

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	20 FEBRUARY 2023		
TITLE:	2023/24 BUDGET & MEDIUM-TERM FINANCIAL STRATEGY 2023/24 - 2025/26		
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. Policy Committee at its meeting on 15th December 2022 agreed a Draft 2023/24 Budget for consultation alongside a Draft Medium-Term Financial Strategy (MTFS) for the three years 2023/24 - 2025/26. This report updates Members on the results of the subsequent budget consultation exercise, changes arising from the publication of the Local Government Finance Settlement (LGFS) as well as other changes that have arisen since the report to Policy Committee in December.
- 1.2. The Department for Levelling Up, Housing and Communities (DLUHC) published the Final Local Government Financial Settlement on 6th February 2023. Most of the figures remained the same as the Provisional Settlement, however, there is a small increase of £0.049m in the Services Grant, as well as a distribution of the Business Rates Levy Surplus, which for Reading is £0.257m. Unlike previous years, there was no parallel announcement on the allocations in respect of Public Health Grant. As the grant is ringfenced any increase/decrease to the Council's grant allocation is offset by a corresponding increase/decrease in expenditure. Therefore, the MTFS assumes a nil impact on the bottom line.
- 1.3. The underpinning rationale of the Medium-Term Financial Strategy is to deliver a balanced and affordable 2023/24 budget, to ensure that the Council's finances are robust and sustainable over the medium term and that, in the longer term, the Council's finances are not reliant on the unsustainable use of one-off reserves or funding. The Strategy is informed by the Council's Vision: "to ensure that Reading realises its potential - and that everyone who lives and works in Reading can share in the benefits of its success", as well as its Corporate Plan themes:
 - Healthy Environment;
 - Thriving Communities; and
 - Inclusive Economy.
- 1.4. The preparation of the 2023/24 Budget and MTFS 2023/24 - 2025/26 has again been challenging due to the continuing uncertainty caused by the wide-ranging implications of inflation and the cost of living crisis, Covid-19, the war in Ukraine, climate change, and, despite a multi-year Autumn Statement, yet another one-year Local Government funding settlement from Central Government.

1.5. The budget assumptions include:

- a) Council Tax increases of 2.99% plus an Adult Social Care precept of 2.0% for the first two years of the MTFs (2023/24 to 2025/26) with increases of 1.99% and 1.0% respectively in 2025/26;
- b) Delivery of £9.841m (£9.591m services and £0.250m corporate) of efficiencies and increased income across the period;
- c) A contingency provision over the three years (£4.1m 2023/24; £4.9m 2024/25; and £5.1m 2025/26) to mitigate possible slippage or non-achievement of higher risk savings and/or income targets over the period;
- d) A housing rent increase of 7.0% (Government Cap) in 2023/24, returning to a rent increase in line with approved policy of CPI + 1% in subsequent years.
- e) General Fund capital investment of £188.0m and Housing Revenue Account (HRA) capital investment of £151.3m over the period 2023/24 to 2025/26; and
- f) £3.580m of transformation funding (over the period 2023/24 to 2024/25) to support delivery of efficiency savings assumed within the MTFs, taking the total transformation funding to £21.729m across the whole life of the Delivery Fund.

1.6. The deficit on the Dedicated Schools Grant High Needs Block is anticipated to be £4.3m by 31st March 2023. An updated deficit recovery plan will be presented to Schools Forum in March 2023. The Government recognises that there is a national SEND funding crisis and in 2022/2023 the Department of Education launched a “Delivering Better Value” programme inviting 55 local authorities to take part. Reading is one of the 55 authorities invited to join the programme and work started in February 2023. Further details are set out in paragraphs 4.5 and 4.6 and in Appendix 6.

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

- 2022/2023 Budget & Medium Term Financial Strategy 2022/23 - 2024/25 Report approved by Full Council (23rd February 2022)
- Autumn Statement 2022 - HM Treasury (17th November 2022)
- Provisional Local Government Finance Settlement 2022/23 - DLUHC (19th December 2022)
- Final Local Government Finance Settlement 2023/24 - DLUHC (6th February 2023)
- Medium-Term Financial Strategy 2023/24- 2025/26 Update Report approved by Policy Committee (15th December 2022).

2. RECOMMENDED ACTION

That Policy Committee:

- 2.1 taking due regard of the results of the budget consultation exercise and resident’s survey (as outlined in Appendices 11 and 12), recommend that Council approve the 2023/24 General Fund and Housing Revenue Account budgets, Capital Programme and Medium Term Financial Strategy as set out in Appendices 1-10, noting the following:
 - a) the Council’s General Fund Budget Requirement of £164.411m for 2023/24 and an increase in the band D Council Tax for the Council of 2.99% plus an additional 2.00% Adult Social Care Precept, or £91.30 per annum, representing a band D Council Tax of £1,921.02 per annum, excluding precepts from Police and Fire, as set out in paragraph 4.3;

- b) the proposed efficiency and invest to save savings of £3.810m together with additional income of £1.485m in 2023/24 required to achieve a balanced budget for that year as set out in Appendices 2 and 3
- c) the overall savings proposed within the MTFs of £9.841m (of which increases to income, fees and charges is £2.902m) and three-year growth changes to service budgets of £20.431m as set out in Appendices 3 and 4;
- d) the budgeted net contribution to earmarked reserves totalling £6.128m, as set out in paragraph 3.24 of Appendix 1;
- e) the Housing Revenue Account budget for 2023/24 of £49.229m as set out in Appendix 5 and the average increase of 7.0% in social dwelling rents from April 2023;
- f) the allocation of £93.765m Dedicated Schools Grant (DSG) as set out in Appendix 6
- g) the General Fund and Housing Revenue Account Capital Programmes totalling £188.045m and £151.304m respectively, as set out in Appendices 7a and 7b;
- h) the Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 8;
- i) the Fees and Charges set out in Appendix 9 of the report; and
- j) the Equalities Impact Assessment as set out in Appendix 10

2.2 In respect of the Levelling Up Fund award:

- a) Accept the grant funding of up to £19.164m from the Department of Levelling Up, Housing and Communities and additional capacity building funding of £0.060m in 2023/24 and £0.050m in 2024/25, to deliver the Levelling Up Fund projects, and to commit match funding from approved capital budgets as per the Council's Levelling Up Fund bid set out in the report to Policy Committee on 11th July 2022;
- b) Delegate authority to the Executive Director of Economic Growth and Neighbourhood Services in consultation with the Director of Finance, Assistant Director of Legal and Democratic Services and Leader of the Council to enter into the relevant grant agreement and agree variations as necessary;
- c) Delegate authority to the Executive Director of Economic Growth and Neighbourhood Services in consultation with the Director of Finance, Assistant Director of Procurement and Contracts, the Chief Executive and Leader of the Council to agree delivery of the Levelling Up Fund (LUF) programme, including all necessary procurements;
- d) Grant permission to go out to consultation, including statutory, to progress delivery of the Levelling Up Fund projects;

2.3 Delegate authority to the Assistant Director of Property & Assets in consultation with the Assistant Director for Housing & Communities and the Director of Finance to tender and award contracts for the programme of works to Ranikhet school.

3. POLICY CONTEXT

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

4. OVERVIEW

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

Appendix 1 - The Medium Term Financial Strategy (MTFS) 2023/24 - 2025/26
Appendix 2 - Summary of the Proposed General Fund Budget 2023/24 - 2025/26
Appendix 3 - General Fund Revenue Budget by Service 2023/24 - 2025/26
Appendix 4 - Detailed General Fund Budget Changes 2023/24 - 2025/26
Appendix 5 - The Housing Revenue Account (HRA) Proposed Budget 2023/24 - 2025/26
Appendix 6 - The Dedicated Schools Budget Proposals 2023/24 - 2025/26
Appendix 7 - The General Fund and HRA Capital Programmes 2023/24 - 2025/26
Appendix 8 - The Flexible Use of Capital Receipts Strategy 2023/24 - 2024/25
Appendix 9 - Fees and Charges Proposals from April 2023
Appendix 10 - Equality Impact Assessment of the Budget Proposals
Appendix 11 - Summary of the Response to the Budget Consultation
Appendix 12 - Summary of the Results of the Residents' Survey 2022

General Fund

- 4.2. Appendix 1 sets out the Council's Medium Term Financial Strategy (MTFS) and is supported in respect of the General Fund (GF) by Appendices 2, 3 and 4 which set out the financial figures for the 2023/24 Budget and the indicative budgets for 2024/25 and 2025/26. As illustrated in Appendix 2, this provides for a balanced budget in 2023/24 and a Net Budget Requirement of £164.411m, which after allowing for other funding streams leaves a Council Tax Requirement of £111.086m. The indicative budgets for 2023/24 and 2024/25 are not currently in a balanced position with an ongoing budget gap of £5.687m.
- 4.3. The 2023/24 budget proposals assume a Council Tax increase of 2.99% and an Adult Social Care Precept of 2.0%. This results in a Band D Council Tax of £1,921.02 for 2023/24 an increase of £91.30 per annum or £1.76 per week. A similar percentage uplift is assumed for 2024/25, but for 2024/25 the assumed increase is 1.99% for Council Tax and 1.00% for the Adult Social Care Precept.

Housing Revenue Account

- 4.4. Appendix 5 sets out the Housing Revenue Account (HRA) budget proposals. Although the current rent standard allows a rent increase of up to CPI +1% for the Housing Revenue Account (HRA), the proposal is to increase rents by 7.0% in line with the cap on such increase announced by the Chancellor in the Autumn Statement 2022. The average weekly rent increase is between £6.23 and £9.63 depending upon the type of property. The proposed expenditure budget for 2023/24 is £49.229m. A balanced budget is delivered across all three years with a drawdown from reserves of £2.5m in 2023/24, £2.9m in 2024/25 and £3.2m in 2025/26. Appendix 5 also sets out the full 30 Year Plan, which includes details of planned investments, how these are funded and the impact on the HRA balance.

Dedicated Schools Budget

- 4.5. Appendix 6 sets out the Dedicated Schools Budget proposals for 2023/24 - 2024/25. Dedicated Schools Grant (DSG) is split into four blocks, for which the allocations for 2023/24 were published by the Government on 16th December 2022. Overall, the DSG for schools will increase by £13.6m (9.1%) from £149.4m to £163.0m. Details of the allocations are provided at Appendix 6.
- 4.6. Appendix 6 includes details of the deficit on the High Needs Block that is anticipated to be £4.3m by 31st March 2023. Funding for the High Needs Block is proposed to increase by £2.5m in 2023/24 which should cover increasing costs, but not impact the deficit. An updated deficit recovery plan will be presented to Schools Forum in March 2023. The Government recognises that there is a national SEND funding crisis. Within 2022/2023 the Department of Education has created a “Delivering Better Value” programme and has invited 55 local authorities to take part. Reading has been invited and accepted and this programme with the DfE has started in February 2023.
- 4.7. In December 2022 the Government announced an extension to 31st March 2026 of the statutory override that separates local authorities DSG deficits from their wider financial position.

Capital

- 4.8. The overarching Capital Strategy is set out in a separate report elsewhere on this agenda, with the specific details of projects laid out in the Capital Programme at Appendix 7 for both the General Fund and the HRA. Over the three years of the MTFS the General Fund Capital Programme totals £188.0m and the HRA Capital Programme totals £151.3m; which will require the support of £61.9m and £65.8m of additional borrowing respectively.
- 4.9. The Capital Programme, identifies in Appendix 7a, General Fund schemes where the commitment to proceed has already been made as well as separately identifying those schemes that are funded within the Capital Programme but remain subject to approval of detailed business cases in order to proceed. Appendix 7b details the HRA Capital Programme. Appendix 7c identifies a number of schemes not currently approved due to the availability of funds.
- 4.10. All schemes with a value in excess of £2.5m included in the approved Capital Programme, including those planned to start in 2023/24 will require spending approval by the responsible Committee with the exception of expenditure on rolling programmes of routine capital expenditure.
- 4.11. The Council’s transformation programme supported by the extension to the flexible use of capital receipts permitted by regulation is detailed at Appendix 8.

Fees & Charges

- 4.12. The schedule of Fees and Charges assumed within the budget proposals and effective from 1st April 2023 is included at Appendix 9.

Consultation

- 4.13. The Council is required by legislation to consider the impact of its budget proposals upon all groups within the local community. This is demonstrated by the Equalities Impact Assessment statement at Appendix 10.
- 4.14. A summary of the results of the Budget Consultation held from 19th December 2022 to 19th January 2023 and the Residents Survey carried out in the summer of 2022 are provided at Appendices 11 and 12 respectively.
- 4.15. The consultation analysis highlights that the top service areas for suggested spend were Children’s Services and Adult Social Care. Another key theme was transport. The proposed Revenue Budget and Capital Programme responds to this feedback by investing in these services. For 2023/24 Adult Social care will receive an additional £4.390m in revenue funding and a capital allocation of

£3.879m. Children's Services is boosted in 2023/24 by an extra £2.529m in revenue and £18.297m in capital. Capital expenditure on Transportation in 2023/24 totals £18.320m over a wide range of schemes.

5. LEVELLING UP FUND (LUF)

- 5.1. The Council submitted LUF Bids to Central Government in 2022. In January 2023, Central Government announced that the Culture and Community at Minster Quarter bid, which included the new performance space at the Hexagon and the re provisioning of the Central Library at the Civic Offices, had been successful. The grant awarded in respect of this bid was £19.164m.
- 5.2. It is recommended that the Council formally accepts the grant funding of £19.164m from the Department of Levelling Up, Housing and Communities together with the additional capacity building funding of £0.060m in 2023/24 and an anticipated, but not confirmed, £0.050m in 2024/25, to deliver the Levelling Up Fund projects, and commits match funding from approved capital budgets as per the Council's Levelling Up Fund bid set out in the report to Policy Committee on 11th July 2022.
- 5.3. The Council will need to enter into a funding agreement and agree variations as necessary. It is recommended that authority to enter into the agreement and agree any necessary variations is delegated to the Executive Director of Economic Growth and Neighbourhood Services in consultation with the Director of Finance, Assistant Director of Legal and Democratic Services and Leader of the Council.
- 5.4. The next step would be for the Council to agree the delivery programme, including all necessary procurements and to agree any variations as necessary. It is recommended that this authority is delegated to the Executive Director of Economic Growth and Neighbourhood Services in consultation with the Director of Finance, Assistant Director of Procurement and Contracts, the Chief Executive and Leader of the Council.
- 5.5. Furthermore, it is recommended that permission is granted to go out to consultation, including statutory, to progress delivery of the Levelling Up Fund projects.

6. DEE PARK REGENERATION SCHEME - RANIKHET SCHOOL

- 6.1. The Council has an obligation to deliver works to Ranikhet School as part of the Dee Park Regeneration Scheme. The Council is currently awaiting a decision on the redesignation of funding from Homes England regarding the works. Authority to tender and award contracts for the works is required subject to approval of the Homes England funding.

7. RISK

- 7.1. The budget is set in a period of considerable uncertainty. Estimates are based on current information available, but it is important that the Council is aware of the significant risks it faces in terms of central funding and business rates in the medium term.
- 7.2. Whilst the budget proposals include some provision for risk and contingency, primarily in relation to the non-achievement of income targets and efficiency savings, risk remains that demographic, inflationary or other demand pressures may exceed budget and place pressures on available provisions.
- 7.3. The MTFS assumes £9.841m of additional savings and income, if these are not delivered or there is any delay to their delivery, it would pose a potential threat to the sustainability of the Council's

budget. Based on the 2022/23 Q2 Performance and Monitoring Report that was presented to Policy Committee in December 2022, £3.269m of savings are currently at risk of non-delivery. If these are not achieved by 31st March 2023 then these will roll forward into 2023/24 and increase the overall savings target.

7.4. Business Rates income in particular is subject to considerable volatility in the current economic climate.

7.5. There are also the following risks in respect of the Council's wholly owned companies:

- Reading Transport Limited (RTL) - due to RTL operating on very low margins and combined with the recovery from Covid-19, risks remain in respect of the company's future economic viability. Passenger numbers remain below pre-Covid levels, but have been recovering during 2022/23. The company is participating in the national Government promotion to cap single bus fares at £2.00 between 1st January and 31st March 2023 and Reading Borough Council has been awarded £26.2m Bus Service Improvement Plan Funding from the Department for Transport. This funding will be used to improve bus services within the borough and encourage increased patronage.
- Homes for Reading (HfR) - the Council's current dispensation to not charge Minimum Revenue Provision (MRP) on borrowing relating to loans given to HfR is reliant on the value of the fixed assets on the company's Balance Sheet exceeding the loan liability. The asset valuation is dependent on the economy and the housing market.
- Brighter Futures for Children (BFfC) - the Council's children's company has requested a contract sum of £51.430m which is an increase of £3.905m compared to the figure that was previously included in the MTFs for 2023/24. This is a net increase of £2.972m from the 2022/23 contract sum. This covers increased inflationary pressures relating to pay and contractual inflation and school travel demand pressures. The demand pressures on travel as well as social care placements present an on-going risk in terms of numbers and complexity.

7.6. The current global and national economic position has the potential to impact the Council in a variety of ways, particularly in the current cost of living environment, these include, increases in demand for social care, income and funding available to be distributed through central government. As upper tier authorities across the country are finding, changes in social care demand creates significant cost pressures within adults and children's social care budgets.

7.7. The Council's Chief Finance (Section 151) Officer is required under Section 25 of the Local Government Act to report to Council on the robustness of the estimates made for the purposes of the calculations of the budget and the adequacy of the proposed level of financial reserves. This report will be presented to Council on 28th February 2023.

8. CONTRIBUTION TO STRATEGIC AIMS

8.1. The Council's vision is to ensure that Reading realises its potential - and to ensure that everyone who lives and works in Reading can share the benefits of its success. The Council has three themes which contribute to delivering this vision. These themes are:

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

8.2. 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.

8.3. Full details of the Council's Corporate Plan are available on the website.

9. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

- 9.1. The Council declared a Climate Emergency at its meeting on 26th February 2019, with the intention of achieving a carbon neutral Reading by 2030. The Council endorsed the Reading Climate Emergency Strategy 2020-25 and its vision for a 'net zero, resilient Reading by 2030' in November 2020. At the same time it adopted a new corporate Carbon Plan for the Council's own operations, including the target of an 85% cut in Council emissions by 2025 en route to net zero by 2030. The Council's Corporate Plan monitors progress in reducing the carbon footprint of both the Borough and the Council.
- 9.2. The Council's proposed Capital Programme for the next three years includes investment of £4.423 million in energy saving measures in buildings and renewable energy infrastructure to contributing to the Council's net zero carbon ambitions. Of this, £2.728m is allocated for 2023/24. This covers, the SALIX Recirculation Fund, the Decarbonisation Fund, Renewable Energy Fund and the Corporate Solar Programme as detailed below.
- 9.3. The Council has a long-standing programme of investment in energy efficiency, taking advantage of the SALIX Recirculation Fund, a revolving loan fund, which is available for the public sector. Within this the Council's capital budget for this SALIX Recirculation Fund has enabled a large number of projects to be taken forward. The SALIX Recirculation Fund is being wound up by the Government in 2025 but a provision of £0.467m is included in the Capital Programme in 2023/24 which will enable additional projects in the pipeline to go ahead.
- 9.4. The Capital Programme also specifically supports the Council's climate change commitment, enabling a step change in ambition. The Decarbonisation Fund, designed to enable more ambitious carbon reduction projects such as the installation of High Voltage EV charging infrastructure at the Bennet Road depot to support the growing fleet of EVs. £0.951m has been allocated in 2023/24. The Renewable Energy Fund will support further investment in renewable energy including heat pumps and solar PV installations. In 2023/24, £0.819m has been allocated for this purpose with a further £0.015m in 2024/25. The corporate solar programme, comprises £2.171m over the next three years for solar installations.
- 9.5. Other capital investments - in offices, housing, transport and waste - will also contribute to the Council's carbon reduction ambitions by improving the efficiency of our buildings and operations as well as in the wider community.
- 9.6. Going forward, major capital projects which will contribute directly to greenhouse gas emissions reduction include:
- £14.000m for the South Reading MRT (2023/24-2025/26)
 - £0.834m for renewable energy (2023/2-2024/25)
 - £1.418m for energy saving measures via the Salix Decarbonisation and Recirculation funds (2023/24)
 - £0.250m for additional electric vehicle charging points (2023/24)
 - £0.150m for tree planting programmes (2023/24-2025/26)
 - £2.171m for new corporate solar programme (2023/24-2025/26)
- 9.7. As part of the budget setting process, 'Environment' is one of the weighting criteria applied to bids for capital funding. To offer further assurance that budget proposals align with the Council's climate policies, a 'light touch' review of the capital projects in the current MTFs was conducted by the Climate Change & Sustainability Team. Whilst this identified no schemes with major negative climate impacts, and a number of schemes with low, medium or high positive impacts,

advice was offered to capital project managers on how any negative impacts could be mitigated or positive impacts maximised. Whilst this offers some assurance, there is undoubtedly scope for the robustness of environmental and climate impact assessment of both revenue and capital budget proposals to be improved in future. The Council's Corporate Plan monitors progress in reducing our carbon footprint.

10. COMMUNITY ENGAGEMENT AND INFORMATION

10.1. The public budget consultation ran from 19th December 2022 until 19th January 2023. The feedback from this consultation, alongside the feedback from the Residents' Survey 2022 is set out in Appendices 11 and 12.

11. EQUALITY IMPACT ASSESSMENT

11.1. 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.

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

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

12. LEGAL IMPLICATIONS

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

12.2. The provisions of section 25, Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to the Council's budget setting meeting in February.

13. FINANCIAL IMPLICATIONS

13.1. The financial implications are set out in the body of this report and associated appendices.

- 13.2. The proposed 2023/24 Budget is balanced without the requirement to drawdown on reserves and in fact proposes to bolster earmarked reserves. Further savings to close the budget gap in 2025/26 and beyond will need to be identified as part of the future budget setting process.
- 13.3. The Council's General Fund balance is set at 5% of the net budget requirement for 2023/24.

14. BACKGROUND PAPERS

- 14.1. None.