READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	**POLICY COMMITTEE**		
DATE:	**15 DECEMBER 2022**		
TITLE:	**MEDIUM TERM FINANCIAL STRATEGY 2023/24-2025/26 UPDATE**		
LEAD COUNCILLOR:	**COUNCILLOR BROCK**	**PORTFOLIO:**	**LEADER OF THE COUNCIL**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. This report 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 MTFS reports for the previous two years have been dominated by the impact of the Covid-19 pandemic which increased costs and reduced levels of income. Whilst Covid-19 is still with us the impacts have been significantly mitigated by the roll out of a major vaccination programme. In February 2022 Russia invaded Ukraine. As well as the obvious horrendous impact on the people of Ukraine directly, that has had a major destabilising effect on the world economy. These major world events loaded on top of the uncertainty created by Brexit and now with further uncertainty caused by a change in leadership of the UK Government makes for an extremely challenging set of circumstances.

Income

1.3. Although the situation has improved, income levels have still not returned to pre Covid-19 levels in a number of cases. This updated MTFS proposes some further re-profiling of income targets to later years, but not on the scale previously required. Initially the impact of lost income had been offset by grant funding from Central Government, but this is no longer the case. The high levels of inflation currently being experienced may subdue economic activity, which may in turn lead to a reduction in income levels to the Council.

Adult Social Care

1.4. There are also significant pressures in the social care system. This updated MTFS includes an increase of just over £4m 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 year 3 of the MTFS following the announcement in the Autumn Statement to push back the reforms to 2025/26.

Business Rates

1.6. This update also assumes that the Business Rate reset originally assumed to happen in 2022/23 will not now happen until 2024/25 at the earliest.

Brighter Futures for Children

1.7. The figures in this report include an increase in the Brighter Futures for Children (BFfC) contract sum for 2023/24 of £2.2m. This includes inflationary increases and a growth pressure in respect of Home to School Transport that were previously assumed to be absorbed by BFfC rather than being a cost pressure for the Council. Bids for additional discretionary funding have not yet been agreed and negotiations are ongoing.

Capital Financing

1.8. The revenue budget includes the cost of financing the draft capital programme as set out in Appendix 3.

1.9. On 30th November 2021, 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. The outcome of this consultation is still outstanding and the draft MTFS assumes that the changes are not implemented.

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 in respect of the Health and Social Care levy has now been removed by Government as has the funding at departmental level. The MTFS assumes that both levy and funding have been removed.

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. In his Autumn Statement the Chancellor increased the threshold at which a referendum must be held to 3.0% for Council Tax and 2.0% for the Adult Social Care precept.

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

	2023/24	2024/25	2025/26
	£000	£000	£000
Net Expenditure	158,825	166,143	174,565
Funding	(156,431)	(155,650)	(161,979)
Budget Gap	**2,394**	**10,493**	**12,586**

1.14. The estimated funding gap of £2.394m in 2023/24 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 19th December 2022 and will conclude on 19th January 2023.

1.15. Following the conclusion of the consultation period, a further report will be brought to Policy Committee on 20th February 2023 recommending approval of a balanced budget to Full Council in order that it can approve its budget, associated Council Tax level and precept for 2023/24 at its meeting on 28th February 2023.

1.16. Detailed planning for the 2023/24 budget will start in January 2023 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 £158.825m for 2023/24 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 £54.71 per annum representing a band D Council Tax of £1,884.43 per annum as set out in paragraphs 12.1 to 12.3;

b) the proposed service savings and efficiencies of (£3.7m) and additional income of (£1.5m) currently proposed in 2023/24 and set out in Appendix 2;

c) the overall savings currently proposed within the MTFS of (£9.6m) (of which changes to income, fees and charges is (£3.0m));

d) the Housing Revenue Account budget for 2023/24 to 2025/26 as set out in Appendix 3;

e) the General Fund and Housing Revenue Account Capital Programmes as set out in Appendices 3a and 3b;

f) the Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 4.

Appendix 1 Summary of Interim General Fund Budget 2023/24 to 2025/26
Appendix 2 Summary of General Fund Budget Changes 2023/24 to 2025/26
Appendix 3 General Fund and HRA Capital Programme 2023/24 to 2025/26
Appendix 4 Flexible Capital Receipts Strategy
Appendix 5 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 has again been impacted 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 fluctuate, although some of the worst impacts have been mitigated by the roll-out of the vaccination programme. Nonetheless, it is clear that there will be a long lasting impact on Government finances and on the wider economy across the globe. 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 been wide-ranging, for example changing many peoples working and shopping patterns and creating significant backlogs in the NHS. For some local government services income levels have returned to roughly pre-pandemic levels, but for others this has not been the case and indeed may never be the case. The original support for local authorities by Central Government to compensate for lost income has long since been removed and uncertainty remains over the rate of recovery.

War in Ukraine

4.5. In February 2022, Russia invaded Ukraine, directly impacting not just the people of Ukraine but also the world food supply, of which Ukraine was a major supplier. As a result, key western economies have imposed sanctions on Russia and in turn Russia has restricted energy supplies, leading to worldwide economic turbulence and spiralling inflation. Increasing prices, especially in respect of essential items such as food and energy, have an acutely adverse impact on the poorest and most vulnerable in society. This in turn is likely to impact on the demand on local government services at a time when the cost of providing those services is itself increasing.

U.K. Government

4.6. Three Prime Ministers and four Chancellors in less than 3 months along with the associated policy reversals, which have themselves been reversed has created a lack of stability and financial market confidence, which has led to further inflationary pressures and an increased likelihood of recession.

Environmental Challenges

4.7. Whilst Brexit, Coronavirus, and the Economic impact of the war in Ukraine 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.

4.8. Last year the UK hosted the United Nation (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 was agreed to hold the next summit this year's 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

4.9. The Autumn Statement 2022 was delivered by the Chancellor on 17th November 2022. The announcement included the following matters that are pertinent to the Council's finances and the wider environment in which it operates:

- The government has delayed the national rollout of social care charging reforms from October 2023 to October 2025. Funding for implementation will be maintained within local government to enable local authorities to address current adult social care pressures;

- The government will make available up to £2.8 billion in 2023-2024 in England and £4.7 billion in 2024/25 to help support adult social care and discharge. This includes £1 billion of new grant funding in 2023/24 and £1.7 billion in 2024-25, further flexibility for local authorities on council tax and delaying the rollout of adult social care charging reform from October 2023 to October 2025;

- A proposed basic Council Tax referendum limit of 3% for 2023/24;

- The ability to levy an additional adult social care precept of up to 2% for 2023/24;

- From 1 April 2023, business rates bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of targeted support worth £13.6 billion over the next five years is intended to support businesses as they transition to their new bills. It is stated that local authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs;

- The business rates multipliers will be frozen in 2023-24 at 49.9p and 51.2p;

- The government is limiting the increase in social housing rents. Under current rules, rents could have risen by up to 11.1% – but now they will only be able to rise by a maximum of 7% in 2023/24. This policy change applies to social housing provided by Registered Providers (including Local Authorities and Housing Associations);

- The NLW for individuals aged 23 and over will increase by 9.7% to £10.42 an hour from 1 April 2023;

- £1 billion will be provided to enable the extension of the Household Support Fund in England over 2023/24. The Fund is administered by local authorities who will deliver support to households to help with the cost of essentials;

- It remains unclear if the New Homes Bonus will continue for a further year;
- The government has previously set out the national totals for the public health grant for the Spending Review period, but it remains to be seen if the Department for Health will stick to those, given the overall budget pressures on the department;

- While the government has signalled there will be no fair funding review implementation in this Spending Review period, this was under a previous Prime Minister, and this has not been formally confirmed;

- A business rates reset can technically be implemented without a fair funding review and the government's position on any possible future reset remains unclear.

4.10. 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 Reading's population has risen by 11.9% to 174,200 (2021 census). Whilst the average increase is 11.9%, the rise in 0-19 year olds is 11.4% and the rise in over 65s is 17.4%, thus creating a demographic shift towards the older ages.

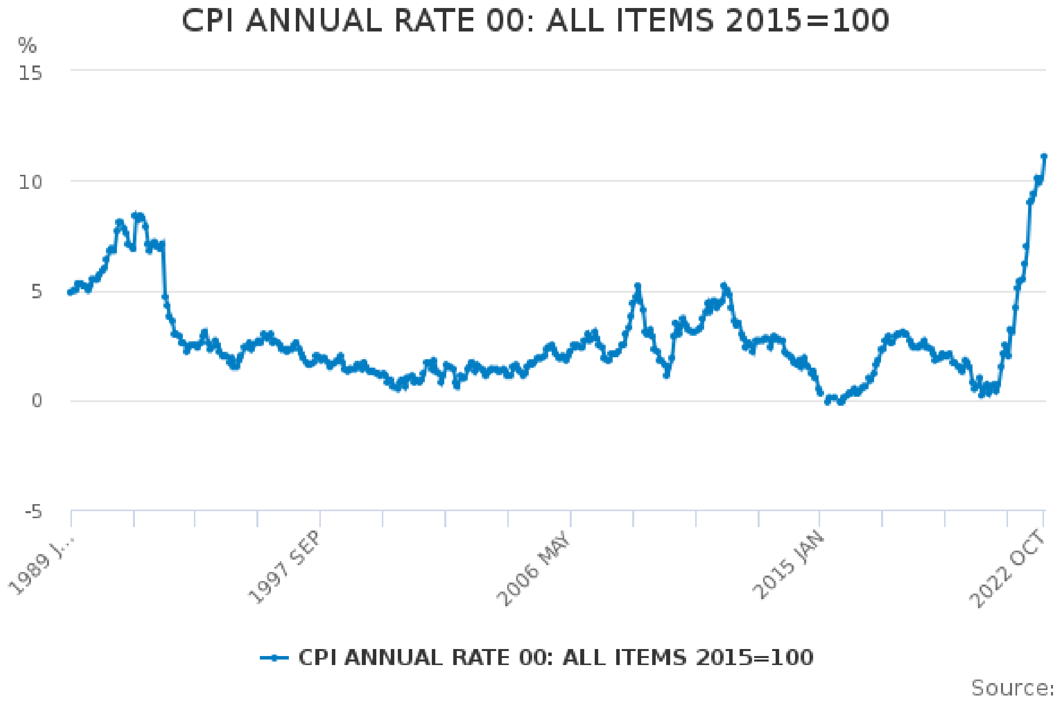
4.10 The Office for National Statistics (ONS) has not yet produced new population forecasts based on the latest census data. However, it is worth noting that the actual level of population increase since the last census is substantially higher than the 3.0% mid-year forecast produced by the ONS only a year earlier.

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 11% (CPIH 9.6%, CPI 11.1%) as at October 2022, up from around 10% (CPIH 8.8%, CPI 10.1%) in September 2022. This is the highest it has been in over 30 years. Inflation has climbed steadily since February 2021 as the restrictions due to the Pandemic were eased leading to increased demand, but a range of supply side challenges. By February 2022 Inflation was already over 5% at the start of the Russian invasion of Ukraine. The knock-on consequences of that have restricted the world supply of gas and oil as well as some basic food supplies which has led to further inflationary pressures. In response the Bank of England has increased interest rates despite this increasing the likelihood of recession.

Figure 1. CPI Annual Rate



UK Unemployment

4.13 The headline rate of UK unemployment is 3.5% for the quarter ending August 2022, down from 3.6% a month earlier. This is slightly lower than the level immediately prior to the Coronavirus pandemic (4.0% March 2020) and is one of the lowest levels in recent history. This position is also reflected in the figures for employment which has risen to 75.5% as at August 2022, 1.0% lower than pre-pandemic and 0.3% lower than the previous quarter. Previous distortions created by the Furlough scheme have now worked their way out of the system so these 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 the low levels of 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. By contrast if the levels of inflation squeeze the poorest, this increases the risk of non-payment

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:

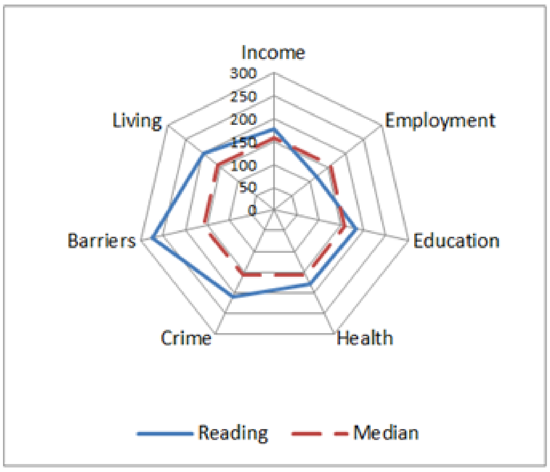
- Reading as a whole is ranked the 141st most deprived out of 317 local authorities in the country;

- 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 - latest available)



Interest Rates

4.19 Whilst in 2020 the Bank of England cut interest rates to record low levels in response to the economic damage caused by the coronavirus outbreak, it has now had to reverse that stance due to the significant inflationary pressures caused mainly by the conflict in Ukraine. On 3rd November 2022 the Bank of England raised the Bank Rate again to 3.0%.

4.20 For planning purposes, the Council have 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 4.70% and 3.10% between December 2022 and December 2025. The MTFS assumes an average borrowing rate of 4.3% for 2023/24, decreasing to 3.7% and 3.4% in 2024/25 and 2025/26 respectively. This will be further reviewed prior to the report to Policy Committee in February 2023.

5 LOCAL GOVERNMENT FINANCE SETTLEMENT

5.1 At the time of writing, the Provisional Local Government Finance Settlement (PLGFS) for 2023/24 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 2023.

5.2 The formal announcement of the provisional 2023/24 LGFS is expected in mid-December. After a period for consultation, the final settlement will be confirmed in January/February 2023.

6 FUTURE CHANGES TO THE LOCAL GOVERNMENT FINANCE SYSTEM

6.1 In the Autumn Statement 2022 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 business rates reset or New Homes Bonus reform.

6.2 It is hoped that further announcements on the Fair Funding Review and the Business Rates Reset will be made as part of the Provisional Local Government Finance Settlement in December 2022.

7 CURRENT YEAR FINANCIAL POSITION – AS AT THE END OF SEPTEMBER 2022

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 2022) monitoring report appears elsewhere on the agenda of this meeting. Service budgets show a forecast overspend of £3.5m (a combination of spending pressures and lost income streams). Overall, the Council is able to forecast an underspend of £1.3m as the Service overspend is off-set by the use of Corporate Contingencies (£3.6m) and the use of other corporate budgets (£1.2m), most of which arises from the re-profiling of Capital Financing Costs resulting from the 2021/22 Capital Programme Outturn position.

7.3 The Housing Revenue Account as at the end of Quarter 2 is projecting an underspend against its revenue budget of £2.662m, which would mean a small contribution to reserves rather than the draw-down from the reserve that was originally planned.

7.4 The Quarter 2 Monitoring report is proposing that the General Fund Capital Programme is revised to reflect additional schemes that are fully funded by grants or contributions as well as several scheme budges being re-profiled to later years. The overall effect of this, if agreed, will be to reduce the value of the programme from its original value of £116.0m down to £80.0m.

7.5 The Housing Revenue Account Capital Programme also has proposals to re-profile to and from later years resulting in a net reduction of the programme from £30.5m to £27.9m.

Section B General Fund Revenue Budget

8 OVERALL THREE-YEAR BUDGET POSITION

8.1 In February 2022 Full Council agreed a budget which balanced in year 1 (2022/23) with a contribution of £0.695m to earmarked reserves and had net deficits of £5.719m in 2023/24 and £5.828m in 2024/25. The Council has reviewed its income and expenditure assumptions across all three years of the MTFS period (2023-2026) 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 continues to have an impact on the MTFS, particularly in respect of lower than previously forecast income streams for direct income generating services such as car parking and leisure. The bigger impact on the latest MTFS arises from the significant inflationary pressures being felt across the world, but particularly in the UK. There remains considerable uncertainty regarding both the severity and the duration of these particular challenges, 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 2023/24 or a balanced 2023/24-2025/26 MTFS. The current budget gap is set out in the following table:

Table 2. Current Budget Gap over the MTFS Period 2023/24-2025/26

	2023/24	2024/25	2025/26	Total
	£000	£000	£000	£000
Budget Gap	2,394	8,099	2,093	12,586
Cumulative Budget Gap	**2,394**	**10,493**	**12,586**	**12,586**

8.4 As indicated above, work is ongoing to refine and clarify planning assumptions and identify additional savings to close the budget gap in 2023/24 to allow a balanced budget to be approved in February 2023.

8.5 The Council's policy is for the General Fund Balance to be £7.5m, or 5% of the Net Budget Requirement. Based on the draft figures in this report the General Fund Balance would be required to be increased to £7.9m for 2023/24 rising to £8.7m for 2025/26. 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 £9.6m over the three years 2023/24 to 2025/26. Of the £9.6m due to be delivered, £1.0m 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 £8.6m has to be found from other directly managed Council services as summarised below:

Table 3. General Fund Savings Summary 2023/24 to 2025/26

	Efficiency Savings	Invest to Save Schemes	Income, Fees & Charges	Total
	£000	**£000**	**£000**	**£000**
Children's Services (BFfC)	(1,000)	0	0	(1,000)
Other Council Services	(4,815)	(858)	(2,952)	(8,625)
Total	**(5,815)**	**(858)**	**(2,952)**	**(9,625)**

8.7 The updated MTFS proposals include £19.0m of service growth items (£15.1m pay and other inflationary pressures and £3.9m other service-related pressures).

8.8 The proposals for 2023/24 include £10.0m of service growth items (£8.3m pay and other inflationary pressures and £1.8m other service-related pressures) and (£5.3m) of service savings (£3.7m efficiencies and invest-to-save initiatives and £1.5m from uplifted income). Within those growth and savings assumptions, BFfC represents £2.5m of the pressures with efficiency savings and income of (£0.3m), resulting in a net contractual sum increase of £2.2m from the 2022/23 contract sum (a £2.7m increase from the previously agreed contract sum for 2023/24).

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 1-2 attached:

Table 4. Directorate and Corporate Budgets - Three-Year Summary

	2023/24 £000	2024/25 £000	2025/26 £000
Adult Care & Health Services	48,071	50,499	52,721
Economic Growth & Neighbourhood Services	18,946	17,820	18,046
Resources	17,555	17,107	17,104
Chief Executive Services	1,543	1,543	1,543
Children's Services	52,034	52,459	53,346
Total Service Expenditure	**138,149**	**139,428**	**142,760**
Capital Financing	17,713	20,216	20,908
Contingency	3,752	4,557	4,760
Movement to / (from) Reserves	(360)	(30)	0
Other Corporate Budgets	(429)	1,972	6,137
Total Corporate Budgets	**20,676**	**26,715**	**31,805**
Total Net Budget Requirement	**158,825**	**166,143**	**174,565**
Financed by:			
Council Tax Income	(108,600)	(113,539)	(118,103)
NNDR Local Share	(27,890)	(36,097)	(37,816)
New Homes Bonus	(1,099)	(1,099)	(1,099)
Section 31 Grant	(13,971)	0	0
Revenue Support Grant	(2,218)	(2,262)	(2,308)
Other Government Grants	(2,653)	(2,653)	(2,653)
One-off Collection Fund (Surplus)/Deficit	0	0	0
Total Funding	**(156,431)**	**(155,650)**	**(161,979)**
Budget (Surplus)/Gap	**2,394**	**10,493**	**12,586**

9 VALUE FOR MONEY & EFFICIENCY

9.1 During 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22 the Council delivered savings totalling £12.5m, £13.4m, £7.7m, £7.6m and £14.3m respectively. As at the end of September 2022 £1.9m of savings have been delivered in year with a further £5.0m on track to be delivered by the end of the year, against the target of £10.2m, despite the turbulent economic climate.

9.2 Over the next three years the proposals included in this interim MTFS assume delivery of a further £6.7m of savings as well as additional income of £3.0m, (£3.7m and £1.5m respectively assumed in 2023/24).

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 5 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 a number of local authorities issuing s114 notices or requesting exceptional financial support during the last few years. 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 2021/22. As a result, reserves have been returned to a more sustainable level.

10.3 Based on the latest data available (2020/21), the Council's reserves position is above the average compared to all unitary authorities, which is a further improvement from the 2019/20 position and continues the trend from the previously published data.

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 2022/23 base budget as agreed by Council in February 2022, adjusted for any approved budget virements;

b) **Council Tax Increase** – A 1.99% basic increase for each year 2023/24-2025/26. 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 2023;

c) **Adult Social Care precept** - A 1.00% Adult Social Care Precept for each year 2023/24-2025/26;

d) **Capital Borrowing Rates** – borrowing rates of 4.3%, 3.7% and 3.4% have been assumed in respect of financing of the Capital Programme over the next three years respectively. This will need to be reviewed in light of the outcomes of the MPC meeting on 14th December 2022 and the resulting interest rate forecasts provided from Link Group;

e) **Investment Interest** – The Bank Rate set by the Bank of England is currently 3.0% 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 14th December 2022. 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 4.09% on a quarterly basis (based on 2022/23 returns); and

- **Investment Properties** – The Council owns investment properties valued at £75.2m as at 31st March 2022. These properties provide a gross return of approximately 6.5% pa (before capital financing costs).

e) **Inflation** – Most budgets are cash limited. CPI is currently at 11.1% as at October 2022 and is forecast to peak in the next few months and then fall in 2023;

f) **Pay Assumptions** – 4.0% per annum has been budgeted for 2023/24 with 2.0% for the remaining two years of the three-year period;

g) **Pensions -** The triennial valuation of the Pension Fund took place on 31st March 2022. Provisional results indicate that the primary rate will increase from 14.8% to 16.2% and will then be held at that level across the MTFS period. The secondary (recovery) rate will fall slightly. The impacts of these changes have been reflected in the MTFS at a corporate level at this stage;

h) **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 2023;

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

j) **Transformation Programme** – The Council has funded £14.1m of transformation projects to 31st March 2022 and has allocated £4.1m of funding for 2022/23, with a further £3.6m over the period 2023/24-2024/25. This transformation programme is largely 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 2023/24 to 2025/26. On this assumption, the standard band D charge would rise by £54.71 to £1,884.43 for a full year in 2023/24.

12.2 The impact on taxpayer bills (before any reduction for discounts) of the Council's proposed increase is a £1.05 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 2023/24 would be £48.63, an increase of £0.94 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 2023/24 to 2025/26 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 2023 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 and the inflationary impact of the war in Ukraine;
- 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 to 2021/22 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 £3.752m in 2023/24, £4.557m in 2024/25 and £4.760m in 2025/26 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 The rent increase for 2022/23 was capped at 3.1% but the assumption was that increases would revert back to CPI + 1% from 2023/24 onwards. This would equate to an increase of 11.1%. Government has now confirmed that the maximum rent increase allowed for 2023/24 will be 7%.

14.3 Work is now underway to model the impact of a 7% increase on the 30-year business plan with a view to maintaining low carbon investments in our housing stock to make council homes more energy efficient and reduce energy costs for tenants over the longer term.

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 forecast recession;
- 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 draft Capital Programme for 2023/24 to 2025/26 are set out in Appendix 3a for the General Fund and Appendix 3b for the HRA. This includes carried forward underspends and overspends from 2021/22 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 4 to this report.

16.2 New bids to the Capital Programme been 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 revenue consequences of those capital schemes included in the draft Capital programme, including the capital financing costs have been reflected in the interim revenue MTFS at Appendix 1.

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 2023. 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 20th February 2023 will be asked to approve a balanced 2023/24 budget and three-year MTFS and recommend its adoption by Council at its meeting on 28th February 2023.

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 26th 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 19th December 2022 until 19th January 2023.

22 EQUALITIES IMPACT ASSESSMENT

22.1 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.

22.2 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.

22.3 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.

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 FINANCIAL IMPLICATIONS

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

25 BACKGROUND PAPERS

25.1 None.