilities in addressing this issue in the medium term. This is considered in further detail in Appendix 10.

A11 Adult Social Care Council Tax element

In 2016/17 Government introduced the Adult Social Care (ASC) precept. This was accompanied by a further grant cut, so actually had the impact of passing the cost of funding ASC from the Government to the Council taxpayer. The Government proposes collecting additional information this year about the impact and use of the precept and has said it may take it into consideration in formulating referendum criteria in 2018/19 and beyond.

A12 Business Rates

The current Local Government Finance regime, in particular the arrangements for retention of Business Rates, has significantly shifted risk from Central Government to Local Government. Variations in business rate collection and the impact of appeals are now shared with the Government. Any reduced income in Business Rates needs to be recognised in year and must be taken account of in setting the following year's budget. We continue to estimate an appeals liability around £13m, (although last year it was increased up to almost £16m, though settled appeals have reduced it back to £13m). In general, rates in Reading have increased above the national average in the 2017 revaluation, so there is likely to be a fresh wave of valuation appeals.

Annex B – Consideration of the Adequacy of Proposed Financial Reserves

B1 In order to fulfil the duty to advise on the proposed financial reserves, the comments in respect of the minimum £5m General Fund balance set out above (Annex A) should be noted.

B2 By way of introduction, it is helpful to recognise that the Council holds various balances; some of which in its accounts are classed as reserves and others as provisions. From an accounting point of view a reserve is money that has been set aside for an identified purpose, but may not have a present contractual or other liability that will result in its use. A provision is money set aside for a known liability whose timing and/or potential value is uncertain.

As at 31 March 2016 the Council's audited accounts showed the following reserves and provisions: As at 31 March 2016 the Council's audited accounts showed the following reserves and provisions:

Reserves as at 31/3/2016	**£'000**
Range of Earmarked Reserves -Emergency Planning (£200k) -Legal & Taxation (£250k) -Pension Liabilities (£300k) -Property Liabilities (£200k)	950
Self Insurance	5,400
Organisational Change (Redundancy) Reserve	5,000
Prudential Reserve	5,450
Revenue Grants Unapplied (& other specific)	5,562
HRA – North Whitley PFI	9,100
Subtotal (Reserves)	**31,462**
Provisions as at 31/3/2016	
Equal Pay Back Pay Provision (Resource Backed Element)	11,350
Homelessness Costs & Rent Deposit Guarantee	**320**
Sub Total (Provisions)	**11,670**
Total (Reserves & Provisions (exc. GF/HRA balance)	**43,132**

B3 The first four earmarked reserves above exist to mitigate costs that will arise from time to time, but are of uncertain value and timing. There are increased revenue budget risks without them.

B4 The self insurance reserve is part of the council's insurance arrangements. We have undertaken actuarial review in both 2014 and 2016, and broadly followed its recommendations and have subsequently run normal insurance transactions to and from the reserve.

B5 Normally, we budget to add £800k pa to the redundancy reserve each year; however, as a budget funding measure that was suspended in 2015/16 and 2016/17 but will re-start in 2017-18. There have been far fewer redundancies in 2016/17 that was envisaged at the start of the year. In recent years, on average redundancy costs have been around £33k per head, so the £800k addition to the reserve will support the release of around 90 people (at this average cost). In practice the Council experience significant staff turnover in some areas, and has generally been successful at redeploying many staff who have been at risk of redundancy.

B6 The Prudential Reserve had originally been scheduled to mitigate increasing borrowing costs over time, though we have been able to keep some control over that in the low interest rate environment of recent years, and making changes such as the changed approach to our MRP policy which reduced the budget in both 2015/16 and the estimate for 2016/17. However, as we start to need to borrow our capital financing costs are forecast to rise, although much of this increase is associated with the borrowing cost of our property investment strategy (where there is also additional rent income in the Council's budget that more than compensates).

B7 The revenue grant unapplied reserve exists largely for accounting reasons, in that we are required to account for most grant as we receive it, but sometimes the matching expenditure is in a later financial year. The various balances that make up this total are therefore committed. It is very difficult to estimate the end of year position, but we currently have a working estimate of £5m, with reductions in subsequent years. (The actual for 31/3/16 was as above 5.6m and at 31/3/15 £9.8m (though we anticipate this balance should fall over time as there are fewer specific grants).

B8 We also hold the HRA PFI smoothing reserve, established as part of the HRA business plan, and PFI business plan. This reserve is expected to be stable/slightly increasing for the next few years before being released over the second half of the PFI contract. It is intended to ensure the net cost (after grant) to the HRA of PFI scheme rises only by inflation. Bearing in mind the Government's requirement to cut rents for the 4 years from 2015/16, this is likely to become more significant over time.

B9 In summary, all other reserves apart from the £950k of earmarked reserves are offsetting liabilities, or anticipated future costs that need to be provided for and would otherwise have to be charged to the General Fund.

B10 As indicated in the table above, we also hold a provision against Equal Pay back pay costs. The liability here is just beginning to be settled. We had been increasing the reserve by up to £1.2m annually, funded from revenue so that it might match the eventual forecast liability. However, as explained elsewhere, part of the budget funding strategy this resource will now instead be needed and we will meet the liability using capital receipts. The Equal Pay claims against the Council are currently expected to be concluded over the next two years. The estimated liability is currently being reviewed (following the latest legal judgment, ahead of the close of accounts process).

B11 The final provision mitigates homelessness costs and the rent deposit guarantee scheme. By their nature, both provisions have liabilities against them and are expected to reduce.

B12 The table shows our forecast of these reserves at each year end 2016-2019

Forecast as at	**Actual 31/3/16 £'000**	**31/3/17 £'000**	**31/3/18 £'000**	**31/3/19 £'000**
Earmarked Reserves	950	950	0	0
Self Insurance	5,400	4,300	4,300	4,300
Organisational Change Reserve	5,000	4,850	0	0
Prudential Reserve	5,450	0	0	0
Revenue Grants Unapplied	5,562	5,000	4,000	3,000
Total General Fund	**22,362**	**15,100**	**8,300**	**7,300**
HRA – North Whitley PFI	9,100	9,100	9,100	9,100
Total	**31,462**	**24,200**	**17,400**	**16,400**

B13 Therefore, whilst the Council brought various General Fund reserves into 2016/17, and will hold some of them at 31/3/2017, all of them needed to be used in either 2016/17 or 2017/18 to finance the revenue budget except for the self-insurance reserve and the (technical) balances of grants unapplied.

B14 In addition the Council also has its Housing Revenue Account. Last year we reviewed the HRA and concluded the present HRA balance should be adequate (after allowing for the 4 year reduction and policy rent increases thereafter), taking account of the long term (30 year) plans/projection for the account, to support a limited new build programme starting with the Conwy Close development in the capital programme.

B15 When the next medium term financial plan is developed, it will need to assume no general use of balance will be made, and indeed the plan needs to rebuild reserves back to adequate levels (at least the £11.3m represented by the earmarked, organisational change and prudential reserve balances at 1/4/2016 initially).

B16 The Council will need to keep its level of balances and reserves under review to take account of changing circumstances and risk in particular the outcome of equal pay claims which remains a significant financial risk to the Council.

B17 The Council had been intending to use a property based transaction that would have had the effect of leaving more reserves in place at 31/3/2017 and 31/3/2018, as well as assisting with balancing the 2017/18 budget as a one-off measure. However, planned due diligence associated with this measure has led to the conclusion that the transaction as proposed would not be appropriate and the particular proposal has been discarded. The Council will need to consider what property it continues to hold as part of its on-going financial strategy.

Annex C - Risk Issues Identified by the Managing Director

C1 Whilst there is no statutory requirement at the time of setting the budget for the Council to receive advice from other statutory officers, in discussing the draft of this report it became apparent that the CFO's advice needed to be set in context of the operating and other statutory risks as perceived by the Managing Director, as Head of Paid Service.

C2 Managing Director, as Head of Paid Service

It is the duty of every relevant authority (Local Government & Housing Act 1989) to provide the Head of Paid Service "with such staff, accommodation and other resources as are, in his opinion, sufficient to allow his duties… to be performed."

C3 The Head of Paid Service has to ensure that the Council is organised to fulfil its various functions, and resources are sufficient to do this. The operating context has changed since the assessment made last year. The CFO has highlighted the increased financial risk, and the organisation's capacity, robustness and ability to respond to that risk has reduced.

C4 A robustness and resilience review has been carried out by the Interim Managing Director which has identified common themes that affect the Council's resilience and need urgent attention if the Council is to be able to respond to the risks highlighted by the CFO. It is therefore critical that a sustainable improvement plan, adequately resourced, directed by CMT and overseen by Councillors, is implemented as a matter of urgency. Plans are being developed by Officers to present to Policy Committee in due course.

C5 A significant risk to the satisfactory delivery of a sustainable improvement plan is the high number of interim and temporary staff in key positions. The recruitment of a permanent Chief Executive is imminent, followed shortly by recruitment of permanent Directors of Children's, Education & Early Help Services and Adult Care & Health Services. Consideration will need to be given to the need for a Finance Director, currently not on the formal establishment, and if approved, recruitment should follow directly. Consequently a Corporate Management Team, staffed entirely by permanent staff, should be in place the end of quarter 2 of the 2017/18 financial year.

Treasury Management Strategy Statement 2017/18

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.

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (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 (CLG) 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. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

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

- Treasury Management Strategy for 2017/18
- Annual Investment Strategy for 2017/18
- Prudential Indicators for 2017/18, 2018/19 and 2019/20 (with some updates to 2016/17)
- MRP Statement (in connection with debt repayment)

1.3 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. Should the assumptions on which this report is based change significantly, in accordance with the CLG Guidance, the Council will be asked to approve a revised TMSS. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

1.4 As usual, the TMSS has been prepared based on a template provided by Arlingclose, the Council's treasury management advisor.

2 External Context

2.1 **Economic background:** The major external influence on the Council's treasury management strategy for 2017/18 is likely to be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the Single Market. Formal negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. More uncertainty than usual over future economic prospects will therefore remain throughout 2017/18.

2.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation (CPI) will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing economic growth.

2.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence did not immediately lead to lower GDP growth. However, the prospect of a leaving the single market dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

2.4 Looking overseas, with the US economy and its labour market showing steady improvement, the US Federal Reserve increased interest rates by 0.25% in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing. The impact of political risk on global financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing in some countries for their frugal efforts or even penalised for them, the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

2.5 **Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard. 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. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council. Furthermore returns from cash deposits continue to fall.

3 Interest rate forecast

3.1 The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union, or other global economic events.

3.2 Gilt yields have risen sharply, from their lowest ever levels in living memory, but remain at low levels in comparison with recent years. The Arlingclose central case is for longer yields to decline when the Government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low. A more detailed economic and interest rate forecast provided by Arlingclose is attached at ***Annex A***.

3.3 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 a weighted average rising to 2.5% by the year end (as we will need some longer term borrowing).

4 Local Context

4.1 On 31st December 2016, the Council currently held £358.7m of borrowing and £55.3m of 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

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Forecast £m	31.3.19 Forecast £m	31.3.20 Forecast £m
General Fund CFR	273.2	315.0	381.1	399.7	413.7
HRA CFR	193.3	192.0	194.2	192.1	188.2
Total CFR	**466.5**	**507.0**	**575.3**	**591.8**	**601.9**
Less: Other debt liabilities *	32.8	32.2	31.3	30.4	29.8
Borrowing CFR	**433.7**	**474.8**	**544.0**	**561.4**	**572.1**
Less: External borrowing **	318.4	335.4	291.2	286.4	281.9
Maximum New External Borrowing Requirement	**115.3**	**139.4**	**252.8**	**275.0**	**290.2**
Less: Other Cash Balances (Working capital & Earmarked Reserves)	127.3	125.0	110.0	90.0	85.2
Less: Investments	12.0	15.6	17.2	15.0	15.0
New borrowing Needed	**0.0**	**30.0**	**160.0**	**200.0**	**220.0**

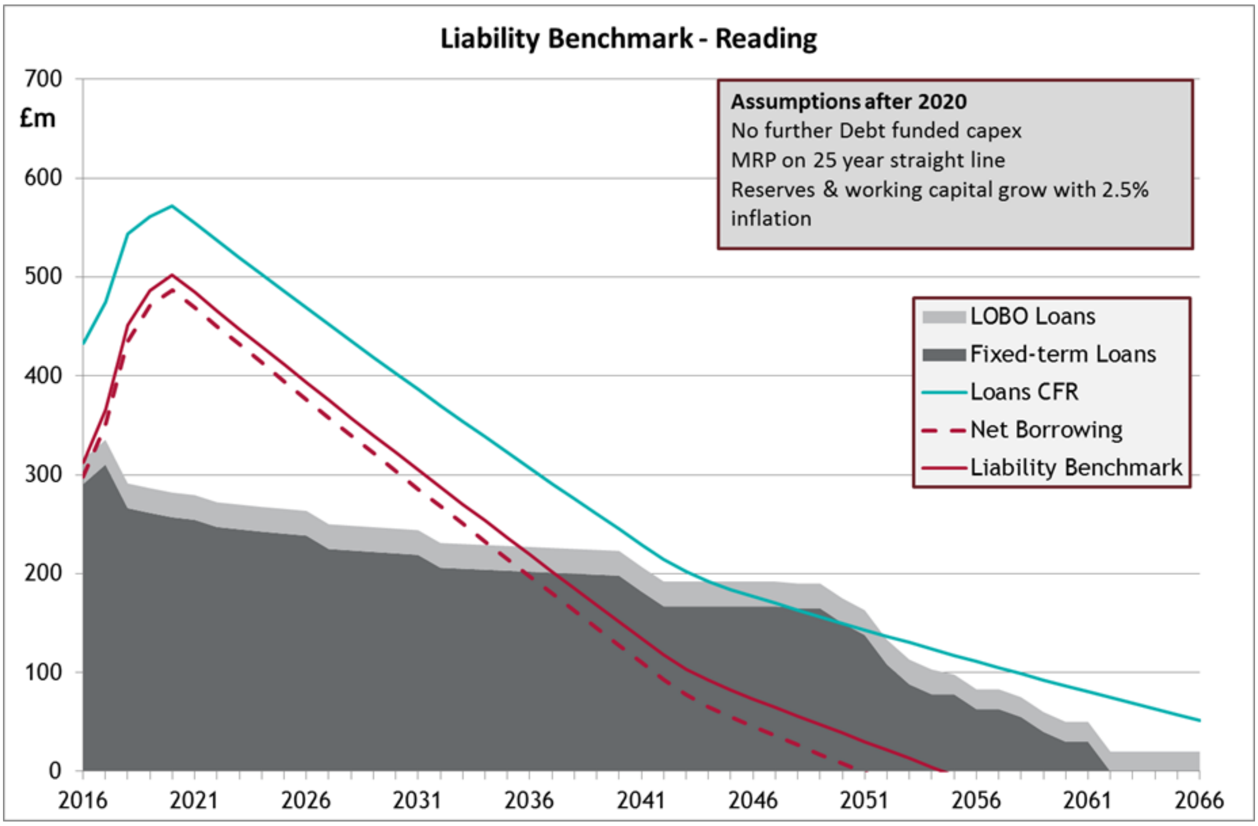
* finance leases & PFI liabilities
** shows only loans to which the Council is committed and excludes any refinancing

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). 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".

4.3 The Council has an increasing CFR due to the capital programme being financed by borrowing exceeding annual debt repayment (mainly arising from our property and housing investment plans), and low investments (£15m in the CCLA property fund and up to £10m to manage day to day cash flows) and will therefore be required to borrow up to £220m over the forecast period. £160m of this is forecast to be needed in the next year. (In part this replaces £44m of borrowing, mainly temporary borrowing, which will mature next year).

4.4 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 2017/18. 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:

- capital expenditure funded by borrowing as set out in Table 2 of Annex C
- minimum revenue provision on new capital expenditure based on an average 25 year asset life
- income, expenditure and reserves all increase by 2.5% inflation a year



4.6 The chart shows that the Council has a borrowing need over the next few years, but if there is not debt funded capital after 2020, debt will decline.

4.7 Homes for Reading Ltd

The Council has established a company Homes for Reading Ltd which will buy residential property for rent. The company's (draft) business plan envisages that it will borrow, or receive in share capital £125-150m from the Council over 5-6 years. 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.

4.8 Commercial Property Investment

During 2016/17 the Council has approved a property investment strategy, and made an initial purchase. Such investment is capital expenditure and the cash flow implications of this investment activity have been taken into account in the above forecasts. The Council has bought two properties in Reading so far, and plans a further acquisition. The timing of such transactions can impact overall assumptions and forecasts, so care will be exercised to mitigate any related risks. Separately, as agreed last year the Council has invested £15m in CCLA's Property Fund, which owns a wide range of commercial property and therefore the risks are shared by a wide range of local authority shareholders. (The fund is specifically for LAs).

4.9 Borrowing Strategy

The Council currently holds £358.7 million of loans (31st December 2016), an increase of £48.6 million over the last year, reflecting our present strategy of funding the capital programme by using "internal borrowing", reducing investments, and short term temporary borrowing (mainly from other local authorities). However, the balance sheet forecast in table 1 (and our detailed treasury budget analysis) suggests we will need to borrow up to £160m towards the end of 2017/18. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £470 million during 2017/18.

4.10 **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.

4.11 **Strategy:** Given the significant 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. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring 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 2017/18 with a view to keeping future interest costs low, even if this causes some additional cost in the short-term. In addition, the Council may need to borrow further short-term loans to cover unplanned cash flow shortages.

4.12 Alternatively, the Council may arrange forward starting loans during 2017/18, 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.

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

- Public Works Loan Board (PWLB) and any successor body[i]
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
- 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
- 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)

4.14 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
- hire purchase
- private finance initiative
- sale and leaseback

4.15 The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance. In recent years other options such as local Council loans have been available at more favourable rates.

4.16 **Municipal Bond Agency:** UK Municipal Bonds Agency plc (MBA) was established in 2014 by the Local Government Association to provide an alternative source of borrowing finance 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 has approved the necessary cross guarantee arrangements to be able to participate in a bond issue. The MBA has been moving towards its initial bond issue, which we understand is expected during 2017. We have indicated that subject to the credit processes of the agency, we intend to be a part of an MBA bond issue during the year.

4.17 **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 as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £10m of these LOBOS have options during 2017/18, 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. Should the Council be offered the opportunity to exit a LOBO at cost, the proposal will be considered on its merits with the advice of Arlingclose, our treasury advisor; essentially a conventional business case will need to show the proposal is positive for the Council. Total borrowing via LOBO loans will be limited to £40m.

4.18 The reduction of £5m in LOBO's from previous years relates to the change in treatment for the LOBO held with Barclays. During 2016, Barclays made a decision to waive their right to change the applicable interest rate of the loan in the future. As a result of this waiver, the loan held has effectively become a fixed rate loan with no changes to its current interest rate with its stated maturity at no risk that the rate will be changed in the future. The original loan was taken at a lower rate than then prevailing long term PWLB rates, so the Council has gained in comparison to the alternative long term borrowing it would have done at the time.

4.19 **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. However, given current interest rate forecasts these risks do not appear to be significant.

4.20 **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. However, given the formula currently used, and the present and forecast structure of the yield curve, and the Council's present debt portfolio it is unlikely that these objectives can be realised during 2017/18.

5. Investment Strategy

5.1 In connection with managing the Council's cash flows, we usually hold some invested funds, generally representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £12m- £75m. During 2017/18, we expect the top end of this range to be £15m-£50m, and normally £25-no more than £40m. £15m of this is held in the CCLA Property Fund (as a longer term investment), so the cash balance will normally be in the £10-£25m range.

5.2 **Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield (the "SLY" principle). 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 normally aim to achieve a return that at least the prevailing rate of inflation, in order to maintain the spending power of the sum invested. (The CCLA Property Fund has achieved that in recent years).

5.3 **Negative Interest Rates:** Should the UK enter into a recession in 2017/18, there is a small possibility that the Bank of England could reduce the Bank Rate to zero, or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options, at least for money market depositors such as the Council. This situation already exists in many 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. In such circumstances we will consider operating as a marginal borrower in the short term market to minimise losses from holding cash.

5.4 **Strategy:** Given the increased risk and reduced returns from short-term unsecured bank investments, the Council has moved the majority of its short term cash holdings to money market funds. With Arlingclose, we will consider options to further diversify into more secure and/or higher yielding asset classes during 2017/18. This diversification will represent a continuation of the new strategy adopted in 2016/17.

5.5 **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.

5.6 **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

† the time limit is doubled for investments that are secured on the borrower's assets
* but no longer than 2 years in fixed-term deposits and other illiquid instruments

** but no longer than 5 years in fixed-term deposits and other illiquid instruments
***this category is provided to enable overnight lending to the main banker – we do not expect Lloyds Bank to fall into this category.

Table 3: Proposed Counterparty List as at 3 February 2017

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).

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	2 years	5 years

UK	Royal Bank of Scotland (RBS Group)	£0m	limit is raised)	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

5.7 **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.

5.8 **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.

5.9 **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.

5.10 **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.

5.11 **Registered Providers (Housing Associations):** 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 some likelihood of receiving government support (or other organised intervention to avoid insolvency) if needed.

5.12 **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.

5.13 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.

5.14 **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 (or other short term period agreed by the S151 officer) will normally be made with that organisation until the outcome of the review is announced. This policy does not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.15 **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 if they meet the credit rating criteria above.

5.16 Should deteriorating financial market conditions materially 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.

5.17 **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:
    - The UK Government,
    - A UK local Council, parish council or community council, or
    - A body or investment scheme of "high credit quality".

For this purpose, 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.

5.18 **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 treasury investments denominated in foreign currencies, nor treasury investments 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 on non-specified investments are shown in Table 3 below.

In practice, during 2017/18 the Council is likely to make mainly specified investments, but Table 3 formally sets limits on non-specified investments.

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 in foreign countries rated below AA+	£0m
Total non-specified investments	£5m+ CCLA Funds

5.19 **Investment Limits**: The Council's revenue reserves are forecast to be £24.2m on 31st March 2017, although much of these are committed in 2017/18. 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

5.20 **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. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. Generally, unless indicated otherwise these limits are unchanged from previous years.

6.1 **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

6.2 **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.

	Target
Total cash available within 3 months (above estimated cash flow requirements)	£10m

6.3 **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).

	2017/18	**2018/19**	**2019/20**
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. (The upper limit has been reduced from 120%).

6.4 **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:

<table>
<tr><th>Maturity Structure of Borrowing</th><th>Upper</th><th>Lower</th></tr>
<tr><td>Under 12 months</td><td>25%</td><td>0%</td></tr>
<tr><td>12 months and within 24 months</td><td>25%</td><td>0%</td></tr>
<tr><td>24 months and within 5 years</td><td>25%</td><td>0%</td></tr>
<tr><td>5 years and within 10 years</td><td>25%</td><td>0%</td></tr>
<tr><td>10 years and within 20 years</td><td>100%</td><td rowspan="5">40%</td></tr>
<tr><td>20 years and within 30 years</td><td>100%</td></tr>
<tr><td>30 years and within 40 years</td><td>100%</td></tr>
<tr><td>40 years and within 50 years</td><td>100%</td></tr>
<tr><td>50 years and above</td><td>100%</td></tr>
</table>

Time periods start on the first day of each financial year. The maturity date of borrowing is the *earliest date on which the lender can demand repayment.* Although these limits have not been changed, there is a possibility that the under 12 month limit may be reached during 2017/18 (if the whole £160m borrowing identified above were taken, together with other borrowing due to mature within a year). 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.

6.5 **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**
Limit on principal invested beyond year end	£15m	£15m	£15m

7. Other Items

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

7.1 **Policy on 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).

7.2 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.

7.3 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.

7.4 **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.

7.5 During 2016/17 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 borrowing).

7.6 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.

7.7 **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.

7.8 **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).

7.9 **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.

7.10 The total amount borrowed will not exceed the authorised borrowing limit of £450 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.

8. Financial Implications

8.1 During 2016/17 the Council expects to earn around £130k on its cash balances. The estimate for investment income in 2017/18 is lower, probably no more than £60k, based on an average investment portfolio of at least £20 million at an interest rate of 0.3%. The budget for debt interest paid in 2017/18 is £12.1 million, based on an average debt portfolio of £360 million at an average interest rate of 3.36%. 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, (Notional) Interest on money lent to others (Reading Buses, and from 2017/18 Homes for Reading Ltd) as well as our MRP budget.

9. 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 believes 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

Annex A – Arlingclose Economic & Interest Rate January 2017

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends.

- Financial markets currently have priced in stronger global growth following significant global fiscal and monetary stimulus; the short term outlook for the global economy is indeed brighter than early 2016. US fiscal stimulus is also a possibility following Trump's victory. The potential rise in protectionism could, however, dampen growth prospects.

- Economic data have presented a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending. On the downside, the currency-led rise in CPI inflation (currently 1.6% year/year) will continue, breaching the target in 2017.

- Over the coming years the rise in inflation will reduce household spending growth, while economic and political uncertainty will dampen investment intentions, prompting lower activity levels.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The usual negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods, particularly if this feeds through into wage growth. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short/medium term.

- The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a low possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen, but remain at low levels. The Arlingclose central case is for yields to decline or remain stable during 2017.

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month LIBID rate													
Upside risk	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
1-yr LIBID rate													
Upside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.95
Downside risk	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
5-yr gilt yield													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.60	0.50	0.45	0.45	0.50	0.50	0.50	0.55	0.60	0.65	0.70	0.75	0.80
Downside risk	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
10-yr gilt yield													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.10	1.05	0.95	0.95	0.95	0.95	0.95	1.00	1.05	1.10	1.15	1.20	1.25
Downside risk	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
20-yr gilt yield													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.65	1.55	1.50	1.50	1.50	1.50	1.50	1.55	1.60	1.65	1.70	1.75	1.80
Downside risk	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
50-yr gilt yield													
Upside risk	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.55	1.45	1.40	1.40	1.40	1.40	1.40	1.45	1.50	1.55	1.60	1.65	1.70
Downside risk	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60

Annex B – Existing Investment & Debt Portfolio Position

	31/12/16 **Actual Portfolio** **£m**	31/12/16 **Average Rate** **%**
External Borrowing:		
PWLB – Fixed Rate	**265.8**	**3.63**
PWLB - Variable	**4.8**	**0.48**
Other Local authorities (short term)	**58**	**0.35**
LOBO loans from banks	**25**	**4.21**
Banks – Fixed Rate (ex Barclays LOBO)	**5**	**3.99**
Total External Borrowing	**358.7**	**3.11**
Other Long Term Liabilities:		
PFI	32.7	
Finance Leases	0.7	
Total Gross External Debt	392.1	
Investments:		
Money Market Funds	31.5	0.28
Bank Call Accounts	8.8	0.15
Pooled Funds (CCLA Property Fund)	15.0	4.86
Total Investments	55.3	
Net Debt	336.8	

Annex C - Prudential Indicators 2017/18

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 (Appendix 7).

Capital Expenditure and Financing	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
General Fund	70,817	**102,728**	50,148	36,546
HRA	12,628	**18,041**	10,563	7,482
Total Expenditure	**83,445**	**120,769**	**60,711**	**44,028**
Capital Receipts/MRA (HRA)	9,099	12.047	8,823	7,542
Government Grants	9,491	28,676	14,692	11,780
CIL/S106	1,238	4,552	2,800	500
Borrowing	63.617	75,494	34,396	24,206
Total Financing	**83,445**	**120,769**	**60,711**	**44,028**

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	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
General Fund	315.0	381.1	399.7	413.7
HRA	192.0	194.2	192.1	188.2
Total CFR	**507.0**	**575.3**	**591.8**	**601.9**

The CFR was £466.5m at 31 March 2016. Therefore, it is forecast to rise by over £145m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment. However, most (£118m) of this borrowing is associated with investment (the property investment strategy, Homes for Reading and advances to Reading Buses).

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	31.03.17 Revised £m	31.03.18 Estimate £m	31.03.19 Estimate £m	31.03.20 Estimate £m
Borrowing (already done)	335.4	291.2	286.4	281.9
Future Estimated Borrowing	30.0	160.0	200.0	220.0
PFI liabilities & Finance Leases	32.2	31.3	30.4	29.8
Total Debt	397.6	482.5	516.8	531.7

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. It has been set to allow for the possibility of borrowing up to a year in advance of immediate need. 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	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	400	**470**	500	520
Other long-term liabilities	40	**40**	40	40
Total Debt	**440**	**510**	**540**	**560**

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 and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 Limit £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Borrowing	410	**460**	490	500
Other long-term liabilities	40	**40**	40	40
Total Debt	**450**	**500**	**530**	**540**

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	**2016/17 Revised %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**
General Fund	7.5	**10.1**	12.0	13.3
HRA	25.4	**25.9**	26.2	26.2

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	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**
General Fund - increase in annual band D Council Tax (Full year effect)	95.27	38.77	32.43
HRA - increase in average weekly rents	**0.80**	0.18	0.00

Adoption of the CIPFA Treasury Management Code: The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition. As far as we are aware, all our treasury activity complies with the Codes recommendations.

Annex D – Annual Minimum Revenue Provision Statement 2017/18

Summary Introduction

This statement was 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 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. The revised arrangements applied from the current 2015/16 financial year. In comparison, only minor changes have been made for 2017/18.

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 2016/17 and 2017/18, 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 Head 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 likely need to fund equal pay settlements (paragraph 14 below) and the need for an orderly financial transition as the Council manages further substantial grant reductions announced by Central Government.

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 Head 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 the Civic Offices and 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 prior to 2007/08 – For this historic borrowing the Council does not hold detailed records that match borrowing to assets, and hitherto has 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. (The approach anticipates that the severe funding cuts of the 2011/12-2019/20 implemented or announced by Central Government will not continue beyond that year). 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").

General Fund MRP policy: prudential borrowing from 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 Head 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 new Civic Offices will be 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 Head 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 Head 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 it's 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. 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 Head 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 Head 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 2016/17 the Council has been developing its plans in place to fund its (estimated) equal pay settlement liabilities. These plans include substantial use of capital receipts, not all of which 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 2016/17 or 2017/18 if there are insufficient capital receipts to fund Equal Pay settlement costs in that (or the following year in the case of 2016/17). 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 be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. 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 Head 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 Head 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.

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[i] Government has consulted on abolishing the PWLB and transferring its functions to the Debt Management Office. The precise timing is unclear, but it is likely to be during 2017/18

GENERAL FUND & SUMMARY COST CENTRE BUDGETS 2016-2017 & 2017-2018

	PAGES	ESTIMATE 2016/2017		PROBABLE 2016/2017		ESTIMATE 2017/2018	
		£'000		£'000		£'000	
Corporate Support Services	2	12,427		12,866		12,424	
Environment & Neighbourhood Services	3	32,180		31,627		28,606	
Childrens, Education & Early Help Service	4	32,731		39,649		36,787	
Adult Care & Health Care Services	5	40,015		41,082		35,041	
Total Directorate Requirements		117,353		125,224		112,858	
Capital Financing Costs		9,300		8,998		13,272	
Insurance Costs		899		899		931	
Property & Pensions Liabilities, Environment Agency Levy, Other Provisions & Cross Council Savings		4,077		4,055		5,297	
Savings Contingency		0		0		7,700	
Redundancy Provision		0		0		800	
		131,629		**139,176**		**140,858**	
Budget Funding Measures							
Use of Reserves & Other Measures		6,800	cr	13,773	cr	11,140	cr
Grants		4,606	cr	4,606	cr	4,391	cr
Use of General Fund Balance		26	cr	600	cr	1	cr
Budget Requirement		**120,197**		**120,197**		**125,326**	
Less							
Reading Share of Business Rate Income		52,577		52,577		60,760	
Business Rate Tarrif Payment		22,368	cr	22,368	cr	27,484	cr
Revenue Support Grant		16,826		16,826		10,368	
Reading's Share of Collection Fund Surplus/Deficit		692		692		1,682	
Council Tax Requirement		**72,470**		**72,470**		**80,000**	

Forecast General Fund Balance

1 April	5,033	5,621	5,021
Use of Balances	26	600	1
31 March	**5,007**	**5,021**	**5,020**

CORPORATE SUPPORT SERVICES DIRECTORATE

Appendix 6

INTERIM MANAGING DIRECTOR - SIMON WARREN

	2016-17 Estimate Budget £'000	2016-17 Probable Budget £'000	2017-18 Budget Breakdown Employee Costs £'000	Running Costs £'000	Gross Expenditure £'000	Income £'000	2017-18 Estimate Budget £'000
MANAGING DIRECTOR & CUSTOMER SERVICES							
Managing Director's Office	242	271	244	6	250	0	250
Business Improvement Team	1,536	1,436	1,762	7	1,769	-336	1,433
IT Services	4,123	4,073	328	4,305	4,633	-156	4,477
Customer Services	1,238	1,257	1,284	164	1,448	-140	1,308
Entitlement and Assessment	948	997	2,704	688	3,392	-2,234	1,158
Housing Benefit & Council Tax	0	500	0	75,000	75,000	-74,630	370
Reading UK CIC	84	105	0	0	0	0	0
Registration & Bereavement Services	-1,235	-1,361	646	308	954	-2,346	-1,392
Berkshire Records	72	19	623	367	990	-887	103
Voluntary Sector Support Team	1,139	1,243	85	487	572	0	572
MANAGING DIRECTOR & CUSTOMER SERVICES TOTAL	**8,147**	**8,540**	**7,676**	**81,332**	**89,008**	**-80,729**	**8,279**
FINANCIAL SERVICES							
FINANCIAL SERVICES TOTAL	**3,383**	**3,550**	**2,524**	**670**	**3,194**	**31**	**3,225**
LEGAL, HUMAN RESOURCES & DEMOCRATIC SERVICES							
Legal Services	1,700	1,755	2,868	1,758	4,626	-2,782	1,844
Committee Administration	356	326	376	13	389	-8	381
Human Resources & Payroll	1,340	1,196	1,120	331	1,451	-218	1,233
Elections/Electoral Registration	410	412	204	321	525	-103	422
LEGAL, HUMAN RESOURCES & DEMOCRATIC SERVICES TOTAL	**3,806**	**3,689**	**4,568**	**2,423**	**6,991**	**-3,111**	**3,880**
COMMUNICATION							
Marketing + Pub.Relations	474	473	415	8	423	0	423
Mayoralty & Lord Lieutenant	48	45	63	40	102	-54	48
COMMUNICATION TOTAL	**522**	**518**	**478**	**48**	**525**	**-54**	**471**
Corporate Support Services Directorate Services Total	15,858	16,297	15,246	84,473	99,718	-83,863	15,855
Recharge to non General Fund Services	**-3,431**	**-3,431**				**-3,431**	**-3,431**
CORPORATE SUPPORT SERVICES DIRECTORATE TOTAL	**12,427**	**12,866**	**15,246**	**84,473**	**99,718**	**-87,294**	**12,424**

Appendix 6

ENVIRONMENT AND NEIGHBOURHOOD SERVICES DIRECTORATE

DIRECTOR - ALISON BELL

	2016-17 Estimate Budget	2016-17 Probable Budget	2017-18 Budget Breakdown				2017-18 Estimate Budget
			Employee Costs	Running Costs	Gross Expenditure	Income	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
TRANSPORTATION AND STREET CARE							
Neighbourhood Services	3,640	3,813	4,099	1,397	5,496	-2,524	2,972
Streetcare Services	3,631	3,216	2,701	2,597	5,298	-2,364	2,934
Network and Parking Services	-4,424	-4,497	1,147	4,332	5,479	-10,337	-4,858
Waste Disposal	7,899	8,087	195	9,120	9,315	-1,433	7,882
Transportation Services	7,239	7,310	1,080	6,764	7,844	-933	6,911
TRANSPORTATION AND STREET CARE TOTAL	**17,985**	**17,929**	**9,222**	**24,210**	**33,432**	**-17,591**	**15,841**
PLANNING, DEVELOPMENT & REGULATORY SERVICES							
Sustainability	-45	-23	147	60	207	-238	-31
Corporate Facilities Management	3,532	4,032	3,592	4,425	8,017	-4,513	3,504
Land & Property Development	-863	-1,457	282	253	535	-2,536	-2,001
Regulatory Services	1,389	1,411	2,684	984	3,668	-2,176	1,492
Planning	585	360	1,193	272	1,465	-949	516
Building Control	110	110	510	54	564	-429	135
Health & Safety	214	214	198	63	261	-35	226
Property Development	2	2	290	220	510	-500	10
PLANNING, DEVELOPMENT & REGULATORY SERVICES TOTAL	**4,924**	**4,649**	**8,896**	**6,331**	**15,227**	**-11,376**	**3,851**
HOUSING & NEIGHBOURHOOD SERVICES							
Libraries	1,464	1,414	926	519	1,445	-210	1,235
Community Safety and Neighbourhood Initiatives	78	28	575	46	621	-540	81
Housing Building Maintenance	0	1	4,625	5,601	10,226	-10,221	5
Housing GF	4,898	4,816	987	5,898	6,885	-1,657	5,228
HOUSING & NEIGHBOURHOOD SERVICES TOTAL	**6,440**	**6,259**	**7,113**	**12,064**	**19,177**	**-12,628**	**6,549**
ECONOMIC & CULTURAL DEVELOPMENT							
Sports & Leisure	903	853	1,836	921	2,757	-1,768	989
Business Development	50	-8	228	20	248	-350	-102
Arts Venues	446	531	1,193	2,737	3,929	-3,531	398
Town Hall & Museum	783	771	1,201	680	1,880	-1,074	806
Culture & Sport Grants	74	74	0	0	0	0	0
New Directions	38	32	1,205	304	1,509	-1,433	76
ECONOMIC & CULTURAL DEVELOPMENT TOTAL	**2,294**	**2,253**	**5,663**	**4,662**	**10,323**	**-8,156**	**2,167**
DENS Directorate	**537**	**537**	**644**	**0**	**644**	**-446**	**198**
ENVIRONMENT & NEIGHBOURHOOD SERVICES DIRECTORATE	**32,180**	**31,627**	**31,538**	**47,267**	**78,803**	**-50,197**	**28,606**

DIRECTORATE OF CHILDRENS, EDUCATION AND EARLY HELP SERVICES

Appendix 6

INTERIM DIRECTOR - ANN MARIE DODDS

	2016-17 Estimate Budget	2016-17 Probable Budget	2017-18 Budget Breakdown				2017-18 Estimate Budget
			Employee Costs	Running Costs	Gross Expenditure	Income	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CHILDREN'S SAFEGUARDING							
Children's Management and Training	364	394	397	0	397	0	397
External Placements	6,465	8,711	0	6,791	6,791	-201	6,590
Family Support	3,454	5,966	5,485	695	6,180	-114	6,066
Placement Choice	7,358	7,826	2,925	5,848	8,773	-176	8,597
Safeguarding	2,786	3,777	2,696	306	3,002	-80	2,922
Children's Safeguarding Total	**20,427**	**26,674**	**11,503**	**13,640**	**25,143**	**-571**	**24,572**
EARLY HELP SERVICES							
Early Help Management	631	631	365	107	472	-50	422
Children Centres	1,238	1,168	1,751	329	2,080	-864	1,216
Targetted Youth Services	876	806	438	45	483	-20	463
Other Early Help Services	1,646	1,560	2,251	410	2,661	-1,154	1,507
Specialist Youth Services	623	567	1,047	220	1,267	-692	575
Early Help Services Total	**5,014**	**4,732**	**5,852**	**1,111**	**6,963**	**-2,780**	**4,183**
EDUCATION SERVICES AND SCHOOLS							
Education General	681	570	856	696	1,552	-915	637
Early Years	7,145	7,180	1,314	6,768	8,082	-1,036	7,046
School Improvement	1,097	1,173	1,021	621	1,642	-550	1,092
Special Education & Children's Disability Team	16,625	19,685	1,220	16,192	17,412	-257	17,155
Asset Management	227	227	498	218	716	-516	200
Schools - ISB *	49,947	49,947	32	52,113	52,145	0	52,145
Schools Block *	-71,874	-74,274	0	1,230	1,230	-75,331	-74,101
Education Services and Schools Total	**3,848**	**4,508**	**4,941**	**77,838**	**82,779**	**-78,605**	**4,174**
GOVERNANCE AND BUSINESS SUPPORT							
Business Support Total	1,568	1,568	1,536	0	1,536	0	1,536
Governance and Business Support Total	**1,568**	**1,568**	**1,536**	**0**	**1,536**	**0**	**1,536**
TRANSFORMATION AND IMPROVEMENT							
LSCB & Safeguarding	819	957	820	81	901	-35	866
Performance Data CSC & Education	200	285	506	21	527	-90	437
Transformation and Improvement Total	**1,019**	**1,242**	**1,326**	**102**	**1,428**	**-125**	**1,303**
DIRECTORATE MANAGEMENT							
Directorate Management	855	925	773	246	1,019	0	1,019
Directorate Management Total	**855**	**925**	**773**	**246**	**1,019**	**0**	**1,019**
CHILDRENS, EDUCATION & EARLY HELP SERVICE DIRECTORATI	**32,731**	**39,649**	**25,931**	**92,937**	**118,868**	**-82,081**	**36,787**

* For further detail on the overall Schools budget please see Appendix 9

DIRECTORATE OF ADULT SOCIAL CARE AND HEALTH SERVICES

INTERIM DIRECTOR - GRAHAM WILKIN

	2016-17 Estimate Budget	2016-17 Probable Budget	2017-18 Budget Breakdown Employee Costs	Running Costs	Gross Expenditure	Income	2017-18 Estimate Budget
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ADULT SERVICES							
ASC Management	1,153	1,011	490	1,484	1,974	-622	1,352
Group Homes and Properties	-98	-148	19	83	102	-280	-178
Adult Social Care Activities	5,972	5,462	9,009	1,019	10,028	-4,575	5,453
Safeguarding	421	371	255	115	370	-56	314
Mental Health Support	2,324	2,681	427	1,795	2,222	-193	2,029
Learning Disability Support	13,944	14,143	1,272	12,409	13,681	-1,185	12,496
OP/PD Support	14,028	14,519	0	16,433	16,433	-5,187	11,246
ADULT SERVICES TOTAL	**37,744**	**38,039**	**11,472**	**33,338**	**44,810**	**-12,098**	**32,712**
Commissioning and Improvement	897	747	1,006	139	1,145	0	1,145
Preventative Services	960	806	171	1,229	1,400	-505	895
Public Health	-292	-292	758	9,424	10,182	-10,705	-523
WELLBEING TOTAL	**1,565**	**1,261**	**1,935**	**10,792**	**12,727**	**-11,210**	**1,517**
LEARNING & WORKFORCE DEVELOPMENT TOTAL	**281**	**832**	**356**	**0**	**356**	**-57**	**299**
DIRECTORATE OTHER TOTAL	**425**	**950**	**379**	**134**	**513**	**0**	**513**
ADULT SOCIAL CARE & HEALTH DIRECTORATE TOTAL	**40,015**	**41,082**	**14,142**	**44,264**	**58,406**	**-23,365**	**35,041**

DRAFT CURRENT CAPITAL PROGRAMME POSITION	2016/17 revised budget	2017/18	2018/19	2019/20	Funding 2016/17 £' 000					Funding 2017/18 £' 000					Funding 2018/19 £' 000					Funding 2019/20 £' 000				
					Grant	S106/CIL	MRA/Rec	Borrowing	Total	Grant	S106/CIL	MRA/Rec	Borrowing	Total	Grant	S106/CIL	MRA/Rec	Borrowing	Total	Grant	S106/CIL	MRA/Rec	Borrowing	Total
Safeguarding and protecting those that are most vulnerable																								
Voluntary Sector Support	110	50	50	50				110	**110**				50	**50**				50	**50**				50	**50**
Oxford Rd Community Centre	-	160						-	**-**		10		150	**160**					**-**					**-**
Supported Living - Avenue Site (Ringfenced Grant)	1,659	-			112			1,547	**1,659**					**-**					**-**					**-**
Disabled Facilities Grants (Private Sector-Ringfenced Grant)	920	500	500	500	920				**920**	500				**500**	380			120	**500**	380			120	**500**
Disabled Facilities Grants (Local Authority Tenants)	390	390	390	390			390		**390**			390		**390**			390		**390**			390		**390**
Day services relocation	358	-			358				**358**					**-**					**-**					**-**
	3,437	1,100	940	940	1,390	-	390	1,657	**3,437**	500	10	390	200	**1,100**	380	-	390	170	**940**	380	-	390	170	**940**
Providing the best life through education,early help and healthy living																								
Mainstream School Schemes																								
Primary Schools Expansion Programme - 2013-2017	17,897	1,000				300		17,597	**17,897**				1,000	**1,000**					**-**					**-**
Moorlands Primary School 1FE Expansion - 2016-2018	50	4,000	300		50				**50**	4,000				**4,000**	300				**300**					**-**
Schools - Fire Risk Assessed remedial Works	266	200	200	200	266				**266**	200				**200**	200				**200**	200				**200**
Critical Reactive Contingency: Health and safety (Schools)	400	1,185	600	600	400				**400**	1,185				**1,185**	600				**600**	600				**600**
Ranikhet School Roof - Repair or Renewal (Lease Obligation)	-	1,377			-				**-**	972			405	**1,377**					**-**					**-**
Heating and Electrical Renewal Programme	50	2,450			50				**50**	2,450				**2,450**					**-**					**-**
Additional School Places - Contingency	100	2,660			100				**100**	2,660				**2,660**					**-**					**-**
Education Asset Management Unit - Cost to Capital	400	400	400	400	400				**400**	400				**400**	400				**400**	400				**400**
Crescent Road Playing Field Improvements	10	215			10				**10**	215				**215**					**-**					**-**
North Reading School Places feasibility	10	20			10				**10**	20				**20**					**-**					**-**
Early Years Schemes																								
Alfred Sutton - additional Nursery Class 30 Hrs Childcare, 26 places	25	343	20		25				**25**	343				**343**	20				**20**					**-**
English Martyrs School - additional Nursery Class 30 Hrs Childcare, 26 p	25	234	20		25				**25**	234				**234**	20				**20**					**-**
Meadway Early Years Building Renovation	-	223	12		-				**-**	223				**223**	12				**12**					**-**
SEND Schemes																								
Blessed Hugh Faringdon - Asperger Unit 30 place expansion (SEN)	306	1,455	46		306				**306**	1,455				**1,455**	46				**46**					**-**
Avenue Expansion	400	20	-		400				**400**	20				**20**	-				**-**					**-**
SEN Expansion Scheme	-	100	1,480		-				**-**	100				**100**	1,480				**1,480**					**-**
Other Education Schemes																								
High Ropes Youth Play Initiative	15	460	-					15	**15**				460	**460**					**-**					**-**
	19,954	16,342	3,078	1,200	2,042	300	-	17,612	**19,954**	14,477	-	-	1,865	**16,342**	3,078	-	-	-	**3,078**	1,200	-	-	-	**1,200**
Providing homes for those most in need																								
Housing Revenue Account-Major Repairs	9,479	8,551	8,373	7,092			7,479	2,000	**9,479**			8,551		**8,551**			8,373		**8,373**			7,092		**7,092**
Housing Revenue Account-New Build	1,000	8,200	1,800				870	130	**1,000**			3,046	5,154	**8,200**				1,800	**1,800**					**-**
Housing Revenue Account - Lowfield Rd temporary accommodation	100	900						100	**100**				900	**900**					**-**					**-**
Private Sector Renewals	325	500	500	500				325	**325**				500	**500**				500	**500**				500	**500**
Dee Park Regeneration	200	200						200	**200**				200	**200**					**-**					**-**
Wholly-owned housing company (set-up costs)	100	-						100	**100**					**-**					**-**					**-**
Wholly-owned housing company	750	25,250	20,000	20,000				750	**750**				25,250	**25,250**				20,000	**20,000**				20,000	**20,000**
St George's Church Affordable Housing scheme	300	-					300		**300**					**-**					**-**					**-**
	12,254	43,601	30,673	27,592	-	-	8,649	3,605	**12,254**	-	-	11,597	32,004	**43,601**	-	-	8,373	22,300	**30,673**	-	-	7,092	20,500	**27,592**
Keeping the town clean,safe,green and active																								
Central Club	-	220						-	**-**				220	**220**					**-**					**-**
Hosier Street Regeneration	3,000	570						3,000	**3,000**				570	**570**					**-**					**-**
Community Resilience	80	180	80	80				80	**80**				180	**180**				80	**80**				80	**80**
The Keep	-	100						-	**-**				100	**100**					**-**					**-**
Mapledurham	-	85							**-**		85			**85**					**-**					**-**
Small Leisure Schemes	638	500	500	500		638			**638**		500			**500**		500			**500**		500			**500**
Abbey Quarter	300	2,463			-	300			**300**	1,476	737		250	**2,463**					**-**					**-**
Tree Planting	73	50	50	50				73	**73**				50	**50**				50	**50**				50	**50**
Invest to Save Salix (match funding for Energy Efficiency Schemes)	250	250	250	250				250	**250**				250	**250**				250	**250**				250	**250**
Invest to save energy savings - Street lighting	1,370	1,570						1,370	**1,370**				1,570	**1,570**				-	**-**					**-**
	5,711	5,988	880	880	-	938	-	4,773	**5,711**	1,476	1,322	-	3,190	**5,988**	-	500	-	380	**880**	-	500	-	380	**880**

DRAFT CURRENT CAPITAL PROGRAMME POSITION	2016/17	2017/18	2018/19	2019/20	Funding 2016/17 £' 000					Funding 2017/18 £' 000					Funding 2018/19 £' 000					Funding 2019/20 £' 000				
	revised budget				Grant	S106/CIL	MRA/Rec	Borrowing	Total	Grant	S106/CIL	MRA/Rec	Borrowing	Total	Grant	S106/CIL	MRA/Rec	Borrowing	Total	Grant	S106/CIL	MRA/Rec	Borrowing	Total
Providing infrastructure to support the economy																								
M4 Junction 11	60	60	60	60			60		**60**			60		**60**			60		**60**			60		**60**
LSTF Contract Retentions	500	-			500				**500**					**-**					**-**					**-**
Local Traffic Management and Road Safety Schemes	-	200							**-**	150	50			**200**					**-**					**-**
Southern MRT (phase 1A, 1B & 2)	1,700	3,920			1,700				**1,700**	3,700	220			**3,920**					**-**					**-**
South MRT (phase 3 & 4) (subject to Growth Deal 3)	-	-							**-**					**-**					**-**					**-**
Green Park Station (New scheme line)	450	6,875	6,875		450				**450**	4,575	2,300			**6,875**	4,575	2,300			**6,875**					**-**
East Reading MRT Phase 1	300	1,000	5,400	10,200	300				**300**	1,000				**1,000**	5,400				**5,400**	10,200				**10,200**
East Reading MRT Phase 2 (subject to Growth Deal 3)	-	-							**-**					**-**					**-**					**-**
NCN Route 422	220	1,080			220				**220**	1,030	50			**1,080**					**-**					**-**
Reading West Station upgrade (subject to Growth Deal 3)	-	200							**-**		200			**200**					**-**					**-**
Pinch Point Schemes (Ringfenced grant)	90	-			90				**90**					**-**					**-**					**-**
Car Parks Partnership	226	226	226	226				226	**226**				226	**226**				226	**226**				226	**226**
Bridges and Carriageways	1,859	1,973	1,699		1,484			375	**1,859**	1,383			590	**1,973**	1,259			440	**1,699**					**-**
Car Parking Equipment	80	-						80	**80**				-	**-**					**-**					**-**
Redlands Pay and Display	-	100							**-**				100	**100**					**-**					**-**
West Reading Transport Study - Southcote/Coley Improvements	-	400							**-**		400			**400**					**-**					**-**
Red Routes	-	100							**-**				100	**100**					**-**					**-**
Lease to RTL (Bus Purchase)	3,000	-	4,000					3,000	**3,000**				-	**-**				4,000	**4,000**					**-**
Superfast Broadband	-	-	20						**-**					**-**				20	**20**					**-**
Culture & Leisure facilities	-	200	200	200				-	**-**				200	**200**				200	**200**				200	**200**
Demountable Pool	160	2,180	60					160	**160**				2,180	**2,180**				60	**60**					**-**
Leisure Procurement	100	80						100	**100**				80	**80**				-	**-**					**-**
South Street refurbishment	700	-			700				**700**					**-**					**-**					**-**
Cemeteries and Crematorium	11	10	80					11	**11**				10	**10**				80	**80**					**-**
Rivermead Essential Works	182	378						182	**182**				378	**378**					**-**					**-**
	9,638	18,982	18,620	10,686	5,444	-	60	4,134	**9,638**	11,838	3,220	60	3,864	**18,982**	11,234	2,300	60	5,026	**18,620**	10,200	-	60	426	**10,686**
Remaining financially sustainable to deliver these service priorities																								
ICT Infrastructure (Invest to save)	1,050	3,250	2,500					1,050	**1,050**				3,250	**3,250**				2,500	**2,500**					**-**
Replacement Vehicles	943	2,624	1,090					943	**943**				2,624	**2,624**				1,090	**1,090**					**-**
Invest in council buildings/Health & safety works	2,673	3,350	2,500	2,500				2,673	**2,673**				3,350	**3,350**				2,500	**2,500**				2,500	**2,500**
Purchase of Commercial Property	24,400	22,000						24,400	**24,400**				22,000	**22,000**					**-**					**-**
Libraries invest to save proposal	250	-						250	**250**					**-**					**-**					**-**
Community Hubs	215	952			215			-	**215**	285			667	**952**					**-**					**-**
Capitalisation	1,060	380	230	230				1,060	**1,060**				380	**380**				230	**230**				230	**230**
Accommodation Review - Civic Offices / Avenue / Emmer Green	1,300	200						1,300	**1,300**				200	**200**					**-**					**-**
Accommodation Review - Town Hall	100	1,300	200					100	**100**				1,300	**1,300**				200	**200**					**-**
Accommodation Review - Henley Road Cemetery	60	600						60	**60**				600	**600**					**-**					**-**
Accommodation Review - 19 Bennet Road (Phase 2 tbc)	-	-							**-**				-	**-**				-	**-**					**-**
Mosaic' System Upgrade	400	100			400				**400**	100				**100**					**-**					**-**
	32,451	34,756	6,520	2,730	**615**	**-**	**-**	**31,836**	**32,451**	**385**	**-**	**-**	**34,371**	**34,756**	**-**	**-**	**-**	**6,520**	**6,520**	**-**	**-**	**-**	**2,730**	**2,730**
	83,445	**120,769**	**60,711**	**44,028**	**9,491**	**1,238**	**9,099**	**63,617**	**83,445**	**28,676**	**4,552**	**12,047**	**75,494**	**120,769**	**14,692**	**2,800**	**8,823**	**34,396**	**60,711**	**11,780**	**500**	**7,542**	**24,206**	**44,028**
Less HRA	**12,628**	**18,041**	**10,563**	**7,482**	**112**	**0**	**8,739**	**3,777**	**12,628**	**0**	**0**	**11,987**	**6,054**	**18,041**	**0**	**0**	**8,763**	**1,800**	**10,563**	**0**	**0**	**7,482**	**0**	**7,482**
Less Lease to RTL	**3,000**	**0**	**4,000**	**0**				**3,000**	**3,000**				**0**	**0**				**4,000**	**4,000**				**0**	**0**
Capital Receipts Held for Equal Pay																								
General Fund	**67,817**	**102,728**	**46,148**	**36,546**	**9,379**	**1,238**	**360**	**56,840**	**67,817**	**28,676**	**4,552**	**60**	**69,440**	**102,728**	**14,692**	**2,800**	**60**	**28,596**	**46,148**	**11,780**	**500**	**60**	**24,206**	**36,546**
	-	-	-	-																				

DFC

Appendix 8

Community Infrastructure Levy (CIL) - Draft Spend Protocol

This protocol sets out proposed procedures for dealing with the allocation and monitoring of the spending of income arising from the Community Infrastructure Levy (CIL).

CIL differs fundamentally from S106 in that the funds collected are not tied to a specific development or the provision of specific infrastructure. Unlike infrastructure provided through S106 planning obligations, which must be necessary to mitigate the impact of a particular development and used only for that specific purpose, CIL funds can be used flexibly to fund any infrastructure as defined within the regulations and contained in the Council's Regulation 123 list. They can be pooled freely (unlike S106) to fund infrastructure priorities and collectively between authorities towards larger strategic investments. They should be seen as a contribution to assisting with the provision of overall infrastructure priorities which may well change over time.

Framework for Determining Expenditure of CIL Monies

Authorities are required to set out their priorities for expenditure through a Regulation 123 list. The current Regulation 123 list for Reading Borough was based on an Infrastructure Delivery Plan that was produced as part of the preparation of the local plan, and in consultation with the various spending services. A copy of the Regulation 123 list was approved as part of the papers submitted to the Secretary of State for approval of the Council's CIL Charging Schedule. It is dated March 2014 and is available on the Council's website. The Regulation 123 list refers to the types of infrastructure but does not specify particular schemes or projects. The priorities relate to:

- Transport infrastructure
- Education facilities projects
- Social / Community facilities
- Leisure and Culture facilities
- Open spaces, sports, recreation, green infrastructure, public realm and environmental improvement projects
- Economic Support
- Renewable Energy Infrastructure
- Air Quality

The CIL regulations set out specific requirements on local authorities to monitor, report and publish, annually, details of all funding received and all expenditure of CIL funding. This will be completed through the annual report presented to Policy Committee in the summer of each year.

Regulation 59F of the CIL Regulations 2010 (as amended)) requires that at least 15% of CIL monies should be spent in the 'relevant local area' in which development is occurring. The requirement is that the local authority ensures that at least 15% of receipts are directed to areas subject to development. It should be noted that these monies (which are referred to as the 'meaningful proportion') do not have to be spent on items on the Regulation 123 list, but could be spent on anything to help mitigate the impact the development has on the area.

Proposed Allocation of Expenditure

The principles are that expenditure will be;

80%:

- on infrastructure as defined in the regulations.
- in accordance with priorities set out in the Council's Regulation 123 list at the time the expenditure is authorised; the contents of the Council's Regulation 123 list will reflect the Council's infrastructure priorities as set out in the Infrastructure Delivery Plan and capital programme.

15%

- at least 15% must be allocated to areas in which CIL liable development is taking place.
- can be allocated to 'infrastructure' listed or not listed on the Regulation 123 list.
- spending needs to meet the requirement to 'support the development of the area'.
- A consultation on the approach to how the Council uses the local contribution will be required. The final allocation of any CIL money, including the local contribution will be made by the Council's Policy Committee.
- Allocations for spending the 15% local contribution will be for CIL receipts received up to the end of September in the previous year.

5%

- 5% of receipts will be allocated to cover administration costs.

The Council's February budget report includes the Council capital programme and an indication of how it will be financed overall including any planned use of CIL receipts. The programme shows proposals for the forthcoming year with some forward planning/commitments for the following two years (i.e. a rolling 3 year programme). based on development monitoring and CIL database information. When the Council approves the budget it will also therefore approve in principle the allocation of how 80% of CIL receipts will be spent.

The financial year end report (presented in the early summer) will provide as necessary a listing of development by relevant area where CIL receipts have occurred or where they are expected imminently. It will indicate the level of CIL receipt from each listed development and thus a calculation of the minimum level of 15% that should be allocated to the relevant area. For the purposes of CIL the relevant local area will be based on the attached plan (Appendix C) showing the Borough divided into four areas; Central, North, South and West. The areas are made up of a number of wards and the boundaries follow ward boundaries.

Although spend would normally take place in the 'area' it is likely that some developments, say on the cusp of a boundary, may mean that some flexibility will need to be applied to some cases. In any event, when allocating the 15% local contribution, consideration needs to be given to the location of the development providing the CIL receipt and the impacts that the development has on its neighbourhood.

There is provision within the regulations for the local authority to allocate up to 5% of CIL receipts to the administration of the scheme. Set up costs, the costs of items such as the purchase of software, and the staffing costs involved in administering the scheme can be paid for directly from CIL receipts. Costs will be incurred by

Planning, Finance and Legal Sections and any other sections with an input into the administration of CIL within the authority. Accordingly, up to 5% of CIL receipts will be allocated to cover all administration costs, albeit this figure can be reviewed from time to time.

Infrastructure Prioritisation Criteria (for 80% Allocation)

The use of 80% of CIL will be focused on:

- Education
- Strategic Transport Projects
- Strategic Leisure / Culture

Which accord with the following:

Must be included in the Regulation 123 list
Be included in the Infrastructure Development Plan and/ or Approved Capital Programme.
May enable other funds that would not otherwise be available or offer a financial return on investment, e.g. needed to match or draw grant funding
Address a specific impact of new development beyond that which has been secured through a S106 obligation or S278 agreement
Contribute to the delivery of key development sites in the district to realise the Core Strategy / Local Plan proposals

The use of the 15% of CIL which is allocated 'locally' could, as alternatives to the priority projects in the area being funded under the 80% above, be focused on:

- Open space improvements / small scale leisure;
- Local highway improvement projects
- Air quality
- Community improvements
- Renewable energy infrastructure
- Economic Support
- Other measures which help to mitigate the impact the development has on the area.

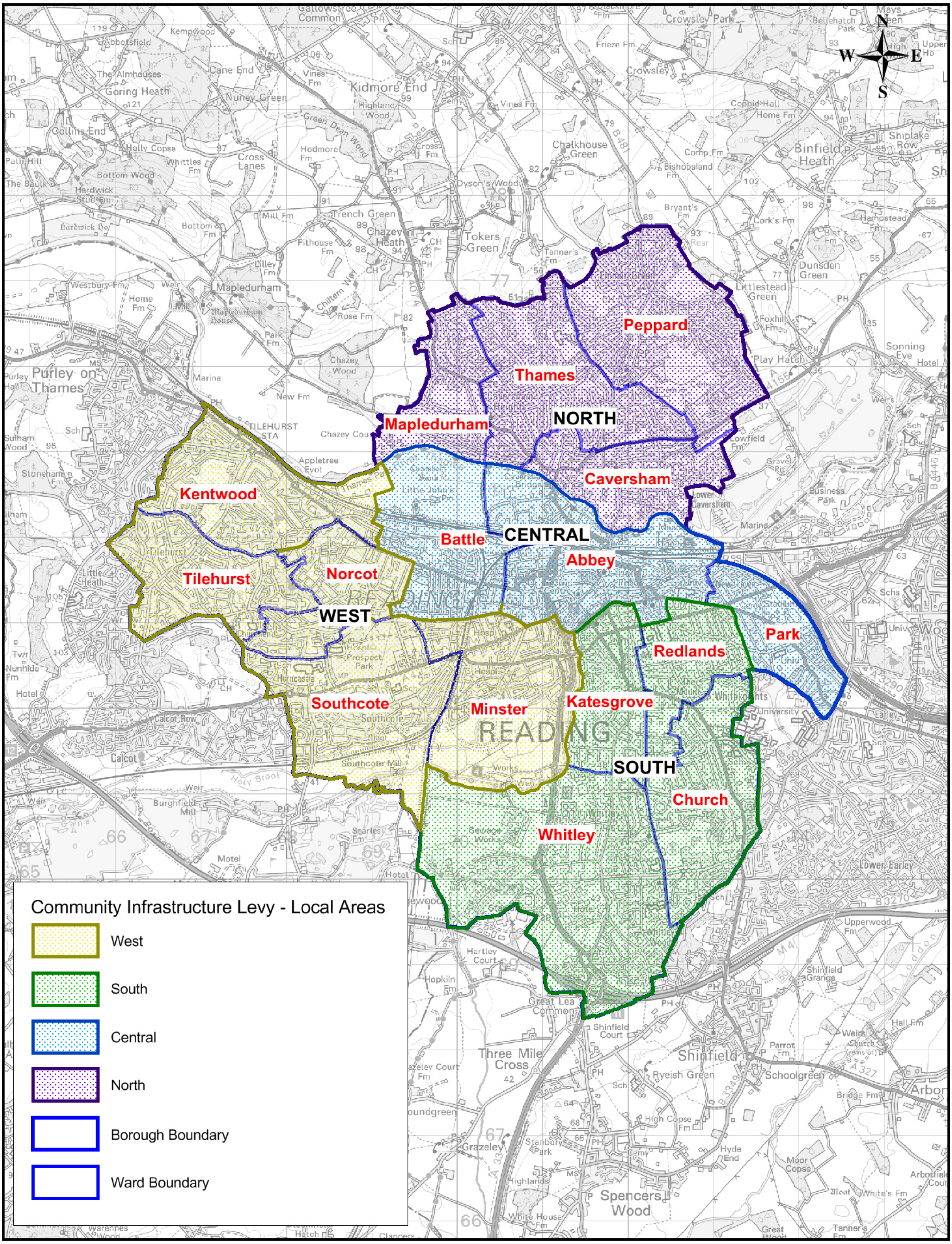
Which must accord with following:

Support: (a) the provision, improvement, replacement, operation or maintenance of local facilities and/or infrastructure; or (b) anything else that is concerned with addressing the demands that development places on a local area.
May be included in the IDP and / or Approved Capital Programme.
May enable other funds that would not otherwise be available or offer a financial return on investment, e.g.

needed to match or draw grant funding
Address a specific impact of new development beyond that which has been secured through a S106 obligation or S278 agreement
Contribute to the delivery of key development sites in the district to realise the Core Strategy / Local Plan proposals

In regards to how the 15% allocation will be processed:

- Council officers will use the information available to put forward projects; these could be from proposals that have been identified via committees, on work programmes, through surveys or elsewhere. Such proposals may include improvements to Parks and Open Spaces or highway schemes, for example;
- Initial proposals will be discussed with Lead Councillors;
- Public consultation on the possible alternative spending priorities under the local community 15% spend will take place in the Summer / Autumn of each year seeking to agree the funds received up to the end of September of the previous year.
- The final allocation of funds will be made by the Policy Committee. This could be on an annual or biannual basis or as and when depending on the priority of the scheme.



Title: Community Infrastructure Levy - Local Areas

Drg.No.:

Date: 20/01/2017

Scale at A4: 1:58000

Produced by GIS & Mapping Services

Ref: 7364\G:\MI\D\CD\Envir\P&T\Community Infrastructure Levy\Updated Map Jan 2017

geoplace

Reading Borough Council

Working better with you

Dedicated Schools Grant

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

The DSG is ring-fenced in order to fund education provision and is split into three blocks:

- the Early Years Block;
- the Schools Block; and
- the High Needs Block.

Councils can transfer funding between the 3 blocks after consultation with the Schools Forum but cannot divert funding away from the DSG.

The Schools Block and schools funding formula for 2017-18 are based on the October 2016 census of pupil numbers. The provisional Early Years Block funding published by the DfE is based on January 2016 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 available for each block.

2017-18 DSG funding available as at January 17 (£m) (before academy recoupment)	**Early Years (Provisional)**	**Schools Block**	**High Needs**	**2017-18 Total**
Schools Block Guaranteed unit of funding per pupil		83.52		**83.52**
Transfer of Education Services Grant		0.31		**0.31**
High Needs			18.19	**18.19**
Early Years 15hrs Free entitlement	9.13			**9.13**
Early Years 2 Year old entitlement	1.53			**1.53**
Early Years Pupil Premium	0.11			**0.11**
Maintained Nursery Transition Grant	0.29			**0.29**
Disability Access Fund	0.03			**0.03**
Indicative 30hrs Allocation from Sept 17 (Additional 15hrs)	1.38			**1.38**
Total funding available	**12.47**	**83.83**	**18.19**	**114.49**

The DSG for 2016-17 was £108.3m with the agreed split being Early Years (£9.8m), Schools Block (£81.5m) and High Needs (£17.0m).

Schools' Block

The Education Services Grant, which funds statutory and general duties within the Local Authority across all maintained schools and academies, will no longer exist as from 2017-18, the funding of statutory duties will be moved into the DSG. There has to be agreement from the Schools Forum to transfer this statutory element back to the Local Authority's budget. The general duties element will be cut completely as from 2017-18. This will increase the pressure on Local Authority's budgets. Reading has asked maintained schools for a de-delegation in 2017-18 to assist with this change.

There are set criteria, to be approved by the Schools Forum, for any funding that is centrally retained; this expenditure cannot be increased, which places additional pressures on the Local Authority's budget. There are exceptions to this which include admissions, Equal Pay back schemes and the growth fund.

The growth fund is set at £0.9m (in 2016-17 this was £0.97m) which 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 January 2017.

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

	Amount £m
Central Retentions-	
Growth Fund	0.90
Contribution to combined services	0.63
Prudential Borrowing	0.05
Admissions	0.16
Servicing of Schools' Forum	0.02
Education Services Grant - statutory duties	0.31
Copyright Licenses (CLA and MPA)	0.10
Total Central Retention	**2.17**
De-delegations	
Behaviour Support (Primary Only)	0.18
Support for under-achieving and EAL ethnic groups (Primary Only)	0.08
Staff Supply cover – Union duties (Primary Only)	0.04
School Improvement (Primary and Secondary)	0.23
Schools in Financial Difficulty (Primary and Secondary)	0.05
Education Services Grant – general duties (Primary Only)	0.15
Total de-delegated Retentions	**0.73**

The total level of central retention is £2.17m and maintained schools agreed the de-delegation element at £0.73m.

Schools Forum were consulted in January 2017 about the Local Authority's proposal to transfer all available unallocated budget from the Schools Block into the High Needs Block to pay for the continuing deficit, which is estimated to be £3.6m at 31 March 2017.

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 £51.4m and Secondary £29.3m.

2017-18 Pupil Premium illustrative allocation tables are expected to be published by the DfE in the summer term 2017. The confirmed rates will remain at the 2016-17 levels.

Grants, including Universal Infant Free School Meals and School Sports Grants, are largely passed directly to schools using the DfE allocation approach.

Early Years Block

A new national funding formula for Early Years will be implemented from April 2017. The national formula consists of a universal base rate with adjustments to reflect the variation in local costs. The new formula states that by 2019 all providers within the Borough will be paid the same rate for the free Early Years entitlement. Reading has adopted this process and has moved to one rate for all from April 2017 (this will be £4.80 per hour). There is an increase to all providers except for the 5 Local Authority maintained nurseries, who will receive a transitional grant until 2019. This change along with the increase in free entitlement of up to 30 hours per week for working parents from September 2017 has brought an additional £2.5m into the Early Years Block.

Two year old funding will continue and the rate will increase from £5.36 to £5.55 per hour from April 2017.

Early Years Pupil Premium will continue at the same rate as 2016-17 and the criteria will be used to fund the deprivation supplement within the national formula.

High Needs Block

The High Needs Block is funding the Council receives from the Education Funding Agency (EFA). 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 Council has agreed the number of places available for SEN and alternative provision within the Borough's boundaries, which will guarantee funding at £10k per place. The Council, as a commissioner of specialist provision, holds a central budget for SEN Services as part of the High Needs Block in order to provide top up funding for those children and young people assessed as requiring this support.

Like many other authorities in the country, the high needs block has come under significant financial pressure in 2016-17 with an expected in-year overspend of £2.4m (and a deficit of £3.6m in total due to the £1.2m deficit from 2015-16). 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.

DSG deficit and recovery plan

At the end of this financial year, it is anticipated there will be a net DSG deficit of £3.6m, which will require approval from the Schools Forum in March 2017. 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 at a time of a tightening budgets together with future changes in national funding from 2018-19. Currently the DfE is consulting nationally on a High Needs National formula, which ends in March 2017. This 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.

APPENDIX 10: HOUSING REVENUE ACCOUNT

	2016-17 Budget	2016-17 Probable	2017-18 Budget
Expenditure			
	£'000	£'000	£'000
Responsive & Planned Repairs (1)	5,518	5,650	5,865
Major Repairs (1)	7,843	7,782	7,541
Major Repairs - Hexham Road	1,400	1,400	1,400
Major Repairs c/fwd (2)	0	-539	0
Major Repairs - Hexham Road c/fwd (2)	-1,200	-1,200	0
Emergency Provision	200	200	200
Total Repairs	13,761	13,293	15,006
Managing Tenancies	1,814	2,082	1,926
Management, Policy & Support	4,510	4,280	4,259
PFI	6,943	6,675	6,746
Rent Collection	986	943	963
Building Cleaning, Warden, Concierge & Energy Costs	2,118	1,944	2,017
Rents, rates and other	283	333	303
Total Supervision & Management	16,654	16,257	16,214
Capital Financing costs (3)	10,600	10,367	10,500
TOTAL HRA EXPENDITURE	41,015	39,917	41,720
Income			
Dwelling rents (4)	34,610	35,553	34,300
Garages	450	435	443
Heating Charges	200	194	200
Shop Rents	190	201	200
Total Rents	35,450	36,383	35,143
PFI Allowance	3,997	3,997	3,997
Interest on Revenue Balance	110	110	110
Service Charges	450	882	803
Other Income	168	185	185
Total Other Income	4,725	5,174	5,095
TOTAL HRA INCOME	40,175	41,557	40,238
Net Expenditure/(Income)	840	(1,640)	1,482

(1) Outlined in 2017/18 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 £1.2m previously agreed expenditure is being carried forward into 16/17.
(3) The scope for additional voluntary debt repayment will be reviewed.
(4) Social rents are subject to a 1% reduction (2017/18 is year 2 of 4) as outlined in the Welfare Reform and Work Act 2016