READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF RESOURCES

TO: POLICY COMMITTEE		
DATE: 18 FEBRUARY 2019		
TITLE: DRAFT 2019/20 BUDGET AND MEDIUM	**TERM FINANCIAL STRATEGY TO 2021/22**	
LEAD COUNCILLOR: COUNCILLOR LOVELOCK	**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 the Council's draft Medium Term Financial Strategy (MTFS) and associated spending plans for the three years 2019/20 to 2021/22. The report covers all aspects of the Council's spend: General Fund revenue expenditure funded by the council tax payer, 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. The proposed Medium Term Financial Strategy is informed by and supports delivery of the Council's Corporate Plan priorities and seeks to ensure that the Council is "fit for the future" with sound finances that allow the Council's future funding challenges and spending pressures to be met.

1.3. The underpinning rationale of the budget strategy set out in this report is to deliver a balanced and affordable budget that ensures the Council's finances are sustainable in both the short (one year) and medium term (three years). That in the longer term the Council's finances are not reliant on the unsustainable use of one-off reserves or funding and that reserves are increased to mitigate future funding challenges and risk. The budget strategy is also 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", and service delivery themes 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’.

1.4. The Draft Budget and MTFS are based on the latest information currently available. Full Council will meet to determine its budget, associated Council Tax level and precept for 2019-20 at its meeting on 26th February 2019.

1.5. The MTFS 2019 - 2022 provides for a balanced budget position across the three years, as well as a net contribution to reserves over the three years of £2.4m using part of the benefit from the business rate pilot, which will enable reserves to move back towards a more robust level.

1.6. The Strategy, which builds on work over the previous 12 – 18 months, provides for a robust financial position going forward in order that vital and valued services can continue to be delivered. It relies on significant service transformation to drive increased efficiency savings and income generation in order that service reductions can be minimised. In particular it assumes:

a) Revenue Support Grant from Government has effectively reduced to zero in 2019/20 due to the Business Rates pilot and will remain at zero following the Business Rates reset;
b) Council Tax increases of 2.99% in 2019/20 and 1.99% in both 2020/21 and 2021/22;
c) The benefit of Business rate growth forecast in 2019/20 has been discounted in 2020/21 because the impact of the planned business rate reset is as yet unknown;
d) £27.5m of efficiencies and increased income across the period;
e) A contingency provision over the three years (£4.4m 2019/20; £4.1m 2020/21; and £3.4m 2021/22) to mitigate possible slippage or non-achievement of higher risk savings and budget pressures over the period;
f) Facilitates capital investment of £464m over the period 2019/20 to 2021/22 of which £249m is for invest to save purposes;
g) £6.4 of transformation funding (over the period 2019/20 to 2021/22) to support delivery of efficiency savings assumed within the MTFS; and
h) Service reductions of £2.6m.

1.7. On 1st December 2018 the Council incorporated a Local Authority Company, Brighter Futures for Children, to provide services previously provided directly by the Council. The cost of providing those services, as well as funding for transformational change (an additional £2.1m in 2019/20) is included in the Medium Term Financial Strategy.

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 endorse and recommend to Council the draft 2019-20 General Fund and Housing Revenue Account budgets, draft Capital Programme and Medium Term Financial Strategy as set out in Appendices 1-9, noting the following:

a) the Council's General Fund Budget Requirement of £139.5m for 2019/20;

b) the proposed service savings and efficiencies of £10.5m together with additional income of £4.4m in 2019/20 required to achieved a balanced budget for that year;

c) the proposed growth in 2019/20 service budgets of £12.5m;

d) the overall savings proposed within the MTFS of £30.1m (of which changes to income, fees and charges is £6.2m) and three-year growth changes to service budgets of £30.9m;

e) the increase in the Band D Council Tax for the Council of 2.99% or £47.24 per annum representing a Band D Council Tax of £1,627.23 per annum as set out in paragraph 15.1;

f) the Housing Revenue Account budget for 2019/20 of £42.7m as set out in Appendix 4 and a reduction of 1.00% (£/wk) in social dwelling rents from April 2019 giving a revised weekly average social rent of £99.39 as set out in paragraph 19.3;

g) the General Fund and Housing Revenue Account Capital Programmes as set out in Appendix 5;

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

i) the changes to Fees and Charges outlined in Appendix 7 of the report;

j) how the £76.4m dedicated schools grant is allocated as set out in Appendix 8;

k) the Equality Impact Assessment requirements as set out in Appendix 9.

Appendix 1	Summary of General Fund Budget 2019-20 to 2021-22
Appendix 2	General Fund Revenue Budget by Service 2019-20 to 2021-22
Appendix 3	Detailed General Fund Budgets 2019-20 to 2021-22
Appendix 4	Housing Revenue Account Budget 2019-20 to 2021-22
Appendix 5	General Fund and HRA Capital Programme 2019-20 to 2021-22
Appendix 6	Flexible Capital Receipts Strategy
Appendix 7	Fees and Charges
Appendix 8	Dedicated Schools Grant 2019/20
Appendix 9	Equality Impact Assessment

Section A Background and Context

3. Background

3.1. The Medium Term Financial Strategy makes assumptions about income from Government grants, Council Tax, fees and charges and rents. The MTFS underpins service provision and the Council's priorities as set out in its Corporate Plan:

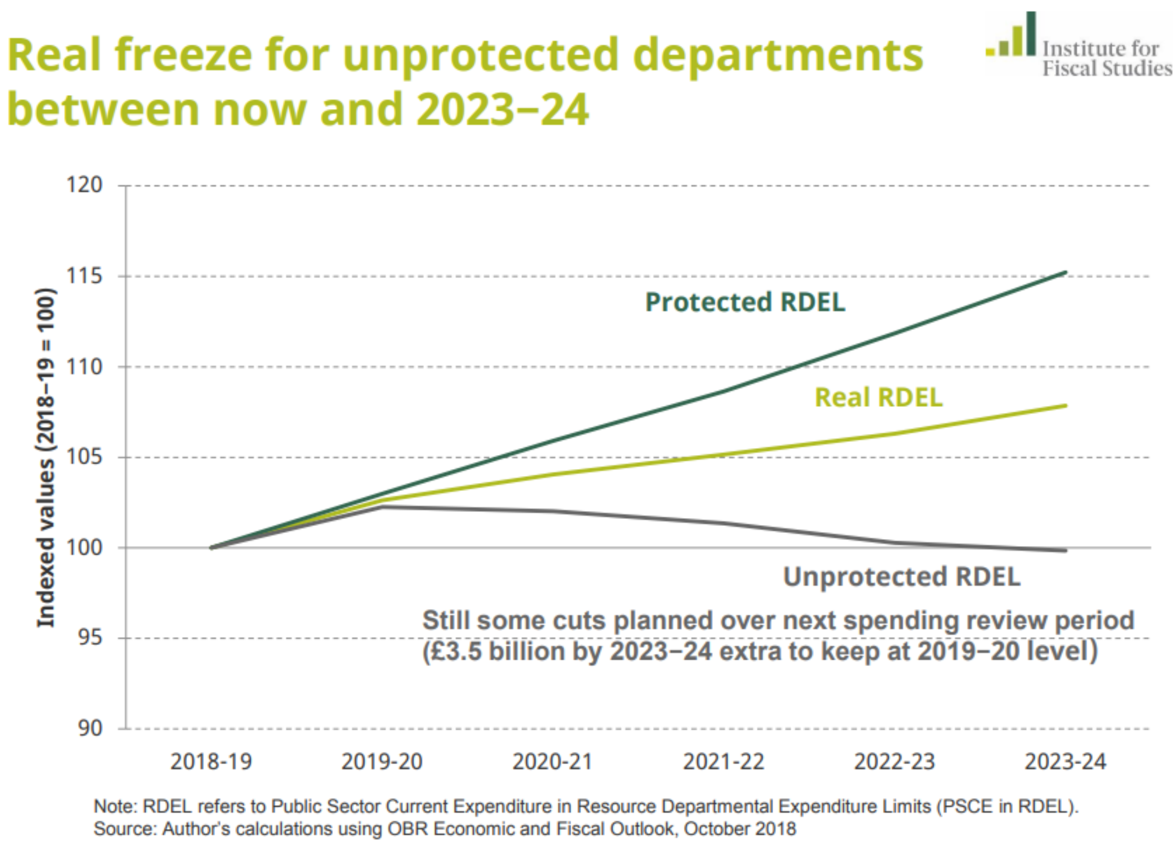
- Securing the economic success of Reading;
- Improving access to decent housing to meet local needs;
- Protecting and enhancing the life outcomes of vulnerable adults and children;
- Keeping Reading's environment clean, green and safe;
- Promoting great education, leisure and cultural opportunities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

4. National Economic Position

4.1. Brexit has the potential to have a significant impact for both the UK's economic future as well as the Council's financial position. The Chancellor's Autumn Budget set out the path for a 'soft' Brexit. If there is a 'hard' Brexit then there could be a further review of public spending with potential consequences for future government funding to local authorities. Whilst the assumptions underpinning this three year MTFS continue to assume future growth in Council Tax, to ensure the Council takes a prudent view of future income streams, growth in the business rate taxbase assumed in 2019/20 has been removed for the remainder of this MTFS, other than for expected CPI inflation. The Council Tax Base has been assumed to increase by 1.5% in 2020/21 and 2021/22.

4.2. The Chancellor's Autumn Budget Statement claimed "Austerity is over". However, whilst this may be the case for protected areas like the NHS, for "non-protected" departments like Local Government, Police and Fire there is likely to be reductions in funding from 2020/21 to 2023/24.

4.3. The Institute of Fiscal Studies published the planned change to Public Expenditure Resource - Departmental Expenditure Limits (RDEL) in October 2018, set out in the graph overleaf:



4.4. The forecast position for Local Government as shown above, is a one-off cash increase in 2019/20, followed by real term reductions (excluding inflation) in subsequent years reducing government funding back to 2018/19 levels.

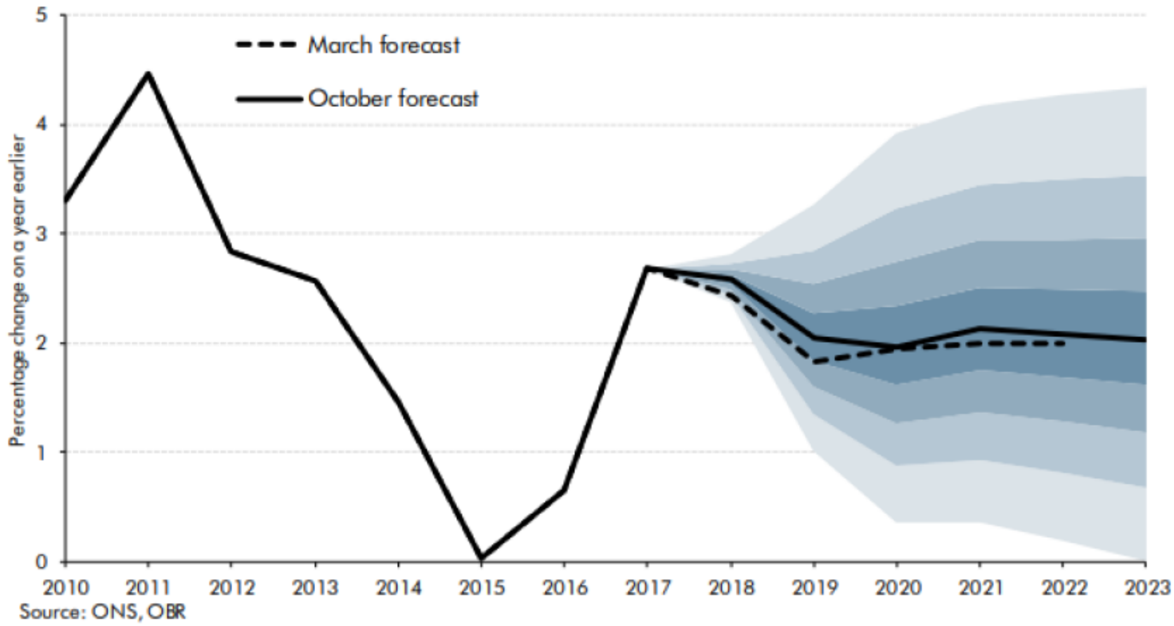
4.5. The funding position for local authorities generally will remain uncertain beyond 2019/20 until the new Comprehensive Spending Review (CSR) is announced in the latter part of 2019, after which Councils will need to review their funding forecasts.

4.6. During 2019/20 the Ministry for Housing, Communities and Local Government (MHCLG) are also reviewing the Local Government Funding Formula and proposing to roll out 75% business rates retention nationally from 2020/21. At this stage it is impossible to say what the overall impact will be for the Council.

4.7. The specific announcements made by the Chancellor in his Autumn Budget which affect the Council's finances were:

- An additional £650m grant funding for Social Care in 2019-20. Reading's allocation is £1.541m (£0.569m from the £210m previously announced and £0.972m from the additional £410m subsequently announced for the whole country);
- The National Living wage rise of 4.9% from April 2019, increasing from £7.83 to £8.21 per hour, while the National Minimum Wage average rate for all age groups will rise by 4.4%. This and future increases has the potential to impact on contract costs to the Council, in particular care costs.

4.8. Inflation is forecast to remain at around 2.0% over the three years of the MTFS as set out in the Office of National Statistics chart below:



4.9. The Council has assumed 2.0% general inflation per annum in this three-year MTFS.

5. Interest Rates

5.1. Interest rates currently remain at historically low levels. The Bank of England's Monetary Policy Committee expectation is that there will be a slow rise in interest rates over the next few years. The Council's Treasury Advisors, Arlingclose, predict the Bank Base Rate will rise twice in 2019 to 1.25% and this expectation has been reflected in the Council's treasury management budget.

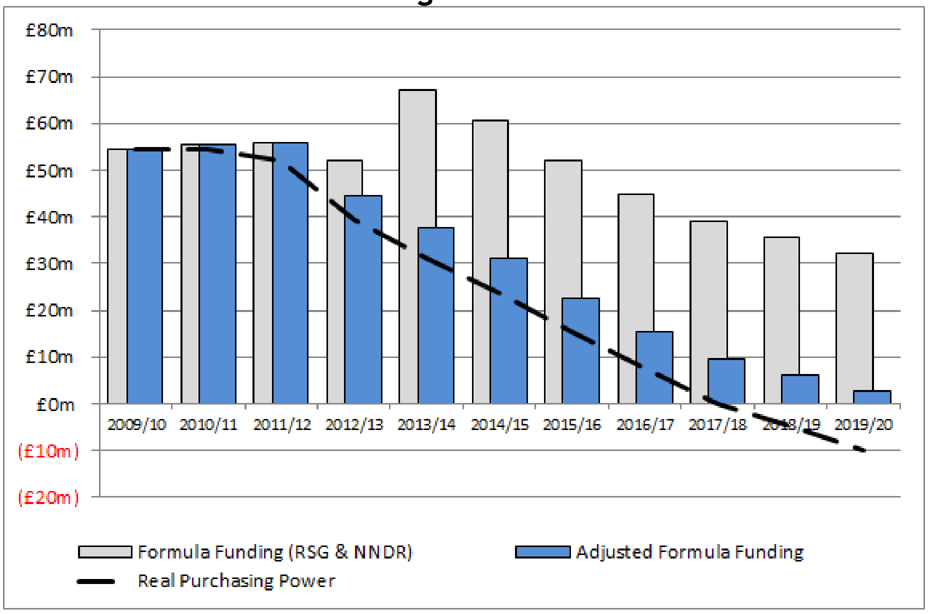
5.2. Clearly given the degree of uncertainty around Brexit and the future state of the UK and world economy, interest rate projections have the potential to change. On the timeline of most economic cycles however, (regardless of possible Brexit implications), we are potentially closer to the next economic downturn than we are past the onset of the last recession. This would potentially impact the level of business rate income received.

6. Local Government Finance Settlement

6.1. Local government generally has borne more than its share of public spending reductions as part of the Government's austerity measures. Since 2009/10 Reading Borough Council has seen substantial reductions in government grant allocations as set out in the chart overleaf. Whilst the headline Settlement figures show that funding declined from £55m in 2009/10 to £32m in 2019/20, this masks the fact that specific or new grants have been rolled into the Revenue Support Grant during the period.

6.2. Comparing business rates and Revenue Support Grant (RSG) (the lighter columns) with the 2009/10 position less specific grants the equivalent government funding for 2019/20 would be just £3m (the darker columns). Taking into account the decline in purchasing power over the period by applying a CPI deflator (the black line), shows that compared to the £55m received in 2009/10, the Council has seen a £65m real-terms reduction in that funding.

Reduction in Core Funding 2009/10 - 2019/20



6.3. The current four-year settlement, of which 2019/20 is the final year, did not change. This means Reading, prior to the extension to a second year of the Berkshire Business Rate Pilot which is explained below, would have had a RSG of £1,998k.

6.4. All major funding announcements were made in the Chancellor's Autumn Budget, and all the Provisional Settlement did was confirm the allocations of adult social care funding, which for Reading is as set out in para 4.7 above.

6.5. Authorities will also receive one-off funding in 2019/20 from the Government's Levy Account surplus. A total of £180m will be distributed pro rata to Settlement Funding Assessment (SFA), Reading's share is £463k.

6.6. Other changes in the Provisional Settlement were as expected but did not benefit Reading, in particular:

- Negative RSG has been cancelled, with the cost of funding those authorities with negative RSG in 2019/20 being paid for by the Government;
- Northamptonshire County Council were granted dispensation to increase their Council tax level by an additional 2.0%, 4.99% in total without having to have a referendum; and
- Additional funding was found to ensure that the Rural Services Delivery Grant remained at the same level in 2019-20 as in 2018-19.

6.7. The Final Settlement figures for 2019/20 confirming the above were released on the 29th January. However, on the 28th January the Secretary of State announced the allocation of £56.5m of Brexit Funding to local authorities. All unitary authorities including Reading will receive £105k in each of 2018/19 and 2019/20. The funding is not ring fenced but is expected to be used to fund preparatory work in relation to Brexit.

6.8. Due to the late notification of the funding the 2019/20 sum has been added to the earmarked reserves for 2019/20.

6.9. The Secretary of State has indicated that further funding may be forthcoming from individual government departments to fund 'new burdens' placed on authorities as a consequence of Brexit if they arise.

7. 75% Retained Business Rates Pilot 2019/20

7.1. The number of business rate pilots was increased to 15 for 2019/20, Berkshire being only one of three areas outside London and Devolution Areas to retain Pilot status. The Pilot is based on 75% Business Rate retention rather than the 100% in 2018/19. It will provide a one off benefit to the Council of approximately £3,440k in 2019/20 which will be used to increase reserves to more robust levels.

7.2. As in 2018/19 one of the conditions of the pilot scheme is that 50% of the additionally retained business rates must be pass-ported to the Local Enterprise Partnership (LEP) and used to fund strategic infrastructure improvements. Reading's contribution is £2.3m. The schemes to be funded have yet to be agreed by the LEP, but have the potential to further benefit the Borough.

8. Comprehensive Spending Review (CSR) 2019, Fair Funding Review and 75% Retained Business Rates post 2019/20.

8.1. As indicated in para 4.5 above, local government is facing unprecedented uncertainty around its future funding due to three simultaneous reviews the Government is undertaking. The outcomes of these are unlikely to be announced before December 2019, giving local authorities very little time to plan for their 2020/21 budgets and beyond.

8.2. The objectives of the Fair Funding Review are to:

- Set new funding baselines for local authorities in England for implementation in 2020/21;
- Replace the current methodology which is considered out-of-date and complex;
- Provide a more transparent approach that does not undermine growth incentives;
- Update key cost drivers;
- Reflect 'future need' as far as possible; and
- Consider how to make a fair adjustment for 'relative resources' (e.g. council tax yield), and how to transition to new allocations quickly.

8.3. Transitional arrangements will be used to implement the new system, thereby providing some protection to individual authorities from major shifts in funding in any one year. The transitional arrangements are expected to taper out over the period of the next funding cycle and are intended to be "fiscally neutral", meaning that those authorities seeing reductions in funding will receive some protection, whilst those entitled to increased allocations will see gains delayed. The Government has stated it will be looking to achieve a balance between stability, minimising an authority's change in funding and moving local authorities to their funding target as soon as possible.

8.4. Whilst the Fair Funding Review is welcomed by many councils, its focus will be on how finite resources are distributed rather than whether there are enough overall resources available in total.

8.5. Alongside the Fair Funding Review there is a full reset of the Business Rates Retention Scheme planned for 2020/21.

8.6. From 2020/21 local authorities will collectively be able to retain 75% of the Business Rates they collect and other Government grants, including Revenue Support Grant and potentially the Public Health Grant or other grants will be phased out to offset the increase in the business rates share locally retained. This will significantly change the composition of council funding, increasing potential rewards from business rate growth, but also risks, such as losses in income due to rating appeals.

8.7. Reading is unlikely to benefit to the extent it has from being part of the Berkshire Business Rates Retention Pilot as resources will be redistributed nationally rather than amongst those just in the pilot.

8.8. The key challenge for Government will be to balance meeting local authority funding need with providing an incentive to grow local economies whilst also providing individual local authorities with adequate funding and protection against business rate reductions.

8.9. 2019/20 is the last year of the current four-year Settlement Offer. The Comprehensive Spending Review which will be announced in Autumn 2019 will set the overall funding envelope for the public sector for the four year period from 2020/21 onwards.

8.10. The impact of these reviews as outlined above will not be known until very late in the Council's 2020/21 budget setting process. It is unlikely that there will be any meaningful data on which to base funding assumptions until the Provisional Settlement is announced in December 2019 which creates significant uncertainty.

8.11. Reading, along with other local authorities, will continue to engage with Government to better understand the potential impact of these changes and will feed any further data into the budget setting process as and when it is known.

9. Current Year Financial Position - As at the end of November 2018

9.1. Detailed revenue monitoring is undertaken on a monthly basis. As of the end of November (Period 8) service areas are forecasting an overspend of £1.475m against the approved General Fund budget with further potential net weighted risks of £0.324m. Both of these amounts have been taken into account when setting the 2019/20 budget.

9.2. In setting its budget the Council prudently allowed for the delay or non-delivery of the planned £18.175m savings proposals (£17.278m for 2018/19 and £0.897m of slipped savings brought forward from 2017/18) by creating a contingency provision which will be applied to offset the projected overspend. The table below summarises the General Fund projected outturn as at the end of November 2018 before applying the contingency:

	Approved Budget (£,000's)	Forecast Outturn (£,000's)	Full Year Variance (£,000's)
Directorate of Adults Care and Health Services	36,639	36,438	(201)
Directorate of Childrens, Education & Early Help	41,048	42,474	1,427
Directorate of Enviroment & Neighbourhood Services	23,459	23,633	174
Directorate of Resources	12,793	12,853	60
Corporate Items	24,973	24,988	15
	138,912	**140,386**	**1,475**
Business Rates (NNDR) Net Yield	(52,250)	(52,250)	-
Council Tax	(86,662)	(86,662)	-
	-	**1,475**	**1,475**

9.3. The Housing Revenue Account is projecting an underspend against its revenue budget of £0.350m as set out in the table below:

	Approved Budget (£,000's)	Forecast Outturn (£,000's)	Full Year Variance (£,000's)
Responsive Repairs	2,725	2,675	(50)
Planned Maintainance	3,165	3,115	(50)
Major Works	9,500	9,500	-
Managing Tenancies	1,302	1,302	-
Management, Policy & Support	5,474	5,474	-
Private Finance Initiative	6,823	6,823	-
Rent Collection	1,013	1,013	-
Building Cleaning, Energy and other	2,756	2,706	(50)
Capital Financing	10,325	10,325	-
HRA Income	(43,083)	(43,283)	(200)
	-	**(350)**	**(350)**

9.4. The General Fund Capital Programme is forecast to underspend in 2018/19 by £6.3m which is predominantly the result of slippage on two larger schemes (ICT Technical Infrastructure and phase three of the Accommodation Review) from 2018/19 into future years and changes to the General Fund New Build and Acquisition scheme, which following review has been transferred to the Housing Revenue Account Capital Programme). The table overleaf summarises the General Fund Capital position as at Period 8:

	Full Year Approved Budget			Full Year Forecast		
	2018/19	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**
	(£,000's)	***(£,000's)***	***(£,000's)***	***(£,000's)***	***(£,000's)***	***(£,000's)***
Gross Expenditure	123,536	163,405	118,300	105,816	144,491	111,179
Funded by:						
Grants & Contributions	(26,400)	(49,285)	(24,135)	(17,733)	(37,790)	(18,891)
s106/CIL	(3,018)	(9,430)	(2,750)	(1,034)	(9,430)	(2,750)
Other	(1,387)	(4,521)	(867)	(652)	-	-
Net Capital Spend	92,731	100,169	90,548	86,397	97,271	89,538

9.5. The Housing Revenue Account Capital Programme is forecasting £6.3m of slippage into future years due to delays predominantly relating to the New Builds and Acquisitions programmes. The table below summarise the Period 8 monitoring forecasts:

	Full Year Approved Budget			Full Year Forecast		
	2018/19	**2019/20**	**2020/21**	**2018/19**	**2019/20**	**2020/21**
	(£,000's)	***(£,000's)***	***(£,000's)***	***(£,000's)***	***(£,000's)***	***(£,000's)***
Gross Expenditure	25,318	14,528	8,537	18,977	21,223	8,512
Funded by:						
Other	(10,085)	(8,081)	(7,800)	(10,085)	(8,081)	(7,800)
Net Capital Spend	15,233	6,447	737	8,892	13,142	712

Section B General Fund Revenue Budget

10. Overall Three-Year Budget Position

10.1. In February 2018 Full Council agreed a balanced budget for the three years of the MTFS. The strategy has been extended to 2021/22 and all income and expenditure and planning assumptions have been reviewed.

10.2. Each year of the revised 2019/20 – 2021/22 MTFS shows a balanced position. The net contribution to earmarked reserves over the three year period is £2.4m which together with the planned release of contingency sums as at 31st March 2019 will increase reserves back towards a more robust level. On the assumptions made, the Council does not have an underlying reliance on the use of one-off reserves in its base budget going into 2022/23.

10.3. The Council's General Fund Balance is planned to increase to £7.0m (approximately 5% of the Council's net budget) across each of the three years of the MTFS to reflect the additional risks facing the Council going forward. This percentage is more comparable to that of other unitary councils.

10.4. This draft budget includes £12.5m of service growth items for 2019/20 (£2.0m pay costs; £3.2m inflation; and £7.3m other pressures), £10.5m of service savings (£7.9m efficiencies and £2.6m service changes) plus £4.4m of increased income. This net reduction in service budgets for 2019/20 of £2.4m matches the expected changes in Corporate Items budgets and total core funding to maintain an overall balanced budget position for 2019/20.

10.5. The Strategy relies on achieving savings and additional income of £30.1m over the three years to 2021/22 - £14.9m of which is required to be achieved in 2019/20. Of the £30.1m due to be delivered over the 3 years of the Plan £13.6m 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 £16.5m has to be found from other directly managed Council services as summarised below:

Savings Summary 2019/20 – 2021/22

	Efficiency Savings £000	**Invest to Save Schemes £000**	**Income, Fees & Charges £000**	**Service Reductions £000**	**Total £000**
Children's Services	11,208	274	0	2,160	**13,642**
Other Council Services	9,273	551	6,216	453	**16,493**
Total	**20,481**	**825**	**6,216**	**2,613**	**30,135**

10.6. A summary of directorate budgets and corporate funding are set out in the table overleaf. Further detail is provided in Appendices 1 – 3 attached:

Directorate and Corporate Budgets: 3 year summary

		Proposed Medium Term Financial Strategy		
		2019/20 £000's	2020/21 £000's	2021/22 £000's
1	Adults Care and Health Services	35,600	37,777	40,218
2	Environment & Neighbourhood Services	21,188	19,941	19,467
3	Resources	12,841	13,126	13,183
4	Children's, Education & Early Help *	41,849	41,305	41,773
5	**Total Directorates**	**111,478**	**112,149**	**114,641**
6	Capital Financing Costs	13,680	14,880	14,880
7	Other Corporate Budgets	10,690	9,181	8,177
8	**Movements to/(from) Reserves**	3,620	(1,802)	623
9	**Total Corporate Budgets**	**27,990**	**22,259**	**23,680**
10	Total Net Spend (Budget Requirement)	139,468	134,408	138,321
	Financed by			
11	Council Tax Income	(90,936)	(94,137)	(97,450)
12	Business Rates(NNDR) Local Share (Net of Tariff and Levy)	(41,957)	(34,461)	(35,231)
13	Business Rates (NNDR) Levy - one-off benefit in 2019/20	(463)	0	0
14	Small Business Rate Rebate (S31 Grant)	(2,200)	(2,200)	(2,200)
15	New Homes Bonus	(3,739)	(3,610)	(3,440)
16	Collection Fund - Council Tax Surplus - one-off	(173)	0	0
17	Total Funding	(139,468)	(134,408)	(138,321)

* On 1st December 2018 the Council transferred responsibility for the delivery of the majority of its Children's Services to Brighter Futures for Children, a wholly owned company of Reading Borough Council.

11. Value for Money & Efficiency

11.1. During 2017/18 the Council delivered savings totalling £11.7m and as at the end of November 2018 had delivered £13.3m of the £18.2m due to be delivered in year.

11.2. An Improvement Plan put in place to improve accuracy in the processing of Housing Benefit claims has resulted in no deduction in Subsidy for 'local authority error' which is a significant achievement and an improvement of £0.4m and £0.6m on the previous two financial years.

11.3. Additionally, a review of Single Person Discount (SPD) eligibility for Council Tax is forecast to generate a Collection Fund surplus of £0.2m in 2018/19. A rolling review of entitlement to SPD will take place over the life of the MTFP.

11.4. Over the next three years the MTFS assumes delivery of a further £23.9m of savings as well as additional income of £6.2m, (£10.5m and £4.4m respectively assumed in 2019/20). The programme of cumulative efficiency savings are set out in detail in Appendix 3.

11.5. As in 2017/18 and 18/19, to support the delivery of efficiencies and ongoing savings, transformation funding has been made 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.

11.6. On the 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. To facilitate this the Department for Education and Skills (DFES) have allocated £5m of transformation funding to the Company over the two years 2019/20 and 2020/21 which is in addition to the £3.8m allocated within the Council's own transformation fund. Details of the specific projects funded by Council resources are set out in Appendix 6.

12. Reserve Levels

12.1 The Council has had to use revenue reserves to balance its budget in previous years which has saw them reduce to £20.4m at 31st March 2018, proportionately one of the lowest levels when compared to other unitary councils.

12.2 The MTFS plans to increase revenue reserves to £29m and maintain them going forward. This is set out in the table below:

	31.03.19	**31.03.20**	**31.03.21**	**31.03.22**
	£m	**£m**	**£m**	**£m**
General Fund	7.0	7.0	7.0	7.0
Earmarked Reserves	19.6	23.2	21.4	22.0
Total	26.6	30.2	28.4	29.0

* A further breakdown of reserves can be found in the S151 Officer's report which appears elsewhere on the agenda.

** Earmarked reserves are sums held for specific purposes and to mitigate potential known risks eg the insurance reserve and grants unapplied.

12.3 By the end of the current MTFS period in 2021/22 there will be no underlying reliance on reserves to balance future budgets.

13. Dedicated Schools Grant

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

- Schools Block;
- Central School Services Block;
- Early Years Block; and
- High Needs Block.

13.2. Whilst funding can be transferred between the four blocks after consultation with schools and Schools Forum it cannot be diverted for other purposes. The ESFA have limited the movement of funds from the Schools Block to 0.5% of the total Schools Block.

13.3. The total amount of DSG the Council will receive in 2019/20 is £76.4m (£0.5m less after recoupment than in the current year). Appendix 8 attached sets out in detail how this money is distributed between blocks.

13.4. In addition to the Council's DSG the ESFA allocate £47.4m funding directly to academy schools. This is referred to as Recoupment in table 1 in appendix 8.

13.5. The Council has transferred responsibility for the management of its schools funding to Brighter Futures for Children, including consultation with Schools and the Schools Forum. The detailed distributions to individual schools will be published on both the Company's and Council's websites in due course.

14. Planning Assumptions

14.1. The following planning assumptions are included within the Medium Term Financial Strategy:

a) **Base Budget** - The starting point for planning is the 2018-19 base budget as agreed by Council in February 2018, adjusted for any approved budget virements;

b) **Council Tax Increase** – A 2.99% rise for 2019/20 (in line with the 2019/20 Referendum limits) and a 1.99% rise in both 2020/21 and 2021/22 (in line with future Bank of England CPI targets);

c) **Local Council Tax Scheme** – Remains unchanged from 2018/19;

d) **Capital Borrowing Rates** – Current long term Public Works Loans Board rates (after including the certainty rate discount) are 2.65%. In line with information from our treasury management advisors, these are assumed to rise by 0.5% during 2019/20, and then remain static over the final two years of the MTFS;

e) **Investment Interest** – The Bank of England base rate is currently 0.75% and 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 between 4% to 5% on a quarterly basis; and
   - **Investment Properties** – The Council own investment properties valued at £26m as at 31st March 2017. These properties provide a return of 6% pa.

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;

h) **Pensions** - The MTFS includes an increase in the current contribution in line with pay inflation. The next triennial valuation of the Pension Fund is expected to take place over the course of 2019/20 and will potentially impact on the employer contribution rate from 2020/21;

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

j) **Demographic Growth** – demographic growth of £11.5m has been allowed for in demand-led service budgets;

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

l) **Transformation Programme** - £6.4m of transformation funding to facilitate delivery of service efficiencies and savings over the three years 2019/20 – 2021/22 in General Fund revenue budgets is provided for within the General Fund Capital Programme.

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

15. Assumed Council Tax Levels

15.1. The MTFS assumes a 2.99% increase in 2019/20 for the Council's Band D Council Tax amount (which would be £1,627.23). The other preceptors in the Borough, Thames Valley Police Authority and the Berkshire Fire and Rescue Service have advised that their proposed increases will be 13% (or £24 for an average band D property (the maximum allowed for police authorities) and 2.99% respectively.

15.2. The impact on taxpayer bills (before any reduction for discounts) of the Council's proposed 2.99% increase represents an increase of 91p per week for a Band D Council Tax payer. The overall increase after taking account of the Police and Fire increases will be 4.0% or £1.41 per week, £1,899.79 in total.

15.3. The majority of properties in Reading are Band C and below (40% of properties are in Band C). The Reading element for Band C properties in 2019/20 will be £1,446.43, an increase of 81p per week. Including Police and Fire Band C Council Tax will be £1,688.71.

16. Risk Implications

16.1. Broadly the main risks to the balanced position of the Draft General Fund budget relate to achieving the agreed level of savings and income generation as assumed in the MTFS whilst containing spending pressures.

16.2. More specifically risks relating to the Council's General Fund budgets include:

- The ability to contain demographic demand pressures;
- Buoyancy of the general and local economy;

- Adverse interest rate movements;
- Increased inflationary pressures;
- Delivery of capital receipts to fund the flexible use for transformation purposes;
- Future local government financing settlements from central government;
- Delivery of savings and income projections in line with assumptions; and
- Slippage in the Capital Programme adversely impacting savings assumed within the MTFS.

16.3. In setting the new three-year MTFS, contingency provisions of £4.4m in 2019/20, £4.1m in 2020/21 and £3.4m in 2021/22 have been provided for to allow for slippage or non-delivery of higher risk savings and income targets. Also, as outlined above, the Council has made prudent assumptions in relation to Business Rate and income collection.

Section C Housing Revenue Account

17. Housing Revenue Account (HRA) Budget

17.1. The HRA is a ring-fenced account which deals with the finances of Council housing. Budgets have been prepared in accordance with the budget guidelines and planned programmes of works to housing stock have been updated to take account of progress during 2018/19. The HRA budget must avoid a deficit on reserves over the 30 year HRA Business Plan. Although over the next three years reserves reduce they are still at reasonable levels and in the future the HRA is planned to move into a surplus.

17.2. A summary of the HRA revenue budget is set out below and detailed in Appendix 4:

	2019/20	2020/21	2021/22
	£000s	£000s	£000s
Expenditure	42,678	44,210	46,745
Income	40,049	41,706	43,493
Total (Surplus) / Deficit	**2,629**	**2,504**	**3,252**
HRA Reserves C/fwd	**22,584**	**20,081**	**16,828**

18. Planning Assumptions

18.1. The following planning assumptions are included in the HRA 30 year Business Plan and three year forward budget projections:

- **Rents** – 2019/20 is the final year of the rent reduction policy. Ongoing rent is assumed to revert to CPI + 1% in accordance with Government advice;
- **Void Rates** – are assumed at 2.5%;
- **Right to Buy** – sales assumed at 15 per annum;
- **Service Charges** – are assumed to increase by CPI year-on-year, but cannot exceed full cost recovery;
- **PFI Credit** – provision of £3.997m relating to 1,280 properties in North Whitley and managed by Infinity until 2035 has been included;
- **Capital Receipts** – sales of five properties per annum are assumed to Homes for Reading;
- **Interest on Balances** – assumed at 0.5%;
- **Inflation** – assumes CPI;
- **Bad Debt Provision** – 2.5% of rent and service charges; and
- **Debt Financing Costs** – are included within the revenue budget.

19. Works to Existing Stock

19.1. Following the Grenfell Tower fire the Council appointed an external, qualified Fire Engineer (FireSkills) to carry out a review of fire safety practices in respect of the management and maintenance of Council housing stock, including whether additional fire precautions were advised in any of the building types surveyed, to improve safety standards in the context of recent incidents. Overall FireSkills noted that the Council's Housing Service has a 'forward facing and proactive fire safety strategy' and whilst the Council is fully compliant with current legislation, FireSkills have recommended that the Council consider implementing a number of additional measures. Provision has been made in the HRA Capital Programme and Business Plan to fully implement the recommendations. The profile of spend is as follows:

2018/19 (£,000's)	**2019/20** (£,000's)	**2020/21** (£,000's)	**2021/22** (£,000's)	**Total** (£,000's)
1,485	1,991	706	1,250	5,432

20. Rents

20.1. The Welfare Reform and Work Act 2016 (WRWA 2016) required that social housing rents reduce by 1% per annum for 4 years starting from 2016/17. The Council's HRA Business Plan has been updated to reflect the required 1% p.a. reduction with the exceptions noted below.

20.2. The Council has an option to increase rents in line with its normal policy in the Private Finance Initiative (PFI) area, which is an exemption allowed under the WRWA 2016 (as the contractual arrangement includes an inflationary uprate to costs which cannot be dis-applied). As reported in previous years, the Council effectively has three options in respect of PFI tenants' rents:

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

20.3. The Council needs to consider these options each financial year in the context of the HRA's financial viability. The Council did not apply a differentiated rent for PFI tenants in previous years and it is similarly not proposed for 2019/20. The anticipated effect of the 2019/20 rent proposals is therefore expected to be as follows:

	Actual 2018/19 £	**Proposed 2019/20 £**	**Increase/ (Decrease) %**
Average Rent per Week	100.40	99.39	(1.01)

20.4. For historic reasons current rents are, on average across the stock, @ 6% 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.

20.5. 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.

20.6. 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 not be viable. Also, schemes supported by Homes England grant awarded on the basis that properties will be let at social rent will not be let at Adjusted Target Rent.

20.7. Rent collection performance remains top quartile compared with the Council’s comparator group, (most housing providers compare the level of rent arrears as a percentage of total annual rent). Reading's performance (2.14%) places the authority in the top performing quartile for the last full financial year). The bad debt provision has been increased by £400k p.a. to reflect the anticipated impact on arrears of Universal Credit implementation. As whilst ‘managed migration’ is on hold and under review, natural migration will continue as it has for the last year.

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

21. Risks

21.1. Many of the risks identified in respect of the delivering a balanced General Fund revenue budget (see para 16.2) 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;
- Further extension and full roll-out of Universal Credit which again 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 costs inflationary pressures – potentially additionally impacted by any change to workforce demographics that might arise due to Brexit.

Section D Capital Programme

22. Overall Programme

22.1. The overall Capital Programme for the three year period will commit £464m to improve the infrastructure, asset base and effectiveness of service provision for the residents of Reading.

22.2. The programme is broken down into two sections, the General Fund and the Housing Revenue Account. Against each scheme in the Programme 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.

23. General Fund Capital Programme

23.1. The proposed General Fund Capital Programme shown in Appendix 5a totals £366.5m gross over the three year period 2019/20 to 2021/22.

23.2. 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 £260.9m.

23.3. Of this, £249.0m relates to invest-to-save projects with associated revenue savings assumed within the MTFS. The Schemes will not proceed however, without robust business cases that clearly demonstrate a positive net revenue benefit. Excluding invest-to-save schemes, future borrowing costs for general capital expenditure over the future three year period amounts to £11.9m. The costs of borrowing are provided for within the MTFS revenue budgets.

23.4. The Programme also provides for an additional £6.4m of transformation funding to fund the one-off cost of projects over the period 2019/20 and 2020/20 to facilitate the delivery of efficiency savings assumed within the MTFS. Appendix 6 attached sets out the detail of the Council's Flexible Use of Capital Receipts Strategy and the spending on each project.

23.5. Key areas of proposed investment within the General Fund Capital Programme include:

Adult Social Care & Health

23.6. The Draft Programme provides funding for a number of strategic reviews in relation to accommodation options for future service delivery. The service is currently undertaking a number of consultations to inform those options and ensure provision of more appropriate and fit for purpose facilities.

Education and Early Help

23.7. There are 3 main work streams: Sufficiency of Pupil Places; Condition related improvements to school buildings; and statutory Health and Safety.

23.8. The Government has announced provisional capital allocations for schools over the next 3 years to 2021/22.The allocations are based on pupil number returns and projections provided by all local authorities, the results of recent national building condition surveys, and details of the size of the overall school estate. In addition, the Council has been successful in bidding for further Education and Skills Funding Agency (ESFA) funding, and negotiated project funding. The Council has also been successful in securing a £6m grant to part fund a new school at Dee Park.

23.9. Schools require regular maintenance to ensure that buildings comply with the appropriate Health and Safety legislation and that facilities are safe, warm and dry for teaching. This responsibility is shared by the Council and the Governing Body of maintained schools to ensure that pupils can access their 190 days of education each academic year.

23.10. Reading needs a new Secondary School and work has been ongoing to prepare the way for a successful bid under Wave 13 of the government's 'Free Schools' programme. Bids were submitted by potential sponsors in October 2018, with results announced in Spring 2019. This is a later programme than originally anticipated and means that a secondary school would now be unlikely to open until the 2022/23 academic year. A suitable location for the school has been identified at Richfield Avenue and site surveys are underway to de-risk the site (part of the site was previously used as a refuse tip). Agreement has been reached with Secondary schools to provide bulge class capacity during the build period of the proposed new school which now includes academic year 2021/22 due to the delay in the Government's Free School timetable and an estimated completion date for the new school of Summer 2022 (for 22/23 academic year).

23.11. The EFSA has gained planning permission for a new two form entry primary school, 'The Heights School', at Mapledurham Playing Fields (MPF). The permission is subject to a Section 106 agreement which secures a number of on and off site improvements to facilitate the school and provide mitigation to offset the impact of the development on the MPF.

23.12. Significant investment in Special education needs and disability (SEND) places is proposed at:

- Phoenix College- In 2015 the Council were successful in bidding for grant aid to renovate the main building at Phoenix College, however upon inspection by the ESFA, the main building was identified as wholly unsuited to its role as a school building. The ESFA have agreed, in principle at this stage, for the Council to either use the grant funds to improve the current building or re-provide the whole school elsewhere within the Borough. Options to relocate the school will be considered by a future Policy Committee
- Avenue School Expansion - A further 30 SEND places are planned at the Avenue Centre through conversion of the training suite.

Housing

23.13. Homes for Reading Ltd. the Council's wholly-owned housing company, is now trading. The Council's Capital Programme makes provision for loans and share capital consistent with the company's original business plan. A review of the company's business plan is currently under way and funding will only be released following its satisfactory conclusion.

Strategic Transport

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

23.15. The Council has been very successful in securing major Growth Deal Funding through the Local Enterprise Partnership (LEP) which, combined with developer contributions, has enabled it to commence delivery of a new £17.5m station and interchange at Green Park. Further funding of £10m has been secured via the LEP to help fund phases 3 and 4 of the Southern Mass Rapid Transit (MRT) and provide additional capacity for fast and frequent bus services along the A33 corridor. A further total investment of £1.3m is being made to the National Cycle Network number 422 which runs east-west through Reading.

23.16. The Council has also secured Government funding to upgrade a significant number of local buses to the highest environmental standards and by doing so secure better air quality. Funding has also been secured to install electric vehicle charging points on local streets to encourage a switch to zero and low emission cars.

23.17. A revised Local Transport Plan will be developed and include a public consultation to seek views on further options to reduce congestion, improve air quality, manage demand and provide safe and attractive options to walk and cycle.

23.18. Recognising the need to consider public realm improvements (including pedestrian and cyclists accessibility) within the town centre, funding to complete a feasibility study and design framework is included within the draft Capital Programme.

Highways

23.19. Provision for bridge and carriageway maintenance is included within the draft Capital Programme, with the vast majority of funding from central government grants and a small proportion of borrowing.

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

Community, Leisure and Heritage

23.21. The Council has commenced a process to secure a leisure operator to manage all its indoor leisure facilities. This includes the development of new facilities as well as investment in retained facilities.

23.22. Following a review of playground equipment the Programme provides for an extensive programme of replacement and upgrade. Additionally a programme of improvement works to parks and open spaces is planned for 2019/20.

Ensuring the Council is fit for the future

23.23. In December 2016 the Council approved an Investment Property Acquisitions Policy. One of the principal aims of that Policy was to maintain an effective property-based investment portfolio to help sustain the Council's on-going finances. Further provision of £100m is made within the Programme for further acquisition and diversification of the portfolio.

23.24. Provision for ongoing investment in ICT and technology is included to modernise the way we work and support business transformation. In particular projects are included to:

- Enable delivery of savings that are directly dependent on new technology and the digitisation of services;
- Allow new ways of working across the Council that deliver indirect savings by making us more efficient and productive;
- Ensure we have sufficient data storage and network capacity and that we can connect and work securely with partners;
- Refresh and replace hardware and software so it is supported and compliant with required standards; and
- Invest in security measures to protect our systems and data from cyber-security threats.

23.25. Full detail of the Draft General Fund Capital Programme is provided in Appendix 5a.

24. Housing Revenue Account Capital Programme

24.1. The draft HRA Capital Programme is intrinsically linked to the HRA Business Plan since the resources to fund the Programme are largely generated through housing rents. Appendix 5b provides full details of the draft HRA Capital Programme.

24.2. The Council's house building programme is well underway and most recently delivered 28 new modular units for temporary accommodation in Lowfield Road which were let in January 2018 to homeless households. The first 57 new affordable rented homes at Conwy Close were also handed over before Christmas 2018. In total the Council has made provision to invest a further £66m in its new build and acquisitions programme over the three years 2019/20 – 2021/22 providing additional new affordable homes, subject to approvals.

24.3. The Council also plans to continue to invest between £9m and £13m per annum in its existing housing stock over the next 3 years. This includes a £3.9m programme of Fire Safety works, with a particular focus on high-rise residential accommodation.

25. Risk Implications impacting the Capital Programme

25.1. The main risks to the 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.

25.2. **Budget Next Steps**

25.3. The Budget will be considered by Council at its meeting on 26th February.

25.4. Statutory consultation based on the budget proposals contained in this report will be undertaken and responses reported back to Policy Committee and Full Council in February.

26. Financial Implications

26.1. As set out in 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, 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. It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered as agreed and that new expenditure is contained within available resources.

27.3. Members who are two months or more in arrears with their Council Tax must declare this to the meeting and must not vote on budget recommendations, as to do otherwise can be a criminal offence.

28. Risk

28.1. As 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 9 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.

30. BACKGROUND PAPERS

- 2018-19 to 2020/21 Budget Setting and Medium Term Financial Strategy approved by Full Council 28 February 2018;
- MHCLG Provisional & Final Local Government Finance Settlement 2019/20; and
- Council Tax Base Report 14 January 2019.