

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

<b>TO:</b>	<b>POLICY COMMITTEE</b>		
<b>DATE:</b>	<b>14 FEBRUARY 2022</b>		
<b>TITLE:</b>	<b>2022/23 BUDGET &amp; MEDIUM-TERM FINANCIAL STRATEGY 2022/23 - 2024/25</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR BROCK</b>	<b>PORTFOLIO:</b>	<b>LEADER OF THE COUNCIL</b>
<b>SERVICE:</b>	<b>ALL</b>	<b>WARDS:</b>	<b>BOROUGHWIDE</b>
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**1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. Policy Committee at its meeting on 13<sup>th</sup> December 2021 agreed a Draft 2022/23 Budget for consultation and Medium-Term Financial Strategy (MTFS) for the three years 2022/23 - 2024/25. This report updates Members on the results of the subsequent budget consultation exercise, changes arising from the publication of the Local Government Finance Settlement (LGFS) as well as other changes that have arisen since the report to Policy Committee in December.
- 1.2. The Department for Levelling Up, Housing and Communities (DLUHC) is due to publish the Final Local Government Financial Settlement in early February 2022. This report will be updated prior to the Council meeting on 23<sup>rd</sup> February 2022 as appropriate. Members will be updated should any new issues emerge prior to the Policy Committee meeting.
- 1.3. The underpinning rationale of the Medium-Term Financial Strategy is to deliver a balanced and affordable 2022/23 budget and ensure that the Council's finances are robust and sustainable over the medium term and that in the longer term the Council's finances are not reliant on the unsustainable use of one-off reserves or funding. The Strategy is informed by 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 themes:
  - Healthy Environment;
  - Thriving Communities; and
  - Inclusive Economy.
- 1.4. The preparation of the 2022/23 Budget and MTFS 2022/23 - 2024/25 has again been challenging due to the continuing uncertainty caused by the wide-ranging implications of the Covid-19 pandemic and, despite a multi-year Spending Review announcement, yet another one-year Local Government funding settlement from Central Government.

1.5. The budget assumptions include:

- a) Council Tax increases of 1.99% plus an Adult Social Care precept of 1.0% for all three years of the MTFs (2022/23 to 2024/25);
- b) Delivery of £19.940m (£19.690m services and £0.250m corporate) of efficiencies and increased income across the period;
- c) A contingency provision over the three years (£3.6m 2022/23; £4.8m 2023/24; and £6.3m 2024/25) to mitigate possible slippage or non-achievement of higher risk savings and/or income targets over the period;
- d) A housing rent increase of 3.1% (Sept 21 CPI only) in 2022/23, returning to a rent increase in line with approved policy of CPI + 1% in subsequent years.
- e) General Fund capital investment of £171m and Housing Revenue Account (HRA) capital investment of £140m over the period 2022/23 to 2024/25; and
- f) £5.706m of transformation funding (over the period 2022/23 to 2024/25) to support delivery of efficiency savings assumed within the MTFs, taking the total transformation funding to £21.729m across the whole life of the Delivery Fund.

1.6. This report has been prepared with reference to the following documents:

- 2021/2022 Budget & Medium Term Financial Strategy 2021/22 - 2023/24 Report approved by Full Council (23rd February 2021)
- Spending Review 2021 - HM Treasury (27th October 2021)
- Provisional Local Government Finance Settlement 2022/23 - DLUHC (16<sup>th</sup> December 2021)
- Medium-Term Financial Strategy 2022/23- 2024/25 Update Report approved by Policy Committee (13th December 2021).

## 2. RECOMMENDED ACTION

**That Policy Committee:**

- 2.1 taking due regard of the results of the budget consultation exercise and resident's survey (as outlined in Appendices 11 and 12), recommend that Council approve the 2022/23 General Fund and Housing Revenue Account budgets, Capital Programme and Medium Term Financial Strategy as set out in Appendices 1-10, noting the following:
- a) the Council's General Fund Budget Requirement of £149.990m for 2022/23 and an increase in the band D Council Tax for the Council of 1.99% plus an additional 1.00% Adult Social Care Precept, or £84.44 per annum, representing a band D Council Tax of £1,829.72 per annum, excluding precepts from Police and Fire, as set out in paragraph 4.3;
  - b) the proposed efficiency and invest to save savings of £6.471m together with additional income of £1.682m in 2022/23 required to achieve a balanced budget for that year as set out in Appendices 2 and 3
  - c) the overall savings proposed within the MTFs of £19.940m (of which increases to income, fees and charges is £3.853m) and three-year growth changes to service budgets of £25.186m as set out in Appendices 3 and 4;

- d) the budgeted contribution to earmarked reserves totalling £0.695m, as set out in paragraph 3.25 of Appendix 1;
- e) the Housing Revenue Account budget for 2022/23 of £46.033m as set out in Appendix 5 and the average increase of 3.1% in social dwelling rents from April 2022;
- f) the allocation of Dedicated Schools Grant (DSG) as set out in Appendix 6
- g) the General Fund and Housing Revenue Account Capital Programmes as set out in Appendices 7a and 7b;
- h) the Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 8;
- i) the Fees and Charges set out in Appendix 9 of the report; and
- j) the Equalities Impact Assessment as set out in Appendix 10.

### 3. POLICY CONTEXT

- 3.1. The Council's Budget and Medium Term Financial Strategy (MTFS) provide the financial framework to support the delivery of the Council's vision and Corporate Plan priorities.

### 4. OVERVIEW

- 4.1. Attached to this summary report are a series of appendices which together provide a comprehensive overview of the Council's financial position in the short to medium term subject to the constraints outlined in paragraph 1.4. Those appendices are as follows:

Appendix 1 - The Medium Term Financial Strategy (MTFS) 2022/23 - 2024/25  
Appendix 2 - Summary of the General Fund (GF) budget proposals 2022/23 - 2024/25  
Appendix 3 - General Fund Revenue Budget by Service 2022/23 - 2024/25  
Appendix 4 - Detailed General Fund Budget Changes 2022-23 to 2024-25  
Appendix 5 - The Housing Revenue Account (HRA) budget proposals 2022/23 - 2024/25  
Appendix 6 - The Dedicated Schools Budget proposals 2022/23 - 2024/25  
Appendix 7 - The General Fund and HRA Capital Programmes 2022/23 - 2024/25  
Appendix 8 - The Flexible Use of Capital Receipts Strategy 2022/23 - 2024/25  
Appendix 9 - Fees and Charges proposals from April 2022  
Appendix 10 - Equality Impact Assessment of the budget proposals  
Appendix 11 - Summary of the Response to the Budget Consultation  
Appendix 12 - Summary of the Results of the Residents Survey 2021

#### General Fund

- 4.2. Appendix 1 sets out the Council's Medium Term Financial Strategy (MTFS) and is supported in respect of the General Fund (GF) by Appendices 2, 3 and 4 which set out the financial figures for the 2022/23 Budget and the indicative budgets for 2023/24 and 2024/25. As illustrated in Appendix 2, this provides for a balanced budget in 2022/23 and a Net Budget Requirement of £149.990m, which after allowing for other funding streams leaves a Council Tax Requirement of £104.403m. The indicative budgets for 2023/24 and 2024/25 are not currently in a balanced position with an ongoing budget gap of £5.828m.

- 4.3. The 2022/23 budget proposals assume a Council Tax increase of 1.99% and an Adult Social Care Precept of 1.0%. This results in a Band D Council Tax of £1,829.72 for 2022/23 an increase of £84.44 per annum or £1.62 Per week. Similar percentage uplifts are assumed for 2023/24 and 2024/25.

### **Housing Revenue Account**

Appendix 5 sets out the Housing Revenue Account (HRA) budget proposals. Although the current rent standard allows a rent increase of up to CPI +1% for the Housing Revenue Account (HRA), the proposal is to increase rents by just CPI of 3.1% (Sept 2021) in view of what is anticipated to be a short term peak in inflation. The proposed expenditure budget for 2022/23 is £46.033m. A balanced budget is delivered across all three years with a drawdown from reserves of £2.1m in 2022/23, £1.4m in 2023/24 and £2.0m in 2024/25. Appendix 5 also sets out the full 30 Year Plan.

### **Dedicated Schools Budget**

- 4.4. Appendix 6 sets out the Dedicated Schools Budget proposals for 2022/23 - 2024/25. Dedicated Schools Grant (DSG) is split into four blocks, for which the allocations for 2022/23 were published by the Government on 17<sup>th</sup> December 2021. Overall, the DSG for schools will increase by £5.6m (3.9%) from £142.3m to £147.9m. Details of the allocations are provided at Appendix 6.
- 4.5. Appendix 6 includes details of the deficit on the High Needs Block that is anticipated to be £2.8m by 31<sup>st</sup> March 2022, before reducing to £1.0m by 31<sup>st</sup> March 2025. Funding for the High Needs Block is proposed to increase by £2.2m in 2022/23 and this will contribute to addressing the ongoing deficit. An updated deficit recovery plan will be presented to Schools Forum in March.

### **Capital**

- 4.6. The overarching Capital Strategy is set out in a separate report elsewhere on this agenda, with the specific details of projects laid out in the Capital Programme at Appendix 7 for both the General Fund and the HRA. Over the three years of the MTFs the General Fund Capital Programme totals £171.5m, which will require the support of £159.8m of additional borrowing. Over the same period the HRA Capital Programme stands at £140.3m.
- 4.7. The Capital Programme, attached as Appendix 7, identifies schemes where the commitment to proceed has already been made. All other schemes remain in the Programme but approval to proceed will only be given when the Director of Finance confirms the availability of funds including that sufficient revenue budget is available to meet the ongoing capital financing costs of schemes.
- 4.8. All schemes included in the approved capital programme, including those planned to start in 2022/23 shall remain subject to:
- (i) spending approval in detail by the responsible Committee or Policy Committee or Council, as appropriate, for all schemes
  - (ii) the Director of Finance confirming the availability of funds, including that sufficient revenue budget is available to meet the ongoing capital financing costs of schemes.
- 4.9. The Council's transformation programme supported by the extension to the flexible use of capital receipts permitted by regulation is detailed at Appendix 8.

## **Fees & Charges**

- 4.10. The schedule of Fees and Charges assumed within the budget proposals and effective from 1 April 2022 is included at Appendix 9.

## **Consultation**

- 4.11. The Council is required by legislation to consider the impact of its budget proposals upon all groups within the local community. This is demonstrated by the Equalities Impact Assessment statement at Appendix 10.
- 4.12. A summary of the results of the Budget Consultation held from 21<sup>st</sup> December 2021 to 14<sup>th</sup> January 2022 and the Residents Survey carried out in the summer of 2021 are provided at Appendices 11 and 12 respectively.
- 4.13. The consultation analysis highlights that the top service areas for suggested spend were children's services and adult social care. Another key theme was transport. The proposed Revenue Budget and Capital Programme responds to this feedback by investing in these services.

## **5. RISK**

- 5.1. The budget is set in a period of considerable uncertainty. Estimates are based on current information available, but it is important that the Council is aware of the significant risks it faces in terms of central funding and business rates in the medium term.
- 5.2. Whilst the budget proposals include some provision for risk and contingency, primarily in relation to the non-achievement of income targets and efficiency savings, risk remains that demographic, inflationary or other demand pressures may exceed budget uplifts and place pressures on those available provisions.
- 5.3. The MTFs assumes £19.940m of additional savings and income, if these are not delivered or there is any delay to their delivery, it would pose a potential threat to the sustainability of the Council's budget.
- 5.4. Business Rates income in particular is subject to considerable volatility in the current economic climate.
- 5.5. There are also the following risks in respect of the Council's wholly owned companies:
- Reading Transport Limited (RTL) - due to RTL operating on very low margins and combined with the current Covid-19 climate, there are concerns in respect of the company's future economic viability. Passenger numbers remain significantly below pre-Covid levels and the company has been reliant on Central Government grant funding to mitigate the impact of reduced income. The Council continues to work with RTL in addressing these concerns.
  - Homes for Reading (HfR) - the Council's current dispensation to not charge Minimum Revenue Provision (MRP) on borrowing relating to loans given to HfR is reliant on the value of the fixed assets on the company's Balance Sheet exceeding the loan liability. The asset valuation is dependent on the economy and the housing market and the current Covid-19 situation is a risk in this regard.

- Brighter Futures for Children (BFfC) - the Council's children's company has requested an increase in the contract sum of £1.1m compared to the figure that was previously included in the MTFs. This largely relates to a reduction in the planned savings against placement costs and the non-delivery of previously agreed transformation savings.

- 5.6. The current global and national economic position has the potential to impact the Council in a variety of ways, particularly in the current Covid-19 environment, these include, increases in demand for social care, income and funding available to be distributed through central government. As upper tier authorities across the country are finding, changes in social care demand can create significant cost pressures within adults and children's social care budgets.
- 5.7. The Council's Section 151 Officer is required under Section 25 of the Local Government Act to report to Council on the robustness of the estimates made for the purposes of the calculations of the budget and the adequacy of the proposed level of financial reserves. This report will be presented to Full Council on 22 February alongside the MTFs and Budget Report.

## **6. CONTRIBUTION TO STRATEGIC AIMS**

- 6.1. The Council's vision is to ensure that Reading realises its potential - and to ensure that everyone who lives and works in Reading can share the benefits of its success. The Council has three themes which contribute to delivering this vision. These themes are:
- Healthy Environment;
  - Thriving Communities; and
  - Inclusive Economy.
- 6.2. 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.
- 6.3. Full details of the Council's Corporate Plan are available on the website.

## **7. ENVIRONMENTAL AND CLIMATE IMPLICATIONS**

- 7.1. The Council declared a Climate Emergency at its meeting on 26 February 2019, with the intention of being carbon neutral by 2030. The Council's Corporate Plan monitors progress in reducing our carbon footprint.
- 7.2. The Council's proposed Capital Programme for the next three years includes investment of £5.543 million in energy saving measures in buildings and renewable energy infrastructure to contributing to the Council's net zero carbon ambitions. Of this, £2.646m is allocated for 2022/23.
- 7.3. 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 £0.997m is included in the Capital Programme across the next three years which will enable additional projects in the pipeline to go ahead.
- 7.4. 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. £1.800m has been allocated over the following MTFs period. The

second will support further investment in renewable energy. In 2022/23, £1.543m has been allocated for this purpose with a further £2.176 in 2023/24 and £0.024m in 2024/25. This will enable a number of more ambitious projects to be progressed, including ground-source heat pumps, solar arrays and potentially district heating systems.

7.5. 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.

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

- £9.000m for the South Reading MRT (2022/23-2024/25)
- £3.743m for renewable energy (2022/23-2024/25)
- £2.797m for energy saving measures via the Salix Decarbonisation and Recirculation funds (2022/23-2024/25)
- £0.250m for additional electric vehicle charging points (2022/23)
- £0.100m for tree planting programmes (2022/23-2024/25)

## **8. COMMUNITY ENGAGEMENT AND INFORMATION**

8.1. The public budget consultation ran from 21<sup>st</sup> December 2021 until 14<sup>th</sup> January 2022. The feedback from this consultation, alongside the feedback from the Resident's Survey 2021 is set out in Appendices 11 and 12.

## **9. EQUALITY IMPACT ASSESSMENT**

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

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

9.2. An initial Assessment of the proposals as set out in the MTFs has been undertaken and Appendix 10 sets out the individual savings proposals where specific equality impact assessments will need to be undertaken prior to implementation.

9.3. 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. The consultation on the Draft Budget proposals assists with this requirement.

## **10. LEGAL IMPLICATIONS**

- 10.1. The Council must set its budget in accordance with the provisions of the Local Government Finance Act 1992. Approval of a balanced budget each year is a statutory responsibility of the Council.
- 10.2. The provisions of section 25, Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it 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.

## **11. FINANCIAL IMPLICATIONS**

- 11.1. The financial implications are set out in the body of this report and associated appendices.
- 11.2. The proposed 2022/23 Budget is balanced without the requirement to drawdown on reserves and in fact proposes to bolster earmarked reserves. Further savings to close the budget gap in 2023/24 and beyond will need to be identified as part of the 2023/24 budget setting process.
- 11.3. The Council's General Fund balance remains at £7.5m over the plan period.

## **12. BACKGROUND PAPERS**

- 12.1. None.