READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF RESOURCES

TO: POLICY COMMITTEE	
DATE: 14th DECEMBER 2020	**AGENDA ITEM:**
TITLE: 2021/22 DRAFT BUDGET AND MEDIUM TERM FINANCIAL STRATEGY 2021/22-2023/24 - INTERIM POSITION	
LEAD COUNCILLOR(S): COUNCILLOR BROCK	**PORTFOLIO: LEADER OF THE COUNCIL**
SERVICE: ALL	**WARDS: BOROUGHWIDE**
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report sets out an interim position in relation to the Council's draft Medium Term Financial Strategy (MTFS) and associated spending plans for the three years 2021/22 to 2023/24. The report covers all aspects of the Council's spend: General Fund revenue expenditure funded by Council Tax, Business Rates, government grant and other sources of income. Housing Revenue Account (HRA) expenditure, funded by council tenants' rents and the Council's Capital Programmes (General Fund and HRA) funded by grants and contributions, capital receipts, revenue and prudential borrowing.

1.2. Work is ongoing to close the Council's budget gap and present a balanced budget for 2021/22 and Medium Term Financial Strategy. However, due to the significant financial pressure and economic uncertainty created by the Covid-19 pandemic, a lack of clarity in relation to certain aspects of the one year spending review, the Provisional Local Government Finance Settlement not being announced until mid-December, plus not all information having yet been received from Brighter Futures for Children to enable the contract sum to be finalised, this is proving challenging.

1.3 The proposals included within this report are informed by and support the Council's Vision: "to ensure that Reading realises its potential – and that everyone who lives and works in Reading can share in the benefits of its success", as well as its Corporate Plan priorities:

- Securing the economic success of Reading;
- Improving access to decent housing to meet local needs;
- Protecting and enhancing the life outcomes of vulnerable adults and children;

- Keeping Reading's environment clean, green and safe (which includes addressing the declared climate emergency);
- Promoting great education, leisure and cultural opportunities for people in reading; and
- Ensuring the Council is 'fit for the future'.

1.4 The Draft General Fund Revenue Budget proposals included within this report for consultation and the associated MTFS are based on the latest information available. A number of matters and assumptions remain to be finalised which may alter our current forecasts, principally these include the formal determination of the Council Tax Base (to be considered by Council in January), the impact of the Spending Review (25th November) and the subsequent Provisional Local Government Finance Settlement (LGFS) expected in mid-December, and agreement of the Business Plan and associated contract sum for Brighter Futures for Children, the Council's wholly owned company which delivers Children's Services on behalf of the Council.

1.5 Following the resolution of the above matters and the conclusion of the consultation period on the Draft Budget, a further report will be brought to Policy Committee on 15th February 2021 recommending approval of a balanced budget to Full Council in order that it can approve its budget, associated Council Tax level and precept for 2021/22 at its meeting on 23rd February 2021.

1.6 The Medium Term Financial Strategy builds on work over the previous two to three years and seeks to facilitate vital investment in core infrastructure to drive efficiency improvements, facilitate service redesign and thereby manage pressures within demand led services. This invest to save approach enables vital and valued services to continue to be delivered albeit differently. The Budget Strategy relies on significant service transformation to drive increased efficiency savings and income generation. In particular, the budget assumptions currently include:

a) Revenue Support Grant from Government (£2.0m per year);
b) New Homes Bonus Grant of £2.8m in 2021/22 and £2.0m in 2022/23
c) General Council Tax increases of 1.99% each year;
d) An additional Adult Social Care precept of 1.00% in 2021/22
e) £27.7m of efficiencies and increased income across the period;
f) A contingency provision over the three years (£4.1m 2021/22; £4.8m 2022/23; and £6.5m 2023/24) to mitigate possible slippage or non-achievement of higher risk savings and/or income targets over the period;
g) General Fund capital investment of £177.6m over the period 2021/22 to 2023/24;
h) £1.2m of transformation funding (in 2021/22) to support delivery of efficiency savings assumed within the MTFS.

1.7 On 1st December 2018 the Council incorporated a Local Authority Company, Brighter Futures for Children [*BFFC*], to provide services previously provided directly by the Council. In September 2019, OFSTED recognised the steady improvement in the performance of children's services across all four judgement areas and moved the rating of the Service from "Inadequate" to "Requires Improvement to be Good". This improvement will translate into better life outcomes for vulnerable children, young people and families in the town and the Council and Company are committed to working in partnership to achieve "Outstanding" as quickly as possible.

1.8 Budgets to support children's services (agreed as part of the existing MTFS) include growth to recognise inflationary pressures as well as demographic growth, but also robust savings and efficiency targets underpinned by contingency provision to mitigate against slippage or non-delivery of the most challenging savings. These assumptions are currently under review as part of the ongoing work with BFFC to agree its Business Plan and contract sum as outlined above.

1.9 For ease of reading; the remainder of the report is split into four sections:

Section A Background and Context
Section B General Fund Revenue Budget
Section C Housing Revenue Account (HRA) Budget
Section D Capital Programme

2. RECOMMENDED ACTION

2.1 That Policy Committee agree the Interim Draft 2021/22 General Fund and Housing Revenue Account budgets, Draft Capital Programme and Medium-Term Financial Strategy as set out in Appendices 1-8, for consultation, noting the following:

a) the Council's Interim General Fund Budget Requirement of £143.702m for 2021/22 and an assumed increase in the band D Council Tax for the Council of 1.99% plus an additional 1.00% Adult Social Care precept, or £50.60 per annum representing a band D Council Tax of £1,742.76 per annum as set out in paragraphs 12.1 to 12.3;

b) the potential impact on the budget gap of increasing the additional adult social care precept in 2021/22 as set out in paragraph 12.5;

c) the proposed service savings and efficiencies of (£12.5m) and additional income of (£0.8m) currently proposed in 2021/22 and set out in Appendix 2, plus corporate savings of (£0.9m);

d) the overall savings currently proposed within the MTFS of (£27.7m) (of which changes to income, fees and charges is (£5.3m)), plus the three-year growth changes to service budgets of £20.4m as set out in Appendix 3;

e) the Housing Revenue Account Interim budget for 2021/22 of £41.8m as set out in Appendix 4 which assumes a 1.5% increase in social dwelling rents from April 2021 giving a revised weekly average target rent of £104.11 as set out in paragraph 16.2;

f) the General Fund and Housing Revenue Account Interim Capital Programmes as set out in Appendices 5a and 5b;

g) the Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 6; and

h) the Fees and Charges outlined in Appendix 7 of the report;

Appendix 1 Summary of Interim General Fund Budget 2021/22 to 2023/24
Appendix 2 Interim General Fund Revenue Budget by Service 2021/22 to 2023/24
Appendix 3 Detailed Interim General Fund Budget Changes 2021/22 to 2023/24
Appendix 4 Interim Housing Revenue Account Budget 2021/22 to 2023/24 and Reserves
Appendix 5 Interim General Fund and HRA Capital Programme 2021/22 to 2023/24
Appendix 6 Flexible Capital Receipts Strategy
Appendix 7 Fees and Charges
Appendix 8 Equality Impact Assessment

Section A Background and Context

3. BACKGROUND

3.1. The Medium-Term Financial Strategy makes assumptions about income from Government grant, Council Tax, fees and charges and rents. It facilitates investment in key infrastructure to support transformational changes and improved customer service thereby underpinning fit for purpose; efficient service delivery and the Council's priorities as set out in its Corporate Plan:

- Securing the economic success of Reading;
- Improving access to decent housing to meet local needs;
- Protecting and enhancing the life outcomes of vulnerable adults and children;
- Keeping Reading's environment clean, green and safe;
- Promoting great education, leisure and cultural opportunities for people in Reading; and
- Ensuring the Council is Fit for the Future

3.2. As part of keeping Reading's environment clean, green and safe, the Council has declared a climate emergency and recognised its potential impact on the health and well-being of residents, visitors and the planet. The revenue and capital proposals set out in this report, take into account the obligations and responsibilities incumbent in this recognition and include investment in a number of initiatives to improve air quality, reduce CO2 emissions and increase recycling rates.

4. THE CURRENT ECONOMIC AND FINANCIAL ENVIRONMENT

4.1. The Council's future financial position, the demand for services and ability to recover previous and generate new income streams is significantly affected by the wider economic, political and financial environment. The following paragraphs set out some of the more significant factors that have the potential to impact on the Council:

Brexit

4.2. Technically the UK left the EU on 1st January 2020 and is currently towards the end of the one-year transition period. At the time of writing this report it remains uncertain as to whether the UK will have a trade deal with the EU or not. Even with a trade deal, whilst there are a range of views on the subject, there is general acceptance that there will be some economic turbulence caused, at least in the short term. This is likely to have some impact on key drivers such as interest rates, inflation, public sector finances and Council Tax and Business Rates income.

Coronavirus Pandemic

4.3. The current financial year has been dominated by the Coronavirus pandemic. The social and economic impact has been immense with significant knock-on consequences for both public sector and local government finances. At the time of writing this report the numbers of those directly affected by the disease are growing both nationally and across the world. There is hope that the development and roll out of the new vaccines in the new year will gradually enable recovery, but it is far from certain how quickly this will occur. What is clear is that even if the worst impacts of the virus can be brought under control in the new year, there has already been significant economic damage caused across the world. Just as with Brexit this will have a wide-ranging impact on the financial drivers impacting public finances.

4.4. At the same time, the consequences of the virus have put enormous pressure on public services. Whilst the biggest headlines might have gone to the NHS, other public services such as Social Care, Education and Public Transport have also been significantly impacted. For care and welfare services there has been a substantial increase in demand, whilst for others such as transport, demand has collapsed, challenging future viability of services. Of particular concern to local authorities is the adverse impact on income streams which have been built up in recent years to compensate for declining Central Government funding. Currently there continues to be much turbulence, but even if/when things improve there are likely to be significant on-going consequences, although it is difficult to predict with accuracy what these might be. Indeed, the increased lack of planning certainty is a significant challenge in itself; as outlined above.

Environmental Challenges

4.5. Whilst Brexit and the Coronavirus pandemic present more immediate challenges, arguably the greater, but more medium term challenge relates to our environment. The Council itself has recognised a Climate Emergency, but there are other related issues such as waste management, particularly plastics, as well as the spread of pests and diseases and a significant reduction in biodiversity all of which threaten our food supplies.

4.6. The UK was due to host a UN Climate Summit in 2020, now postponed to 2021 due to the Coronavirus pandemic, where it is likely that world leaders will increasingly recognise these challenges and implement a range of policy changes to try and address the issues. The behavioural changes required are likely to have significant impacts upon economic activity. This suggests that the relatively short-term challenges presented by Brexit and Covid-19 are unlikely to be replaced by much better times ahead, but rather that the operational environment is likely to remain challenging in the medium to long term. It is unclear exactly what this will mean, but it is probable that the Council will need to show both flexibility and leadership in response.

Public Sector Spending Plans

4.7. The 2021/22 Spending Review announcement on 25th November 2020 included the following matters that are pertinent to the Council's finances and the wider environment in which it operates:

- Public sector pay increases, excluding NHS workers, will be paused in 2021/22 except for those workers earning less than £24,000 who will receive a minimum £250 increase. It should be noted, however, Central Government does not control Local Government pay and it remains to be seen whether the National Employers follow the Government steer, or not.
- A proposed basic Council Tax referendum limit of 2%;

- The ability to levy an additional adult social care precept of up to 3% (this can be split over 2021/22 and 2022/23 providing the aggregate doesn't exceed 3%);
- Increasing Revenue Support Grant in line with inflation
- Maintaining the existing New Homes Bonus scheme for a further year with no new legacy payments
- £300 million of new grant funding for adult and children's social care, in addition to the £1bn announced as part of the Spending Review 2019 that is being maintained in 2021/22
- There will be £16m to support modernisation of local authorities' cyber security systems
- £1.55bn to meet additional expenditure pressures arising in 2021/22 as a result of COVID-19
- £670 million of additional grant funding to help local authorities support households that are least able to afford council tax payments
- £0.8bn of funding for tax revenue losses; this is intended to cover 75% of irrecoverable Collection Fund losses in 2020/21 that would otherwise need to be funded through local authority budgets in 2021/22 and later years
- Extending the existing COVID-19 sales, fees and charges reimbursement scheme for a further three months until the end of June 2021
- The business rates multiplier will be frozen for 2021/22
- Additional financial support will also be available to local authorities facing the highest Covid restrictions. This will support local public health initiatives through the Contain Outbreak Management Fund

4.8. Full details of the implications of the Spending Review and the Local Government Finance Settlement for the Council are due to be announced in mid-December by the Ministry of Housing, Communities and Local Government (MHCLG).

Demographic Forecasts

4.9 One of the key drivers of demand for Council services, and hence cost pressures, is demographic growth, principally in terms of resident and customer numbers but additionally in net daily inflows of visitors. Whilst general central government funding has seen real-terms decreases over the last decade, service demand and demographic pressures have risen, not fallen, in comparison. Since 2011, the Office of National Statistics [*ONS*] estimate Reading's population has risen by 4.1% (though has decreased slightly in mid-2019). Whilst the average increase is 4.1%, the rise in 0 – 18-year olds is 9.6% and the rise in over 65s is 13.2% - both higher than the overall average.

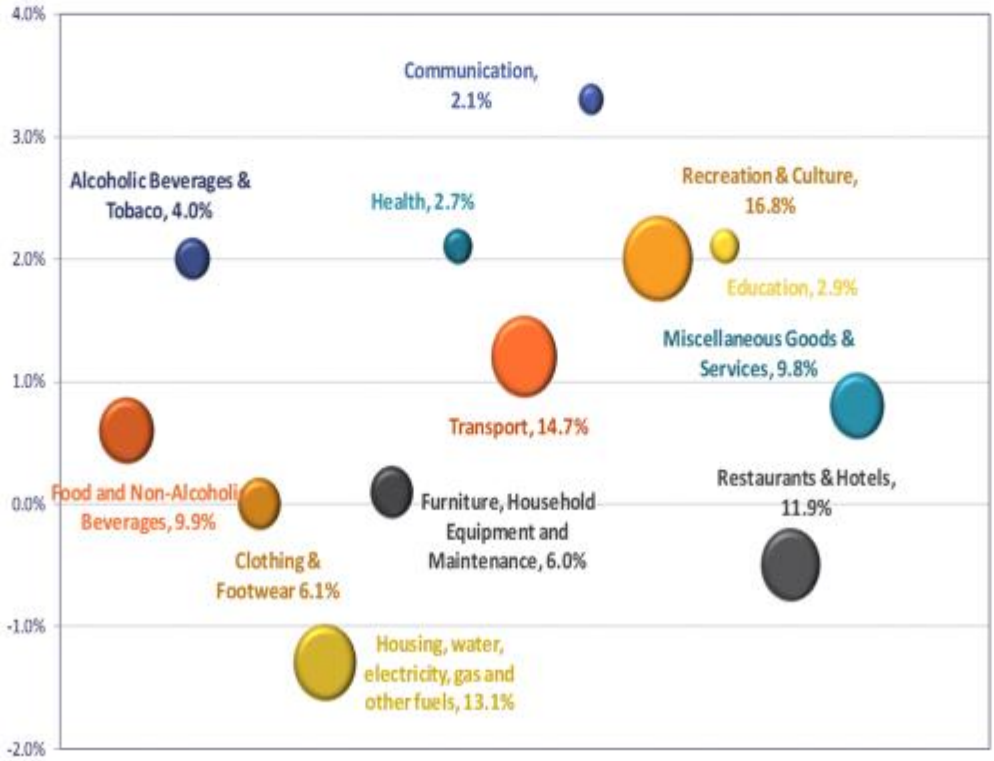
4.10 The ONS produce future forecasts of population and predict an overall population increase of 2.3% by 2043. However, within this total the percentage of residents aged 65+ is Projected to increase by 51.1%. Whereas, 0-19 year olds are projected to decrease by 6.8%.

Inflation Expectations

4.11 Inflationary pressures on the Council's employee and contractor costs represent a significant annual pressure that needs to be funded. Equally, inflation rates impact on fees and charges, Council Tax capping levels and business rate income through the nationally set Non-Domestic Rates Multiplier.

4.12 The annual inflation rate in the United Kingdom crept upwards to 0.7% in October 2020 from 0.5% in September, slightly outperforming market expectations of 0.6%. This is the highest reading in three months, led mainly by rebounds in the prices of clothing, food and furnishings. In November's Monetary Policy Report, the Bank of England forecast that inflation is expected to get closer to the 2% target than expected in August 2020, largely reflecting the direct and indirect effects of Covid-19. The Bank of England also noted that both consumer spending and investment activity have softened in recent months. The following chart shows the breakdown of UK CPI year-on-year as at October 2020:

Chart 1. UK CPI Breakdown October 2020 (%) year-on-year



4.13 Post 2020/21, The Bank of England forecasts that CPI inflation will remain relatively stable, rising from 0.7% to 2.1%, 2.0%, and then 2.1% over the next three years. This forecast is subject to a degree of uncertainty which increases over time.

UK Unemployment

4.14 The current rate of UK unemployment is 4.80% as of October 2020. The Bank of England revised down unemployment expectations at the end of Quarter 4 of 2020 to 6.3%, increasing to 6.7% in 2021/22 before falling to 4.9% and 4.3% in 2022/23 and 2023/24 respectively. However, there is considerable uncertainty over this, as current levels of unemployment are being suppressed by the protection being offered by the Furlough scheme.

4.15 Increasing unemployment is likely to increase the number of Local Council Tax Support Scheme claimants, thereby reducing the tax base and thus the amount of Council Tax income collectable.

Deprivation

4.16 One of the key outcomes for the Council is to improve the well-being of its residents and to address the needs of those most in need. The degree to which assessed need and inequality might be measured is by reference to the national Index of Multiple Deprivation [*IMD*].

4.17 IMD scores and weightings are based on seven domains of deprivation and are weighted individually to provide an overall IMD score. There are also two additional indices as set out below:

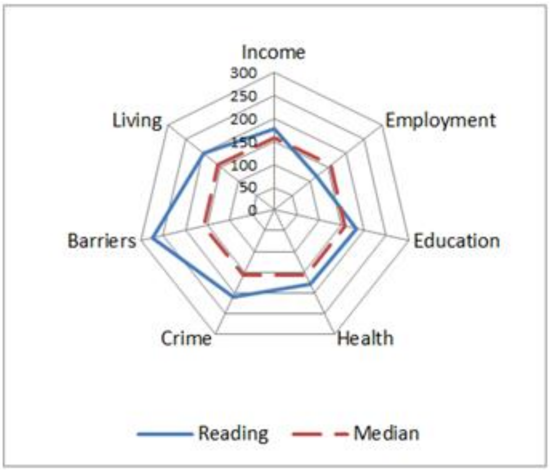
- Income Deprivation (22.5%)
- Employment Deprivation (22.5%)
- Education, Skills and Training Deprivation (13.5%)
- Health Deprivation and Disability (13.5%)
- Crime (9.3%)
- Barriers to Housing and Services (9.3%)
- Living Environment Deprivation (9.3%)
- Index of income deprivation affecting children
- Index of income deprivation affecting older people

4.18 Key Headlines are:

- Reading as a whole is ranked the 141st most deprived out of 317 local authorities in the country
- Reading now has 5 LSOAs (Lower Super Output Areas) within the most deprived 10% nationally, compared with only 2 in 2015 (indicating increased disparity across the borough)
- Reading has 4 LSOAs in the most deprived 5% in the country on the Education, Skills and Training domain (3 according to IMD 2015)

4.19 The chart below illustrates the 2019 IMD statistics for each of the above seven indicators relative to the (median) average across all 317 local authority areas, showing that Reading has a higher deprivation score than the median on 6 of the 7 indicators, but has a better level of employment than the median:

Chart 2. Index of Multiple Deprivation (2019)



4.20 The Government announced in the Spending Review an additional £4bn of funding nationally for its Levelling Up agenda to improve the standard of living across disadvantaged areas of the country. This funding is accessible via a bidding process which will require local support including from the local MP.

Interest Rates

4.21 The coronavirus outbreak has done huge economic damage to economies around the world including the UK's. The Bank of England took emergency action in March 2020 to cut Bank Rate to first 0.25%, and then to 0.10%, where it has remained to date. Whilst some forecasters have suggested that a cut into negative territory could happen, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. No increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

4.22 From the local authority borrowing perspective, HM Treasury imposed two changes of margins over gilt yields for Public Works Loan Board (PWLB) rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. The second, partially reversed the impact for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes. A consultation with local authorities on possibly further amending these margins was also undertaken and closed on 31st July.

4.23 Central Government published its response to the consultation on 25th November 2020 and is publishing revised lending terms for and guidance to support Local Authorities to determine if a proposed project is eligible for PWLB funding. These new terms will apply to all loans arranged from 9am on 26 November 2020.

4.24 The main features of the new lending terms are:

- As a condition of accessing the PWLB, Local Authorities (LAs) will be required to submit a high-level description of all their capital spending and financing plans for the following three years, including their expected use of the PWLB. In order to minimise the administrative burden for LAs, this process is closely modelled on the existing application process that most large LAs follow to access the Certainty Rate (a discounted rate offered by the PWLB).

- The authority's Chief Financial Officer (CFO) will be required to confirm that there is no intention to buy investment assets primarily for yield at any point over the next three-year period regardless of funding source. The assessment of 'primarily for yield' is based on the CFO's professional judgement.
- When applying for a new loan, the local authority will be required to confirm that the plans they have submitted remain current and that the assurance that they do not intend to buy investment assets primarily for yield remains valid.

4.25 Whilst the Government is committed to the prudential system and has no intention of routinely reviewing the purpose of individual loans, if HM Treasury has concerns that a loan may be used in a way that is incompatible with HM Treasury's own duties to ensure that public spending represents good value for money to the taxpayer, they will contact the LA to gain a fuller understanding of the situation. Should it transpire that an authority has deliberately misused the PWLB, HM Treasury has the option to suspend access to the PWLB, and ultimately require that loans be repaid.

4.26 The Government will monitor the implementation of these reforms to make sure that the new lending arrangements are working as intended. MHCLG is reviewing the effectiveness of the local government borrowing and investment framework and is developing options to intervene directly where there are concerns that authorities are not complying with the intent of the prudential regime.

4.27 In light of these reforms, PWLB rates have been reduced by 100bps for all new Standard Rate and Certainty Rate loans arranged from 9am on 26 November 2020. The indicative rate the Council could therefore borrow from the PWLB at for General Fund purposes is 1.55% as at November 2020 (based on a 50-year maturity arrangement).

4.28 For planning purposes, the Council has previously assumed a borrowing rate of 2.0%, which was broadly the mid-point between the PWLB non-HRA Certainty rate (prior to the changes announced on 25th November) and the HRA Certainty Rate. The Capital Financing Budgets will therefore need to be reviewed and the budget and MTFS updated accordingly to reflect these changes, prior to finalising the budget.

5 LOCAL GOVERNMENT FINANCE SETTLEMENT

5.1 At the time of writing, the Provisional Local Government Finance Settlement (PLGFS) for 2021/22 has yet to be announced, although in light of the one-year Spending Review it will be another one-year settlement for 2021/22. Our assumptions around funding levels contained within the budget proposals and set out in this report are best estimates based on information so far available. Members will be briefed at the meeting should any announcement on the PLGFS be made prior to the December Policy Committee, whilst details of the Final Settlement will be incorporated into the budget report to be presented to Policy Committee in February.

5.2 Although the Settlement itself has not been released, the 2021/22 Spending Review announcement on 25th November 2020, the key features of which are set out in paragraph 4.7 above, offers some additional funding and flexibility to the Council. The key elements of the announcement which offer potential benefit are detailed below.

5.3 The current MTFS proposals made as part of this report assume a basic Council Tax increase of 1.99% plus an additional Adult Social Care (ASC) Precept increase of 1.00%. However, the Chancellor's announcement facilitates an ASC Precept of up to 3%, meaning that an overall increase in local taxation of 4.99% is possible without the need for a local referendum. Each 1% increase would raise approximately (£0.95m) in additional funding.

5.4 The Chancellor also announced the continuation of the Adult Social Care Grant previously provided for the current financial year (£1bn nationally), plus a further £300m nationally for 2021/22. The MTFS already assumes continuation of the current funding, but on a pro-rate basis Reading might expect to receive in the region of (£0.600m) additional grant funding. This additional grant is currently assumed by the Council to be a one-off benefit in 2021/22.

5.5 The announcement also included temporary funding increases in respect of Covid-19 to support additional spending pressures on Council Services as well as support businesses and Council Tax payers experiencing financial difficulty. This funding is expected to match additional expenditure which itself is not built into the MTFS and so can be considered neutral in planning terms. There is also additional funding to partly off-set the loss of income from fees and charges set by Councils for the first three months of the new financial year (April – June 2021). Consistent with current planning assumptions around lost income this is estimated to be worth (£0.450m) to the Council in 2021/22.

5.6 Other announcements on additional funding are either of relatively lower value to the Council, or insufficiently clear at the moment to understand how they might impact. This includes an inflationary increase in Revenue Support Grant, for which Reading now only receives around £2m in total, compensation for Collection Fund losses in 2020/21, New Homes Bonus payments and a new Levelling Up fund subject to a bidding process, the criteria for which have yet to be announced.

5.7 A 'pause' on public sector pay beyond the NHS was announced with the exception of the lowest paid (those on £24k or less) who would get a minimum increase of £250. However, as central government do not set local government pay and it is not currently clear how the National Employers organisation will respond, the implications for Reading's pay bill are not yet clear.

5.8 The formal announcement of the provisional 2021/22 LGFS is expected in mid-December. After a period for consultation, the final settlement will be confirmed in January/February 2021.

6 FUTURE CHANGES TO THE LOCAL GOVERNMENT FINANCE SYSTEM

6.1 The Government have been undertaking a review of local government financing which has the potential to impact on future Local Government Finance Settlements beyond 2021/22. Originally changes had been planned for 2020/21 but were delayed by the fall of the Local Government Finance Bill that was guillotined as the result of the calling of the 2019 General Election, and ministerial and Parliamentary time pressures caused by Brexit. The delay has been further extended due to the Covid-19 pandemic and an implementation date remains uncertain.

6.2 Any change in methodology resulting from the "Fair Funding" reassessment of needs and resources has the potential to alter the Council's Settlement Funding Assessment (SFA). It is expected that some form of damping arrangements will be put in place to smooth the impact of any increases or decreases to SFA over the period after implementation. With the now continuing uncertainty over how and when this will happen it has only been possible to include best estimates within our planning assumptions.

6.3 It has been the long-term intention of the Government to move to a 75% localised business rates scheme and indeed preliminary steps to move things in that direction had begun. However, this too appears to have been derailed by the Covid-19 outbreak. There are two significant issues in this respect. Firstly, the Government have not had the capacity to consider all the implementation issues that will arise. Secondly, and perhaps more fundamentally the very basis of business rates is being more heavily challenged than ever before. There has been growing criticism of business rates for some time now focussed mainly on the high cost to high street retailers and the relatively low costs to internet-based operations. The changes in societal behaviour patterns brought about by the Coronavirus pandemic have exacerbated those issues and the critical voices have grown ever louder. It remains to be seen how the Government will respond to these challenges, but it seems increasingly difficult to defend this rather antiquated tax system and thus increasingly likely that some significant changes will have to be made.

7 CURRENT YEAR FINANCIAL POSITION – AS AT THE END OF SEPTEMBER 2020

7.1 The Council regularly monitors its revenue and capital budgets in order to ensure its financial position remains robust, that expenditure is spent as planned and that income due to the Council is received. Additionally, the monitoring process tracks the delivery of savings proposals and risks of non-delivery which may impact on the overall position and hence need to be mitigated.

7.2 The Quarter 2 (Period 6 - end of September 2020) monitoring report appears elsewhere on the agenda. This shows considerable distortion to both income and expenditure caused by the impact of the Coronavirus pandemic. Service budgets show a forecast overspend of £19.2m (a combination of spending pressures and lost income streams) partially off-set by a forecast underspend on corporate budgets of £2.0m and then substantially further off-set by increased funding from Government specifically to address Covid-19 issues of £16.6m. This results in a bottom-line forecast overspend of £0.7m on the General Fund.

7.3 The Government has subsequently allocated a fourth tranche of Central Government General Support Grant, which for Reading is (£3.5m). However, with a further national lockdown throughout November in response to a second wave of the virus and the relaxation over Christmas, albeit with the promise of a widescale vaccine rollout in the new year, the situation remains volatile and it is likely costs will increase. Hence continued close monitoring is required.

7.4 The Housing Revenue Account as at the end of Period 6 is projecting an underspend against its revenue budget of £1.880m mainly due to delays in delivery of Major Works projects.

7.5 As at the 30th September the General Fund Capital Programme is forecast to underspend by a net £111.2m. Setting aside the commercial property budget, which the Q2 report recommends is deleted from the Programme, the residual Capital Programme is forecast to underspend by £31.2m. This is predominantly due to construction delays, in part due to Covid-19, most particularly in respect of Dee Park Regeneration and Leisure Procurement Schemes.

7.6 The Housing Revenue Account Capital Programme is currently forecast to underspend by (£15.146m) due to delays to the delivery of the Major Repairs Scheme and Phase 2 and Phase 3 of the New Build and Acquisitions Schemes resulting from delayed starts relating to Covid-19 and additional planning conditions.

Section B General Fund Revenue Budget

8 OVERALL THREE-YEAR BUDGET POSITION

8.1 In February 2020 Full Council agreed a balanced budget for the three years of the MTFS. The Strategy has been extended to 2023/24 and all income and expenditure and planning assumptions have been reviewed.

8.2 The worldwide Covid-19 pandemic has had a significant impact on the Council's finances in 2020/21 and is anticipated to have knock on impacts throughout the MTFS period, particularly in respect of lower than previously forecast income streams for direct income generating services such as car parking and leisure as well as to Council Tax and Business Rates. Forecasting the financial implications of Covid-19 on future years budgets and any expected recovery is difficult due to the level of uncertainty and a prudent approach has been taken throughout the MTFS refresh process.

8.3 As outlined above, the draft budget proposals as set out in this report provide an interim position and do not result in a balanced budget for 2021/22 or a balanced 2021/22-2023/24 MTFS. The current budget gap is set out in the following table:

Table 1. Current Budget Gap over the MTFS Period 2021/22-2023/24

	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000
Budget Gap	**5,030**	**(398)**	**(350)**	**4,282**
Cumulative Budget Gap	5,030	4,632	4,282	4,282

8.4 As indicated above, work is ongoing to refine and clarify planning assumptions and identify additional savings to close the budget gap in 2021/22 to allow a balanced budget to be approved in February 2021.

8.5 A review of Earmarked Reserves previously identified (£4.6m) of reserves that could be re-purposed to mitigate against the budget gap in 2021/22 on a one-off basis. However, whilst this would reduce the budget gap in 2021/22, it would not address the underlying need for ongoing savings to be found and an equivalent amount of recurring savings needing to be identified to close the gap in future years of the MTFS.

8.6 The Council's General Fund Balance is £7.5m (marginally above 5% of the Council's proposed net budget requirement) across each of the three years of the MTFS. This percentage is considered appropriate and in light of the significant uncertainties faced by the Council it would not be prudent to take them below this level.

8.7 The interim position set out in this report relies on achieving service savings and additional income of £27.7m over the three years 2021/22 to 2023/24. Of the £27.7m due to be delivered, £5.6m relates to savings needing to be found in Children's Services and delivered in partnership with Brighter Futures for Children, the Council's wholly owned Children's company. The residual £21.2m has to be found from other directly managed Council services and £0.9m from corporate budgets as summarised below:

Table 2. General Fund Savings Summary 2021/22 to 2023/24

	Efficiency Savings	Invest to Save Schemes	Income, Fees & Charges	Total
	£000	£000	£000	£000
Children's Services (BFfC)	(5,618)	0	0	(5,618)
Other Council Services	(11,527)	(4,459)	(5,270)	(21,256)
Corporate Savings	(865)	0	0	(865)
Total	**(18,010)**	**(4,459)**	**(5,270)**	**(27,739)**

8.8 The draft budget proposals for 2021/22 include £15.0m of service growth items (£6.0m pay and other inflationary pressures and £9.0m other service-related pressures) and (£13.3m) of service savings (£12.5m efficiencies and invest-to-save initiatives and £0.8m from uplifted income). Within those growth and savings assumptions, BFFC represents £4.2m of the pressures (£1.8m inflation and £2.4m other pressures) with efficiency savings of (£4.6m).

8.9 A summary of the current budget gap position across the three-year MTFS period are set out in the table below. Further detail is provided in Appendices 1-3 attached:

Table 3. Directorate and Corporate Budgets - Three-Year Summary

	2021/22 £000	2022/23 £000	2023/24 £000
Adult Care & Health Services	37,948	37,233	37,704
Economic Growth & Neighbourhood Services	18,751	14,146	12,489
Resources	16,217	15,707	15,594
Chief Executive	1,555	1,515	1,554
Children's Services	48,693	48,193	47,693
Total Service Expenditure	**123,164**	**116,794**	**115,034**
Capital Financing	15,232	16,904	16,745
Contingency	4,103	4,838	6,458
Movement to / (from) Reserves	280	0	0
Other Corporate Budgets	923	2,524	5,641
Total Corporate Budgets	**20,538**	**24,266**	**28,844**
Total Net Budget Requirement	**143,702**	**141,060**	**143,878**
Financed by:			
Council Tax Income	(97,649)	(101,827)	(106,348)
NNDR Local Share	(29,902)	(31,925)	(32,540)
New Homes Bonus	(2,815)	(1,968)	0
Section 31 Grant	(5,300)	0	0
Revenue Support Grant	(2,040)	(2,040)	(2,040)
One-off Collection Fund (Surplus)/Deficit	(966)	1,332	1,332
Total Funding	**(138,672)**	**(136,428)**	**(139,596)**
Budget (Surplus)/Gap	**5,030**	**4,632**	**4,282**

9 VALUE FOR MONEY & EFFICIENCY

9.1 During 2017/18, 2018/19 and 2019/20 the Council delivered savings totalling £12.5m, £13.4m and £7.7m respectively. As at the end of September 2020 £5.2m of the £15.3m savings due to be delivered in year have been achieved, despite the disruption caused by the Covid-19 pandemic.

9.2 Within the Revenues and Benefits Service over recent years a rolling review of entitlement to Single Person Discount has been implemented as well as soft market testing of the service itself. This has resulting in savings in the cost of delivery as well as a reduction in the number of people and businesses falsely claiming discounts, reliefs and exemptions.

9.3 Over the next three years the proposals included in this interim MTFS assume delivery of a further £22.4m of savings as well as additional income of £5.3m, (£13.3m and £0.9m respectively assumed in 2021/22). The programme of cumulative efficiency savings is set out in detail in Appendix 3.

9.4 Since 2017/18, to support the delivery of efficiencies and ongoing savings, transformation funding has been made available within the Council's Capital Programme funded from Capital Receipts. Appendix 6 attached sets out the Council's Strategy for the 'flexible use of capital receipts', together with the proposals to be funded and spend to date against those already agreed.

9.5 In order to deliver greater efficiency, the Council has focussed on service redesign, making greater use of technology and streamlining processes. It has agreed a Customer Service Excellence Strategy which is centred around improved resolution at first point of contact and a much-enhanced digital offer, providing improved customer access and satisfaction. Additionally, the Council is re-procuring a number of its key contracts to extract better value.

9.6 On 1st December 2018 the Council transferred the delivery of the majority of its children's services to Brighter Futures for Children, a wholly owned company of the Council. The objective being that the Company will drive improvements in service delivery and reduce cost pressures through changes to practice and process. This has been supported to date by £5m from the Department for Education and Skills [*DFES*] and £3.8m of the Council's own resources.

9.7 In September 2019 the Council's Children's services OFSTED rating improved across all four areas of judgement from 'inadequate' to 'requires improvement to be good'. Inspectors found evidence of improvement in most areas of practice and that senior leaders had 'rightly focused on strengthening the recruitment and retention of staff'. As a consequence, they also found, caseloads are reducing and there has been an increase in management capacity. They also found that the company and Council were 'working collaboratively and appropriate arrangements for scrutiny and challenge were in place'.

10 RESERVE LEVELS

10.1 CIPFA have stated that there should be no imposed limit on the level or nature of balances required to be held by an individual Council. Many authorities are currently struggling to manage their pressures and there has been very recent high-profile intervention by MHCLG in two authorities. In light of previous high-profile failures and funding concerns raised by authorities CIPFA launched a financial resilience index which uses a basket of indicators to measure individual Local Authorities' financial resilience compared to their comparators.

10.2 The Council drew heavily on its reserves in 2016/17 (£12.5m). However, due to the delivery of £23.6m savings over the three years 2017/18 to 2019/20 and the consequent release of contingency sums, as well as the benefit of having been part of the Berkshire Business Rates Pilot in the previous three years, the Council has not had to draw on reserves to the levels previously anticipated and reserves have been returned to a more sustainable level.

10.3 Based on the latest data available (2018/19), the Council's reserves position is now around the average compared to all unitary authorities, which is a significant improvement from the 2017/18 position.

10.4 A review of the Council's Earmarked Reserves previously identified (£4.6m) of reserves that could be re-purposed to mitigate against the budget gap in 2021/22 on a one-off basis, however this is not currently assumed in the current budget gap.

11 PLANNING ASSUMPTIONS

11.1 The following planning assumptions are included within the Interim Medium-Term Financial Strategy:

a) **Base Budget** - The starting point for planning is the 2020/21 base budget as agreed by Council in February 2020, adjusted for any approved budget virements;

b) **Council Tax Increase** – A 1.99% basic increase for each year 2021/22-2/24. Increases in the Tax Base for organic growth are currently assumed at 0.4%; 0.6% and 0.8% respectively over the same period and will be reviewed as part of the Council Tax Base calculation which is reported to Council in January 2021.

c) **Adult Social Care precept** - A 1.00% Adult Social Care Precept in 2021/22 (as set out above there is flexibility to increase this up to 3% over 2021/22-2022/23).

d) **Capital Borrowing Rates** – a long term borrowing rate of 2.0% has been assumed in respect of financing of the Capital Programme. This will need to be reviewed in light of the outcomes of the consultation announced on the 25th November 2020.

e) **Investment Interest** – The Bank Rate set by the Bank of England is currently 0.10% and, for the purposes of forecast interest earnings, is not projected to change over the planning period. The Council currently also benefits from:
   - **Externally Managed Property Investments** – The Council has £15m invested in property funds. The Council makes a return of around 3.10% on a quarterly basis; and

- **Investment Properties** – The Council owns investment properties valued at £77m as at 31st March 2020. These properties provide a gross return of 6% pa (before capital financing costs).

f) **Inflation** – Most budgets are cash limited. Over the period CPI is assumed to be 2.0% per annum in line with the Bank of England target rate;

g) **Pay Assumptions** – 2.0% per annum has been budgeted for over the three-year period. However, in light of the Chancellor's recent statement around public sector pay, the National Employers may be minded to offer a lower figure;

h) **Pensions** - The results of the latest triennial valuation of the Pension Fund received from the actuary indicated that the employer's contribution rate needs to increase by 1.4% from 2020/21 to 2022/23. No change has been assumed for 2023/24 at this stage;

i) **Increases in Fees and Charges** – Details are set out in Appendix 7;

j) **Capital Financing** – The prudential borrowing costs associated with the proposed Capital Programmes are accommodated within the revenue budgets; and

k) **Transformation Programme** - £1.236m of transformation funding to facilitate delivery of service efficiencies and savings in 2021/22 (when the Flexible Use of Capital Receipts Regulations are due to end) in General Fund revenue budgets is provided for within the General Fund Capital Programme (a total of £13.6m over the period 2017/18 to 2021/22). This is prior to any requests from BFfC.

11.2 The detail of the Council's Draft General Fund Budget is set out in Appendices 1, 2 and 3 attached.

12 ASSUMED COUNCIL TAX LEVELS

12.1 The Interim proposals set out in this report assume a 1.99% basic increase in Council Tax, plus an additional Adult Social Care Precept of 1 % in 2021/22. On this assumption, the standard band D charge would rise by £50.60 to £1,742.76 for a full year.

12.2 The impact on taxpayer bills (before any reduction for discounts) of the Council's proposed increase is a £0.97 per week rise for a band D Council Tax household comprising at least two adults.

12.3 The majority of properties in Reading are band C and below (approximately 40% of properties are in Band C). Reading's Council Tax increase for a band C property in 2021/22 would be £44.98, an increase of £0.86 per week.

12.4 In estimating the revenue yield derived from the above proposed band D charge prudent increases to the Tax Base based on growth in property numbers have been assumed. Over the years 2021/22 to 2023/24 increases in the Tax Base of 0.4%; 0.6% and 0.8% have been assumed. However, the formal calculation is based on data as at 30th November, and Council will formally approve the Tax Base at its January 2021 meeting.

12.5 As set out in paragraph 8.3, there is currently a budget gap of £4.282m over the three-year planning period based on the above assumptions. The following table shows the impact on the budget gap of increasing the Adult Social Care Precept in 2021/22 as provided for within the Spending Review 2020:

Table 4. Potential Impact of Additional Adult Social Care Precept on the Budget Gap

	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000
Budget Gap (C Tax Increase: 1.99% Basic & 1.00% ASC Precept)	**5,030**	**(398)**	**(350)**	**4,282**
Potential Gap (C Tax Increase: 1.99% Basic & 2.00% ASC Precept)	4,082	(438)	(395)	3,249
Potential Gap (C Tax Increase: 1.99% Basic & 3.00% ASC Precept)	3,134	(479)	(439)	2,216

13 RISK IMPLICATIONS

13.1 The current budget gap must be closed in order to set a legally balanced budget. If the additional flexibility on the adult social care precept is taken up, this would reduce the level of further savings needed to close the budget gap as exemplified in the Table 4 above.

13.2 Aside from bridging the current budget gap, the main risks to delivering the proposals set out within this report include:

- The ability to contain demographic demand pressures;
- The speed of recovery and buoyancy of the general and local economy from COVID 19;
- Adverse interest rate movements;
- Increased inflationary pressures;
- Delivery of capital receipts to fund the flexible use for transformation purposes and avoid prudential borrowing charges;
- Future local government financing settlements from central government and potential impacts from changes to the Fair Funding Review;
- The capacity of Officers to deliver the savings and income projections in line with assumptions whilst still managing the impact of the pandemic; and
- Slippage in the Capital Programme adversely impacting savings assumed within the MTFS.

13.3 Additionally, the Council's 2018/19 and 2019/20 accounts are still subject to audit which may mean there could be some movement in the assumed baseline level of reserves.

13.4 However, in setting the new three-year MTFS, contingency provisions of £4.103m in 2021/22, £4.838m in 2022/23 and £6.458m in 2023/24 have been provided for to allow for slippage or non-delivery of higher risk savings and income targets.

13.5 Whilst the number of appeals materialising against the VOA's 2017 Valuation List remains comparatively low compared to experience against the 2005 and 2010 Revaluations, the budget assumptions make prudent provision as to the potential for increases in the number of appeals as we approach the close of the 2017 List and the impending 2021 Revaluation. Prudent provision is also made across both Business Rate and Council Tax forecasts for collection rates, albeit this is now harder to predict as a result of the Coronavirus pandemic.

Section C Housing Revenue Account

14 HOUSING REVENUE ACCOUNT (HRA) BUDGET

14.1 The HRA is a ring-fenced account which deals with the finances of the Council's social housing stock. 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 2020/21. The HRA budget must avoid a deficit on reserves over the 30-year HRA Business Plan.

14.2 Following the abolition of the statutory limit on HRA borrowing known as the debt cap in October 2019, the HRA is able to undertake prudential borrowing to support the creation and acquisition of long-term assets, as long as it is prudent, affordable and sustainable within the context of its overall Business Plan. The Current 30-year Business Plan allows for £61.7m of new borrowing under the prudential code in 2021/22-2023/24. The Plan shows that the HRA is able to fund the proposed capital investment which will raise the peak debt in the HRA from £192.5m to £254.2m in 2023/24. However, the Plan demonstrates that the proposed borrowing is prudent, affordable and sustainable as the HRA has the capacity to repay £135m of this in later years and that the projected outstanding debt level at year 30 is forecast to be £104m.

14.3 A summary of the HRA interim revenue budget over the three years of the MTFS plan period is set out below and detailed in Appendix 4:

Table 5. Summary HRA Three-Year Revenue Budget

	2021/22	2022/23	2023/24
	£000	£000	£000
Total Income	(41,676)	(42,733)	(43,668)
Total Expenditure	41,808	42,843	43,842
Net (Surplus)/Deficit	**132**	**110**	**174**
Opening HRA Balances	**(43,365)**	**(45,233)**	**(45,123)**
Net (Surplus)/Deficit	132	110	174
Closing HRA Balances	**(45,233)**	**(45,123)**	**(44,949)**

15 PLANNING ASSUMPTIONS

15.1 The following planning assumptions are included in the HRA 30-year Business Plan and interim three year forward budget projections:

- **Rents** - 2021/22 Rents will increase in line with the Rent Regulations and both social and Reading Adjusted Target rents will increase by CPI + 1%
- **Void Rates & Bad Debts** - are assumed at 2.5%;
- **Right to Buy** - 15 property sales assumed per annum;
- **Service Charges** - are assumed to increase by CPI +1% year-on-year, but cannot exceed full cost recovery;

- **PFI Credit** - provision of £4.0m relating to 1,280 properties in North Whitley and managed by Infinity until 2034 has been included;
- **Interest on Balances** - assumed at 0.3%;
- **Inflation** - assumes RPI at 1.1% on costs, reflecting the share of costs within the HRA which typically increase above CPI rates (e.g. repairs and maintenance costs) and RPI at 1.1% on income for 2021/22 and 2.4% thereafter;
- **Debt Financing Costs** - are included within the revenue budget.

16 RENTS

16.1 All Rents are assumed to increase in line with the new guidelines from the Rent Regulator and to increase by CPI+1% going forwards in line with regulations.

16.2 The Council needs to consider its rent policy each financial year in the context of the HRA's financial viability. The anticipated effect of the 2021/22 rent proposals is therefore expected to be as follows:

Table 6. Average Weekly HRA Rents

	Actual 2020/21	Proposed 2021/22	Change	Change
	£	£	£	%
Average Rent per Week	**102.57**	**104.11**	**1.54**	**1.5**

16.3 For historic reasons current rents are, on average across the stock 9% below the social housing formula rent set by Government, known as 'Target Rent'. As previously agreed by the Council, rent levels will be set in line with Target Rent whenever a property is re-let.

16.4 As agreed at Policy Committee in November 2018, an 'Adjusted Target Rent' will be charged as a default for permanent social housing developed as part of the Council's new build housing programme. This will reflect the expected rent levels of the existing stock, had the mandatory annual 1% rent decrease for all social housing not been imposed by Government in 2015 for 4 years. As noted above, the Government has announced that its previous national policy of CPI plus 1% will be restored for 5 years from 2020/21.

16.5 The proposed Adjusted Target Rent is significantly lower than Local Housing Allowance levels (the maximum amount of benefit payable to cover housing rental costs) and 'Affordable Rents' often used by Registered Providers (where the rent is set at 80% of market rent). Whilst this is a proposed default it is not intended to be a blanket policy for all new build schemes, thereby enabling future delivery of mixed tenure schemes, including regeneration, where letting all properties at the proposed Adjusted Target Rent level may make schemes unviable. Also, schemes supported by Homes England grant awarded on the basis that properties will be let at target rent will not be let at Adjusted Target Rent.

16.6 Rent collection performance remains top quartile compared with the Council’s comparator group. Rent collection has continued to hold slightly above the budgeted collection rate of 97.50% throughout 2020/21 so far, though it is lower than the pre-pandemic collection rate. Therefore, this drop-in collection is currently manageable within existing planned budget assumptions but will continue to be monitored.

16.7 Temporary accommodation is included in the General Fund. Rents are set at 90% of the Local Housing Allowance rate for the relevant unit size.

17 RISK IMPLICATIONS

17.1 Many of the risks identified in respect of the General Fund revenue budget (see para 13.1-13.2 inclusive) also have relevance for the Housing Revenue Account. Particular risks that pertain additionally to the HRA include:

- Rent collection levels that may be affected by any downturn in the local economy, for example as a consequence of the Covid-19 pandemic;
- Further extension and full roll-out of Universal Credit which may impact on rent collection levels;
- Increases in debt financing costs arising from inflationary cost increases in relation to the new build programme; and
- Maintenance cost increases - potentially additionally impacted by any change to workforce demographics that might arise due to Brexit.

Section D Capital Programme

18 OVERALL CAPITAL PROGRAMME

18.1 The overall Capital Programme for the three-year period will commit £277.6m to improve the infrastructure, asset base and effectiveness of service provision for the residents of Reading.

18.2 Against each scheme in the Programme set out in Appendices 5a-b is detailed the total cost, external contributions from, for example, government and developers and the net cost to the Council to be funded from borrowing.

19 GENERAL FUND CAPITAL PROGRAMME

19.1 The proposed General Fund Capital Programme shown in Appendix 5a totals £178m gross over the three-year period 2021/22 to 2023/24.

19.2 Application of specific and corporate funding (including grants, Community Infrastructure Levy and available capital receipts), reduces the net borrowing requirement over the three-year period to £123m.

19.3 The General Fund Capital Programme consists of two distinct types of project – those that represent investment to deliver future savings and efficiencies (invest to save projects) and those that represent the provision of, or improvements to assets which the Council uses to deliver services to residents. Schemes in the former category include the following:

- Loans to RTL – capital financing facility to allow Reading Buses to continue to replace its fleet of vehicles to ensure they are reliable, cost-efficient and contribute to the Council's objectives around addressing the climate change emergency;
- Renewable Energy / Energy Saving / Salix schemes –facilitating investment to address the Council's climate change priority and reducing energy usage in the future;
- Delivery Fund expenditure – investment to pump prime future revenue savings and service transformation

19.4 The £177.6m General Fund Capital Programme represent a commitment by the Council to invest in fit for purpose facilities for residents and customers, and to invest in assets used by the Council in the delivery of services. Of this gross spend, the specific and corporate funding is expected to be £54.3m with the rest being funded by borrowing.

19.5 A full list of all current General Fund capital expenditure proposals is set out in Appendix 5a, whilst the following provides narrative on some of the more significant projects.

- £20m on the school estate including Re-provisioning at Phoenix College and extra capacity at Katesgrove school

- The delivery of new fit-for-purpose leisure facilities across all four of the Council's leisure centres including the re-provisioning of the Rivermead site to BREEAM excellence
- £11m Investment in the Council's local highways infrastructure addressing feedback from the resident survey
- Provisioning of Green Park station and Reading West Station and Dee Park Regeneration
- £13.8m on South Reading MRT (Phases 5 & 6)
- Vehicle replacement totalling £9.2m over the three-year planning period to ensure the Council's fleet assists in reducing CO2 emissions.
- Investment in the Council's IT systems and software to support service efficiency and channel-shift in how customers transact with the Council.

20 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

20.1 The currently proposed HRA Capital Programme is contained within Appendix 5b.

20.2 The Council has made provision to invest a further £35.2m in its new build and acquisitions programme over the three years 2021/22 - 2023/24 providing additional new affordable homes, subject to approvals.

20.3 The Council also plans to continue to invest £30.7m in its existing housing stock over the next three years. This includes £27.6m of Major Repairs and a £3.1m programme of Fire Safety works, with a particular focus on high-rise residential accommodation.

20.4 The HRA is also investing £32.3m to develop adult social care assets that are being appropriated into the HRA to deliver joint adults and housing needs.

21 RISK IMPLICATIONS

21.1 The main risks to the Council's Capital Programme are summarised below:

- Cost overruns would impose additional borrowing costs (and associated financing charges to revenue) if unable to be met from scheme contingencies or other mitigating actions;
- Slippage in realisation of capital receipts impacts on available financing sources, with the potential to lead to additional capital borrowing. In particular, significant slippage could leave insufficient receipts to fully finance the transformation costs – which impacts pound for pound on the revenue account;
- Slippage in delivery of spend to save initiatives results in associated revenue savings not being delivered as anticipated; and
- The cost of delivering the capital projects increases due to inflationary pressures.

22 BUDGET NEXT STEPS

22.1 Statutory and wider consultation based on the budget proposals contained in this report will be undertaken and responses reported back to Policy Committee in February 2021. Similarly, the implications of the Local Government Finance Settlement when it is announced, the updated Capital Financing implications and outcome of the contract negotiations with BFfC will also be reported to the Committee together with any additional savings proposals identified.

22.2 Policy Committee at its meeting on 15th February 2021 will be asked to approve a balanced 2021/22 budget and three-year MTFS and recommend its adoption by Council at its meeting on 23rd February 2021.

23 CONTRIBUTION TO STRATEGIC AIMS

23.1 Our vision as Reading Borough Council is: to ensure that Reading realises its potential – and to ensure that everyone who lives and works here can share the benefits of its success. We have six priorities which contribute to delivering this vision. The priorities are:

- Securing the economic success of Reading;
- Improving access to decent housing to meet local needs;
- Protecting and enhancing the lives of vulnerable adults and children;
- Keeping Reading's environment clean, green and safe;
- Promoting health, education, culture and wellbeing; and
- Ensuring the Council is fit for the future.

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

24 ENVIRONMENTAL AND CLIMATE IMPLICATIONS

24.1 The Council declared a Climate Emergency at its meeting on 26 February 2019, with the intention of being carbon neutral by 2030. Our Corporate Plan monitors our progress in reducing our carbon footprint.

24.2 The Council's proposed Capital Programme for the next 3 years includes investment of £5.835 million in energy saving measures in buildings and renewable energy infrastructure to contributing to the Council's net zero carbon ambitions. Of this, £2.789m is allocated for 2021/22.

24.3 The Council has a long-standing programme of investment in energy efficiency, taking advantage of the SALIX Recirculation Fund, a revolving loan fund, which is available for the public sector. The Council's capital budget for this SALIX Recirculation Fund has enabled a large number of projects to be taken forward. A provision of £0.800m is included in the Capital Programme across the next 3 years which will enable additional projects in the pipeline to go ahead.

24.4 The Capital Programme also includes two budgets which specifically support the Council's climate change commitment, enabling a step change in ambition. The first will take advantage of the SALIX Decarbonisation fund, designed to support more ambitious carbon reduction projects in the public sector. In 2021/22, £0.416m has been allocated with a further £1.0 million over the following 2 years. The second will support further investment in renewable energy. In 2021/22, £2.073m has been allocated for this purpose with a further £1.546 in 2022/23. This will enable a number of more ambitious projects to be progressed, including ground-source heat pumps, solar arrays and potentially district heating systems.

24.5 Other capital investments – in offices, housing, transport and waste – will also contribute to the Council's carbon reduction ambitions by improving the efficiency of our buildings and operations.

24.6 Going forward, major capital projects which will contribute directly to greenhouse gas emissions reduction include:

- £14.451m for Green Park Station (2020/21 to 2021/22)
- £21.316m for the South Reading MRT (across 4 years from 2020/21)
- £3.619m for renewable energy (across 2 years from 2021/22)
- £2.216m for energy saving measures via the Salix Decarbonisation and Recirculation funds (across 3 years from 2021/22)
- £1.489m for food waste collection (across 2020/21 and 2021/22)
- £0.388m for retro-fitting the bus fleet to lower emission standards (across 2 years from 2020/21)
- £1.547m to complete the LED streetlighting investment programme (across 2 years from 2020/21)
- £0.250m for electric vehicle charging points (across 2 years from 2020/21)
- £0.180m for tree planting programmes (across 4 years from 2020/21)

25 COMMUNITY ENGAGEMENT AND INFORMATION

25.1 The budget consultation opens on 15th December 2020 until 15th January 2021.

26 FINANCIAL IMPLICATIONS

26.1 These are as set out in the body of the report.

27 LEGAL IMPLICATIONS

27.1 The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility of the Council.

27.2 The provisions of section 25, Local Government Act 2003 require that the Council in making setting its budget requirement, must have regard to the report of the Chief

Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to the Council's budget setting meeting in February.

28 RISK

28.1 These are set out in the body of this report.

29 EQUALITIES IMPACT ASSESSMENT

29.1 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;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

29.2 An initial Assessment of the proposals as set out in the MTFS has been undertaken and Appendix 8 sets out the individual savings proposals where specific equality impact assessments will need to be undertaken prior to their implementation.

29.3 Additionally, when considering changes to service provision, local authorities are under a duty to consult representatives of a wide range of local stakeholders. Authorities must consult representatives of council tax payers, those who use or are likely to use services provided by the authority and those appearing to the authority to have an interest in any area within which the authority carries out functions. Consulting on the Draft Budget proposals assists with this requirement.

30 BACKGROUND PAPERS

- 2020/2021 to 2022/23 Budget Setting and Medium-Term Financial Strategy approved by Full Council (25th February 2020);
- Spending Review 2020 – HM Treasury (25th November 2020)