READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	**POLICY COMMITTEE**		
DATE:	**13 DECEMBER 2021**		
TITLE:	**MEDIUM TERM FINANCIAL STRATEGY 2022/23-2024/25 UPDATE**		
LEAD COUNCILLOR:	**COUNCILLOR BROCK**	**PORTFOLIO:**	**LEADERSHIP**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report provides an update to the Council's Medium-Term Financial Strategy (MTFS). At the time of writing the provisional Local Government finance settlement has not been announced and so the funding figures in this report are subject to change.

1.2. This updated MTFS has been developed to reflect the changing landscape in which Councils are now operating. The Covid-19 pandemic has had a significant impact on Council budgets, with increased costs and reduced levels of income. As we approach the end of the second year of the pandemic there is still huge uncertainty around how long these will continue to impact on budgets.

Income

1.3. Income levels have still not returned to pre Covid-19 levels. This updated MTFS proposes a re-profiling of income from 2022/23 to later years on the assumption that the majority of that income will recover over time. The impact of lost income has previously been offset by grant funding from Central Government, but indications are that there will be no more funding available to Councils after the current financial year.

Adult Social Care

1.4. There are also significant pressures in the social care system. This updated MTFS includes an increase of almost £5m in the budget for Adult Social Care services for next year to fund the impact of those cost pressures, including the ongoing commitment to fund care providers at a level that allows them to pay staff at the rate recommended by the Living Wage Foundation rather than the lower national living wage rate set by central government.

1.5. In addition, an initial assessment has been undertaken of the financial impact of Adult Social Care funding reforms. These are included as cost pressures in years 2 and 3 of the MTFS but are assumed to be fully mitigated by new funding allocated by central government.

Business Rates

1.6. This update also assumes that the Business Rate reset previously assumed to happen in 2022/23 will not now happen until 2023/24 at the earliest.

Brighter Futures for Children

1.7. Brighter Futures for Children (BFfC) have requested a £1.1m increase in the contract sum for 2022/23. This request relates to inflationary increases that were previously assumed to be absorbed by BFfC rather than being a cost pressure for the Council. This proposed increase has not yet been agreed and negotiations are ongoing.

Capital Financing

1.8. The revenue budget includes the cost of financing the capital programme that was approved by Council in February 2021. No new capital bids are recommended for approval at this stage.

1.9. On 30th November, the Department for Levelling Up, Housing & Communities published a consultation about proposed changes to the capital framework for Minimum Revenue Provision (MRP). MRP is the amount that has to be set aside from the revenue budget for the financing of capital expenditure. The consultation proposes that the changes become effective from April 2023 onwards. A full assessment of the impact on the MTFS will be undertaken prior to the presentation of the report to Policy Committee in February 2022.

Environment Bill

1.10. The impact of the Environment Bill proposals on Waste Operations is included as a cost pressure in Year 3 of the MTFS. These are included net of assumed funding.

Employers National Insurance

1.11. The 1.25% increase in employers National Insurance contributions is not currently included in the MTFS expenditure figures as it is assumed that additional funding will be received to cover this additional expenditure.

Council Tax

1.12. The MTFS currently assumes a general Council Tax increase of 1.99% and an additional Adult Social Care precept of 1% across each of the three years.

Summary

1.13. The overall impact of these changes across the three years of the MTFS can be summarised as follows:

Table 1. Current Budget Gap

	2022/23	2023/24	2024/25
	£000	£000	£000
Net Expenditure	148,137	149,635	151,977
Funding	(144,821)	(143,582)	(148,729)
Budget Gap	**3,316**	**6,053**	**3,248**

1.14. The estimated funding gap of £3.316m in 2022/23 will need to be addressed in order to comply with the legal requirement to set a balanced budget. A period of public consultation on the budget will commence on 14th December 2021 and will conclude on 14th January 2022.

1.15. Following the conclusion of the consultation period, a further report will be brought to Policy Committee on 14th February 2022 recommending approval of a balanced budget to Full Council in order that it can approve its budget, associated Council Tax level and precept for 2022/23 at its meeting on 23rd February 2022.

1.16. Detailed planning for the 2023/24 budget will start in January 2022 with the presentation of efficiency saving ideas to the Corporate Management team.

1.17. 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 note the Draft Medium-Term Financial Strategy as set out in the Appendices to the report, including:

a) the Council's General Fund Budget Requirement of £148.137m for 2022/23 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 £53.12 per annum representing a band D Council Tax of £1,829.72 per annum as set out in paragraphs 12.1 to 12.3;

b) the proposed service savings and efficiencies of (£6.1m) and additional income of (£0.8m) currently proposed in 2022/23 and set out in Appendix 2;

c) the overall savings currently proposed within the MTFS of (£15.6m) (of which changes to income, fees and charges is (£1.9m));

d) the Housing Revenue Account budget for 2021/22 to 2023/24 as set out in Appendix 3;

e) the General Fund and Housing Revenue Account Capital Programmes as set out in Appendices 4a and 4b; (to follow)

f) the Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 5.

Appendix 1 Summary of Interim General Fund Budget 2022/23 to 2024/25
Appendix 2 Summary of General Fund Budget Changes 2022/23 to 2024/25
Appendix 3 Current Housing Revenue Account Budget 2021/22 to 2023/24 and Reserves as approved in February 2021.
Appendix 4 General Fund and HRA Capital Programme 2021/22 to 2023/24
Appendix 5 Flexible Capital Receipts Strategy
Appendix 6 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 themes set out in the Council's Corporate Plan:

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

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. The UK officially left the EU on 1st January 2020 and entered into a one-year transition period which has now ended. Whilst it was possible for the UK to strike a trade deal with the EU, there remain a number of controversial issues between the two sides. As predicted by many on both sides of the debate Brexit has created some economic turbulence, although it is difficult to be clear on the precise extent given other significant issues. It is likely that this will continue, at least in the short term, and may even get worse if differences of view cannot be resolved amicably. 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, as last year, has been dominated by the Coronavirus pandemic, albeit to a lesser extent. 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 continue to grow both nationally and across the world, although some of the worst impacts have been mitigated by the roll-out of the vaccination programme. It is clear that there has already been significant economic damage caused across the world and that this continues without a clear picture of the final overall impact. Just as with Brexit this will have a wide-ranging impact on the financial drivers impacting public finances.

4.4. The consequences of the virus have put enormous pressure on public services. Many public services beyond just the NHS, 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 dropped, 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. Last financial year, and the early part of this, Central Government provided compensation for lost income, but this support has now ceased. Whilst things have improved from the lockdown scenario, they are certainly not back to pre-pandemic levels. There continues to be much turbulence, making it difficult to predict with accuracy what the on-going consequences 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 have presented more immediate challenges in recent years, there can now be little doubt that the greatest challenge faced by humanity is that of climate change. 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 which threaten our food and water supplies and are likely to lead to substantial political instability across the world.

4.6. The UK has just hosted the UN Climate Summit (COP26), postponed from 2020 due to the Coronavirus pandemic. This has demonstrated the enormous political challenges of tackling such a complex issue. Whilst further steps forward have been made the scientists suggest that this is far from enough. Indeed, this was largely acknowledged by the summit itself, as they have agreed to hold the next summit in a year's time where they "must try harder". 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 Spending Review and Autumn Budget 2021 was delivered by the Chancellor on 27th October 2021. For the first time since 2018 this was a multi-year plan. The announcement included the following matters that are pertinent to the Council's finances and the wider environment in which it operates:

- The Government is providing local councils with £4.8bn of additional grant funding for social care and other services over the SR21 spending period;
- An additional £200m nationally in 2022/23 to fund the implementation of Social Care reforms, with indicative figures of £1.4bn in 2023/24 and £2.0bn in 2024/25 to recognise the increased costs of the reforms themselves. These additional resources are funded by the new Health and Social Care Levy;
- The public sector pay freeze for those earning above £24,000 announced last year has now been removed. It should be noted, however, that Central Government does not control Local Government pay anyway, but this does set the tone. It

remains to be seen how the National Employers and local government unions respond to this. The National Living Wage was also increased by 6.6% to £9.50 p/h from 1 April 2022, which will affect some employees of both local government and its contractors;

- A proposed basic Council Tax referendum limit of 2% (indicative for 2023/24 and 2024/25);
- The ability to levy an additional adult social care precept of up to 1% (indicative for 2023/24 and 2024/25);
- Increasing Revenue Support Grant in line with inflation;
- The current New Homes Bonus scheme ends in 2022/23. Whilst the Government have indicated that they will introduce a new scheme, no details of this have yet been made available and therefore nothing further is assumed at present;
- There will be an additional £37.8m to support modernisation of local authorities' cyber security systems which is included within the overall £4.8bn increase;
- £2.6bn nationally to support children with Special Educational Needs and Disabilities (SEND);
- £208m by 2024/25 for Early Years provision;
- £620m for public charging points for electric vehicles;
- The business rates multiplier will again be frozen for 2022/23.

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 Department for Levelling Up, Housing and Communities (DLUHC).

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 3.0% (2020 mid-year estimates), though has decreased slightly since 2018. Whilst the average increase is 3%, the rise in 0 – 18-year olds is 10% and the rise in over 65s is 12.5% - both higher than the overall average.

4.10 The ONS produce future forecasts of population and predict an overall population increase of 3.2% by 2043. However, within this total the percentage of residents aged 65+ is projected to increase by 40.7%. Whereas, 0-19 year olds are projected to decrease by 5.6%.

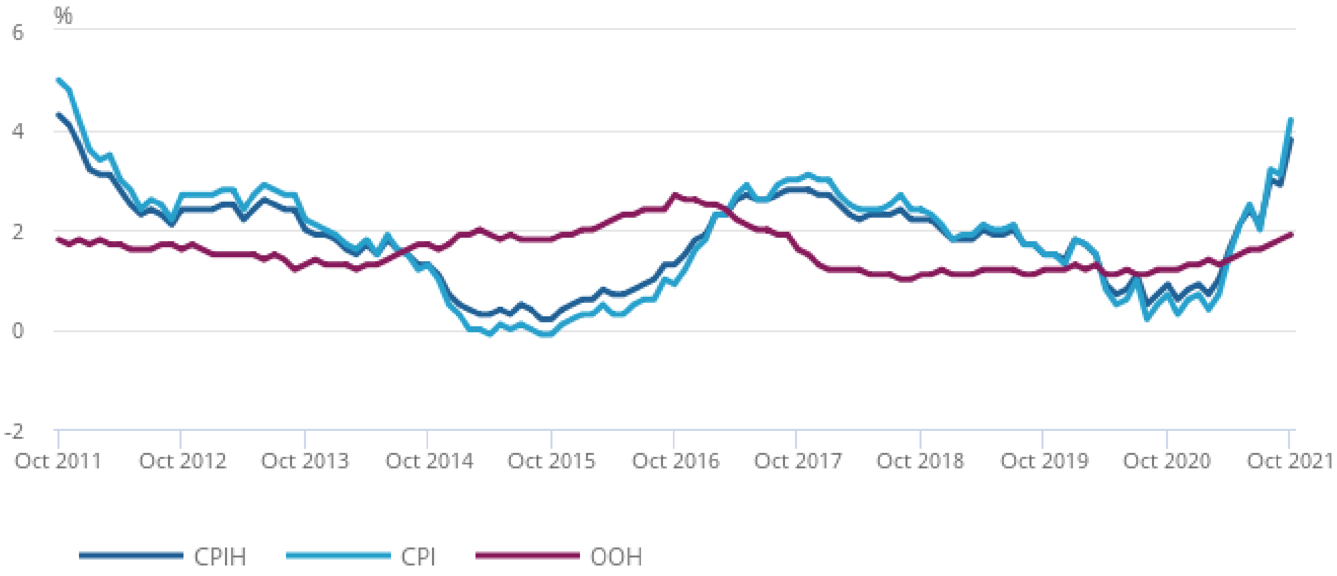
Inflation Expectations

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 as measured by CPI stands at around 4% (CPIH 3.8%, CPI 4.2%) as at October 2021, up from around 3% (CPIH 2.9%, CPI 3.1%) in September. This is the highest it has been in nearly 10 years. Inflation has climbed steadily since February 2021 as the restrictions due to the Pandemic have been eased leading to increased demand, but a range of supply side challenges. The latest Bank of England forecast is that inflation may rise as high as 5% during 2022. So far, the Bank of England has not increased interest rates due to concerns of damaging a fragile economic recovery, but as this is the main lever it has to dampen inflation it is now coming under mounting pressure to do so.

Figure 1: Annual CPIH inflation increased to 3.8% in October 2021

CPIH, OOH component and CPI 12-month inflation rates for the last 10 years, UK, October 2011 to October 2021



Source: Office for National Statistics – Consumer price inflation

UK Unemployment

4.13 The headline rate of UK unemployment is 4.30% for the quarter ending September 2021, down from 4.5% a month earlier. Whilst this is slightly higher than the level immediately prior to the Coronavirus pandemic it is still one of the lowest levels in recent history. This position is also reflected in the figures for employment which has risen to 75.4% as at September, 1.1% lower than pre-pandemic, but 0.4% higher than the previous quarter. Last year figures were distorted by the protection being offered by the Furlough scheme, but this has now ceased and so the current figures should give a true reflection of the position. However, there remains considerable uncertainty over the direction of travel due to the volatility in the wider economy.

4.14 It is hoped that falling unemployment will reduce the number of Local Council Tax Support Scheme claimants, thereby increasing the tax base and thus the amount of Council Tax income collectable.

Deprivation

4.15 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*].

4.16 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:

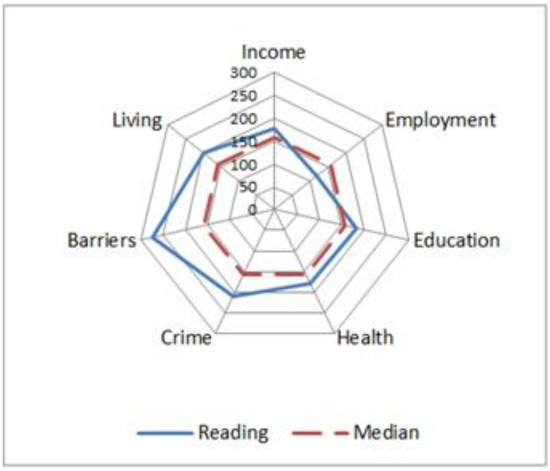
- Income Deprivation (22.5%)
- Employment Deprivation (22.5%)
- Education, Skills and Training Deprivation (13.5%)
- Health Deprivation and Disability (13.5%)
- Crime (9.3%)
- Barriers to Housing and Services (9.3%)
- Living Environment Deprivation (9.3%)
- Index of income deprivation affecting children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

4.17 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).

4.18 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:

Figure 2. Index of Multiple Deprivation (2019)



4.19 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

4.20 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%.

4.21 The Bank of England's Monetary Policy Committee (MPC) voted to maintain interest rates at 0.10% at its meeting on 4th November 2021; the next meeting is scheduled to take place on 16th December 2021. These forecasts will be reviewed and following the MPC meeting on 16th December 2021.

4.22 For planning purposes, the Council has previously assumed a borrowing rate of 2.0%. Based on the assumed increases to the Bank of England interest rates above, the forecast Public Works Loan Board (PWLB) rates range between 1.90% and 2.40% between December 2021 and March 2024. The Capital Financing Budgets will therefore need to be reviewed and the budget and MTFS updated accordingly following the December 2021 MPC meeting and the corresponding updated interest rate forecasts 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 2022/23 has yet to be announced. 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 2022/23 – 2024/25 Spending Review announcement on 27th October 2021, 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 formal announcement of the provisional 2022/23 LGFS is expected in mid-December. After a period for consultation, the final settlement will be confirmed in January/February 2022.

6 FUTURE CHANGES TO THE LOCAL GOVERNMENT FINANCE SYSTEM

6.1 The Chancellor did not make any announcements about the future of the Fair Funding Review (also known as the Review of Relative Needs and Resources), the move to further business rates retention, the business rates reset or new homes bonus reform as part of the Spending Review 2021. Although the Spending Review covered multi-years; there was no comment on whether local government can expect a full three-year local government finance settlement.

6.2 Following the Spending Review, the Secretary of State for Levelling Up, Housing and Communities announced to Parliament that the government has abandoned plans to allow Councils to retain 75% of their business rates, which was due to be introduced from April 2022 and which had been the policy intention for the past six years, as it goes against the broader principle of levelling up.

6.3 Central Government are due to publish the Levelling Up White Paper by the end of the year, setting out in more detail the framework and next steps towards levelling up opportunities and boosting livelihoods across the country.

6.4 Further announcements on the Fair Funding Review and the future of the Business Rates Retention Scheme are expected to be made as part of the Provisional Local Government Finance Settlement in December 2021.

7 CURRENT YEAR FINANCIAL POSITION – AS AT THE END OF SEPTEMBER 2021

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 2021) monitoring report appears elsewhere on the agenda. This continues to show considerable distortion to both income and expenditure caused by the impact of the Coronavirus pandemic, albeit not as great as last year. Service budgets show a forecast overspend of £8.2m (a combination of spending pressures and lost income streams). Overall the Council is able to forecast a breakeven position as the Service overspend is off-set by the use of Corporate Contingencies (£3.8m) and the use of other corporate budgets (£4.3m), which includes previously unallocated Covid-19 funding from Central Government (£4.5m) and the use of £1.8m of the £2.8m earmarked reserves allowed for in the budget. Although the use of contingencies and one-off funding addresses the issues for 2021/22 this is not a sustainable position in the medium to longer term.

7.3 The Housing Revenue Account as at the end of Period 6 is projecting an underspend against its revenue budget of £0.874m, which would mean that less would be drawn from the reserve than originally planned.

7.4 As at the 30th September the General Fund Capital Programme is forecast to underspend by a net £27.8m. This is predominantly due to delays on a number of transport related projects as well as the regeneration schemes at Dee Park and the Minster Quarter.

7.5 The Housing Revenue Account Capital Programme is currently forecast to underspend by £9.2m mainly due to delays to the delivery of the Major Repairs Scheme (£3.0m) and Phase 2 of the New Build and Acquisitions Scheme (£6,2m).

Section B General Fund Revenue Budget

8 OVERALL THREE-YEAR BUDGET POSITION

8.1 In February 2021 Full Council agreed a budget which balanced in year 1 (2021/22) with the use of £2.776m of earmarked reserves and had net deficits of £3.649m in 2022/23 and £2.097m in 2023/24. The Council has reviewed its income and expenditure assumptions across all three years of the MTFS period (2022-2025) with a view to setting a balanced budget for all years. However, due to considerable levels of uncertainty this has not been possible at this stage of the process.

8.2 The worldwide Covid-19 pandemic has had a significant impact on the Council's finances in 2020/21 and 2021/22 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 2022/23 or a balanced 2022/23-2024/25 MTFS. The current budget gap is set out in the following table:

Table 2. Current Budget Gap over the MTFS Period 2022/23-2024/25

	2022/23	2023/24	2024/25	Total
	£000	£000	£000	£000
Budget Gap	3,316	2,737	(2,805)	3,248
Cumulative Budget Gap	**3,316**	**6,053**	**3,248**	**3,248**

8.4 As indicated above, work is ongoing to refine and clarify planning assumptions and identify additional savings to close the budget gap in 2022/23 to allow a balanced budget to be approved in February 2022.

8.5 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.

8.6 The interim position set out in this report relies on achieving service savings and additional income of £15.6m over the three years 2022/23 to 2024/25. Of the £15.6m due to be delivered, £3.7m 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 £11.9m has to be found from other directly managed Council services as summarised below:

Table 3. General Fund Savings Summary 2022/23 to 2024/25

	Efficiency Savings	Invest to Save Schemes	Income, Fees & Charges	Total
	£000	£000	£000	£000
Children's Services (BFfC)	(3,679)	0	0	(3,679)
Other Council Services	(9,718)	(350)	(1,896)	(11,964)
Total	**(13,397)**	**(350)**	**(1,896)**	**(15,643)**

8.7 The updated MTFS proposals include £20.3m of service growth items (£15.9m pay and other inflationary pressures and £4.4m other service-related pressures).

8.8 The proposals for 2022/23 include £10.3m of service growth items (£5.7m pay and other inflationary pressures and £4.6m other service-related pressures) and (£6.9m) of service savings (£6.1m efficiencies and invest-to-save initiatives and £0.8m from uplifted income). Within those growth and savings assumptions, BFfC represents £1.3m of the pressures (contractual inflation) with efficiency savings of (£0.7m), resulting in a net contractual sum increase of £0.6m from the 2021/22 contract sum (a £1.1m increase from the previously agreed contract sum for 2022/23).

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 4. Directorate and Corporate Budgets - Three-Year Summary

	2022/23 £000	2023/24 £000	2024/25 £000
Adult Care & Health Services	43,027	43,886	44,614
Economic Growth & Neighbourhood Services	15,770	14,196	15,367
Resources	16,786	16,824	17,161
Chief Executive	1,509	1,548	1,587
Children's Services	48,811	48,368	48,425
Total Service Expenditure	**125,903**	**124,812**	**127,154**
Capital Financing	18,561	19,765	19,765
Contingency	2,750	2,658	2,658
Movement to / (from) Reserves	0	0	0
Other Corporate Budgets	923	2,400	2,400
Total Corporate Budgets	**22,234**	**24,823**	**24,823**
Total Net Budget Requirement	**148,137**	**149,635**	**151,977**
Financed by:			
Council Tax Income	(103,215)	(107,528)	(112,019)
NNDR Local Share	(32,545)	(31,741)	(32,356)
New Homes Bonus	(969)	0	0

Section 31 Grant	(3,499)	0	0
Revenue Support Grant	(2,042)	(2,079)	(2,120)
Other Government Grants	(994)	(994)	(994)
One-off Collection Fund (Surplus)/Deficit	24,107	1,883	0
S31 Grants Released from Reserves	(21,796)	0	0
Business Rate Re-Distribution	0	(1,240)	(1,240)
Release from Collection Fund Smoothing Reserve	(3,868)	(1,883)	0
Total Funding	**(144,821)**	**(143,582)**	**(148,729)**
Budget (Surplus)/Gap	**3,316**	**6,053**	**3,248**

9 VALUE FOR MONEY & EFFICIENCY

9.1 During 2017/18, 2018/19, 2019/20 and 2020/21 the Council delivered savings totalling £12.5m, £13.4m, £7.7m and £7.6m respectively. As at the end of September 2021 £4.1m of savings have been delivered in year with a further £8.1m on track to be delivered by the end of the year, against the target of £20.2m, despite the ongoing disruption caused by the Covid-19 pandemic.

9.2 Over the next three years the proposals included in this interim MTFS assume delivery of a further £13.7m of savings as well as additional income of £1.9m, (£6.1m and £0.8m respectively assumed in 2022/23).

9.3 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.

9.4 In order to deliver greater efficiency, the Council has focussed on service redesign, making greater use of technology and streamlining processes. Additionally, the Council is re-procuring a number of its key contracts to extract better value.

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 with two Local Authorities issuing s114 notices since November 2020 and a number of others requesting exceptional financial support during 2020/21 and/or 2021/22. 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. Since then the Council has contributed to reserves in each year between 2017/18 and 2020/21 but did have to budget for a small use of reserves in order to balance the 2021/22 budget. As a result, reserves have been returned to a more sustainable level.

10.3 Based on the latest data available (2019/20), the Council's reserves position is now marginally above the average compared to all unitary authorities, which is a significant improvement from the 2017/18 position and continues the trend from the previously published data (2018/19).

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 2021/22 base budget as agreed by Council in February 2021, adjusted for any approved budget virements;

b) **Council Tax Increase** – A 1.99% basic increase for each year 2022/23-2024/25. Increases in the Tax Base for organic growth are currently assumed at 1.0% annually over the same period and will be reviewed and updated as required as part of the Council Tax Base calculation which is reported to Council in January 2022.

c) **Adult Social Care precept** - A 1.00% Adult Social Care Precept for each year 2022/23-2024/25

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 MPC meeting on 16th December 2021 and the resulting interest rate forecasts provided from Link Group.

e) **Investment Interest** – The Bank Rate set by the Bank of England is currently 0.10% and, for the purposes of forecast interest earnings, this will be reviewed in line with the updated interest rate forecasts following the MPC meeting on 16th December 2021. 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 3.72% on a quarterly basis (based on 2021/22 returns); and
   - **Investment Properties** – The Council owns investment properties valued at £76m as at 31st March 2021. These properties provide a gross return of approximately 6.5% pa (before capital financing costs).

f) **Inflation** – Most budgets are cash limited. CPI is currently at 4.2% as at October 2021 and is forecast to rise as high as 5% during 2022 before returning to target 2.0% levels by March 2024;

g) **Pay Assumptions** – 2.0% per annum has been budgeted for over the three-year period;

h) **Pensions** - The next triennial valuation of the Pension Fund is due to take place on 31st March 2022 with provisional results expected in November 2022. There will be no impact for 2022/23 and no change has been assumed for 2023/24-2025-26 at this stage;

a) **Increases in Fees and Charges** – Any changes to fees & charges have been incorporated within the budget proposals. A full schedule of fees & charges will be presented as an appendix to the Budget Report in February 2022;

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

c) **Transformation Programme** – The Council has funded £11.0m of transformation projects to 31st March 2021 and has allocated £4.9m of funding for 2021/22, with a further £5.8m over the period 2022/23-2024/25. This transformation programme is funded by capital receipts which is allowable due to Central Government extending the Flexible Use of Capital Receipts Directive through to March 2025.

11.2 The Council's Draft MTFS and General Fund Budget is set out in Appendices 1 and 2 attached.

12 ASSUMED COUNCIL TAX LEVELS

12.1 The draft 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 all three years 2022/23 to 2024/25. On this assumption, the standard band D charge would rise by £53.12 to £1,829.72 for a full year in 2022/23.

12.2 The impact on taxpayer bills (before any reduction for discounts) of the Council's proposed increase is a £1.02 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 2022/23 would be £47.22, an increase of £0.91 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 2022/23 to 2024/25 increases in the Tax Base of 1.0% each year 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 2022 meeting.

13 RISK IMPLICATIONS

13.1 The current budget gap must be closed in order to set a legally balanced budget.

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 2019/20 and 2020/21 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 £2.750m in 2022/23 and £2.658m in 2023/24 and 2024/25 have been provided for to allow for slippage or non-delivery of higher risk savings and income targets.

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. The HRA budget must avoid a deficit on reserves over the 30-year HRA Business Plan. Work is currently on-going to review the plan and the impact on the budget over the next 3 years. Any revisions will be reported to the Committee at its meeting in February.

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 revenue budget over the three years of the current MTFS plan period is set out below and detailed in Appendix 3:

Table 5. Summary HRA Three-Year Revenue Budget (Approved February 2021)
(opening balance reflects the provisional outturn position, subject to audit)

	2021/22	2022/23	2023/24
	£000	£000	£000
Total Income	(41,758)	(43,196)	(44,530)
Total Expenditure	43,647	44,703	45,598
Net (Surplus)/Deficit	**1,889**	**1,507**	**1,068**
Opening HRA Balances	**(46,154)**	**(44,265)**	**(42,758)**
Net (Surplus)/Deficit	1,889	1,507	1,068
Closing HRA Balances	**(44,265)**	**(42,758)**	**(41,690)**

15 RISK IMPLICATIONS

15.1 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;
- Changes to 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

16 OVERALL CAPITAL PROGRAMME

16.1 Details of the Revised Capital Programme for 2021/22 to 2023/24 are set out in Appendix 4a for the General Fund and Appendix 4b for the HRA. In the main changes from the original capital programme approved in February 2021 reflect carried forward underspends and overspends from 2020/21 and any consequential reprofiling of the budget over the remaining years of the programme. Also reflected are changes to the Delivery Fund, the details of which are shown in Appendix 5 to this report.

16.2 New bids to the Capital Programme are currently being reviewed with regard to their deliverability and affordability including the impact that approval to such schemes would have on the Revenue Budget via the Capital Financing Requirement. The outcome of these deliberations will be reported to Policy Committee at its meeting in February 2022, where a new Capital Programme for 2022/23 to 2024/25 will be proposed.

17 RISK IMPLICATIONS

17.1 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.

18 BUDGET NEXT STEPS

18.1 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 2022. Similarly, the implications of the Local Government Finance Settlement (when it is announced) and the updated Capital Financing implications will also be reported to the Committee together with any additional savings proposals identified.

18.2 Policy Committee at its meeting on 14th February 2022 will be asked to approve a balanced 2022/23 budget and three-year MTFS and recommend its adoption by Council at its meeting on 22nd February 2022.

19 CONTRIBUTION TO STRATEGIC AIMS

19.1 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 three themes which contribute to delivering this vision, which are:

- Healthy Environment
- Thriving Communities
- Inclusive Economy

19.2 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.

20 ENVIRONMENTAL AND CLIMATE IMPLICATIONS

20.1 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.

21 COMMUNITY ENGAGEMENT AND INFORMATION

21.1 The budget consultation opens on 14th December 2021 until 14th January 2022.

22 FINANCIAL IMPLICATIONS

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

23 LEGAL IMPLICATIONS

23.1 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.

23.2 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.

24 RISK

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

25 EQUALITIES IMPACT ASSESSMENT

25.1 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.

25.2 An initial Assessment of the proposals as set out in the MTFS has been undertaken and Appendix 6 sets out the individual savings proposals where specific equality impact assessments will need to be undertaken prior to their implementation.

25.3 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.

26 BACKGROUND PAPERS

- 2021/2022 to 2023/24 Budget Setting and Medium-Term Financial Strategy approved by Full Council (23rd February 2021);
- Spending Review 2021 – HM Treasury (27th November 2021)