Policy Committee

13 December 2023

Title	Medium Term Financial Strategy 2024/25-2026/27 Update
Purpose of the report	To note the report for information
Report status	Public report
Report author	Darren Carter, Director of Finance
Lead Councillor	Councillor Brock, Leader of the Council
Corporate priority	Our Foundations
Recommendations	**That Policy Committee note the Medium Term Financial Strategy Update as set out in the body of this report and the associated appendices, including:** 1. The Council's General Fund Budget Requirement of £175.268m for 2024/25 and an assumed increase in the band D Council Tax for the Council of 2.99% plus an additional 2.00% Adult Social Care precept, or £95.86 per annum representing a band D Council Tax of £2,016.88 per annum; 2. The forecast budget gap of £4.107m in 2024/25 will need to be addressed in order to present a balanced budget to Council in February 2024; 3. The proposed service savings and efficiencies of £3.719m and additional income of £1.083m currently proposed in 2024/25 and set out in Appendix 2; 4. The overall savings currently proposed within the MTFS of £6.369m (of which changes to income, fees and charges is £1.417m); 5. The Housing Revenue Account budget for 2024/25 to 2026/27 as set out in Appendix 3; 6. The General Fund and Housing Revenue Account Capital Programmes as set out in Appendices 4 and 5 respectively; 7. The Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 6.

1. Executive Summary

1.1 This report provides an update on the development of the Council's Medium Term Financial Strategy (MTFS) 2024/25-2026/27.

1.2 Reading Borough Council remains financially stable, however it is not immune to national issues. This update on the development of the MTFS reflects the changing landscape in which Councils are now operating. The most significant impacts on this MTFS update include inflationary pressures across all service areas, in particular children's and adult social care, high cost placements in children's services arising from increased complexity and market challenges, the cost of temporary accommodation arising from increased homelessness presentations and waste disposal.

1.3 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, however it remains to be seen whether central government will address the financial pressures being felt across the local government sector by increasing the level of funding that councils receive.

1.4 This MTFS update only includes cost pressures that are deemed to be unavoidable.

Adult Social Care

1.5 There are significant pressures in the social care system. This updated MTFS includes an increase of £5.750m for Adult Social Care services in 2024/25 to address these pressures, including the Council's commitment to fund care providers at a level that allows them to pay staff the Living Wage Foundation rate rather than the lower national living wage rate set by central government.

Brighter Futures for Children

1.6 The figures in this report include a requested increase in the Brighter Futures for Children (BFfC) contract sum for 2024/25 of £7.525m. This includes inflationary increases and a significant growth pressure of £5.941m in respect of placements for Looked After Children due to increases in the costs as well as the age profile and complexity of need and associated costs. This request has not been agreed and further negotiations on the level of the contract sum will take place ahead of February 2024.

Homelessness

1.7 Private sector evictions have risen significantly following the lifting of Covid restrictions and cost of living pressures e.g. inflation. being felt within the housing market. Equally inflation pressures are being seen in the cost of Emergency Accommodation, the average nightly rate in April 2022 was £90 compared to £124 in October 2023. There has also been a reduction in the number of available properties to use. The MTFS update includes an increase of £1.000m in the budget in respect of funding this pressure.

Waste Disposal

1.8 An increase of £1.169m has been added to the waste disposal budget to address a combination of inflationary increases to the re3 waste disposal contract and rising costs due to changes in the make-up of waste being presented for disposal.

Council Tax

1.9 The MTFS currently assumes a general Council Tax increase of 2.99% and an additional Adult Social Care precept of 2.00% across all years of the MTFS period 2024/25-2026/27. No announcements were made with respect to Council Tax referendum principles in the 2023 Autumn Statement. These assumptions will be reviewed in line with any announcements in the Provisional Local Government Finance Settlement.

1.10 The Council will continue to provide additional support of £75 for residents in 2024/25 who are in receipt of Council Tax Support to further mitigate the increase in Council Tax in the current circumstances.

Business Rates

1.11 This update assumes the Business Rate reset originally assumed to happen in 2024/25 will not now take place until 2025/26 at the earliest. Realistically, given the lack of central government announcements and an impending general election, it is unlikely that the reset will be able to be implemented until 2026/27. However, until further announcements are made, given the forecast scale of the impact, it is considered prudent to assume at this point that the reset will occur in 2025/26.

New Homes Bonus

1.12 There is currently much uncertainty around the future of the New Homes Bonus grant. However, the MTFS currently assumes that New Homes Bonus will continue for 2024/25 at the same level as 2023/24 at £1.453m. For 2025/26 and 2026/27, it has been assumed that the grant will cease but that the total amount of grant in the national system will remain and be re-distributed using the Settlement Funding Assessment (SFA) methodology, resulting in a reduced funding allocation of £0.613m. No announcements were made with respect to the New Homes Bonus in the 2023 Autumn Statement. These assumptions will be reviewed following further announcements in the Provisional Local Government Finance Settlement.

Capital Financing

1.13 The revenue budget includes the cost of financing the Capital Programme update as set out in Appendices 4 and 5.

1.14 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 original consultation proposed that the changes become effective from April 2023 onwards, however, as the outcome of this consultation is still outstanding, the MTFS update assumes that the changes are not implemented.

Summary

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

Table 1. Current Budget Gap

	2024/25	**2025/26**	**2026/27**
	£000	**£000**	**£000**
Net Expenditure	175,268	185,993	193,469
Funding	(171,161)	(172,971)	(180,586)
Budget Gap	**4,107**	**13,022**	**12,883**

1.16 The estimated funding gap of £4.107m in 2024/25 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 18th December 2023 and will conclude on 18th January 2024.

1.17 Following the conclusion of the consultation period and the announcement of the Provisional Local Government Finance Settlement, a further report will be brought to Policy Committee on 19th February 2024 recommending approval of a balanced budget to Full Council in order that it can approve its budget, associated Council Tax level and precept for 2024/25 at its meeting on 27th February 2024.

1.18 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

Section A Background and Context

2. Background

1.19 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.

1.20 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 CO_2 emissions and increase recycling rates.

3. The Current Economic and Financial Environment

1.21 The Council's future financial position, the demand for services and ability to recover previous and/or 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:

Coronavirus (Covid-19) Pandemic

1.22 In May 2023, the World Health Organisation declared an end to the Global Health Emergency issued ahead of the Covid-19 Pandemic more than three years prior. Although the immediate health threat has diminished, there are estimates of two million people living with 'long Covid'. The understanding of long Covid and the full extent of its implications are still under investigation, however it is likely that it will create additional demand for adult social care services over the coming years.

1.23 More immediately, the social and economic consequences of the pandemic continue to impact on local government income. Changes to the public's shopping, lifestyle and working behaviours have led to reductions in income in services such as parking and planning, with continued uncertainty around the potential for full recovery.

Cost of Living Crisis

1.24 Since late 2021, the UK has been experiencing what is referred to as a "cost of living crisis", whereby the cost of everyday essentials like energy and food are rising much faster than average household incomes.

1.25 The increase in inflation underpinning the crisis was caused by the combined impact of multiple national and global events:

- Brexit - Slowed economic growth and caused delays at the borders for traded goods due to new import and export rules.
- The Covid-19 Pandemic - Led to disruption of working practices and global supply chains, whilst surging demands for goods were experienced post-lockdown which also contributed to rising prices.
- The Russia-Ukraine Conflict - Led to energy price rises and global food shortages.

1.26 In addition, in an attempt to control inflation, the Bank of England has gradually increased bank rate up to 5.25%. These increases have impacted on borrowers and mortgage holders by reducing their levels of disposable income.

1.27 The resulting pressures are impacting on the Council directly through increased costs but also through increased service demand. For example, pressures on the rental and private housing markets are putting more individuals at risk of homelessness, with the number of households living in temporary accommodation in England at an all-time high.

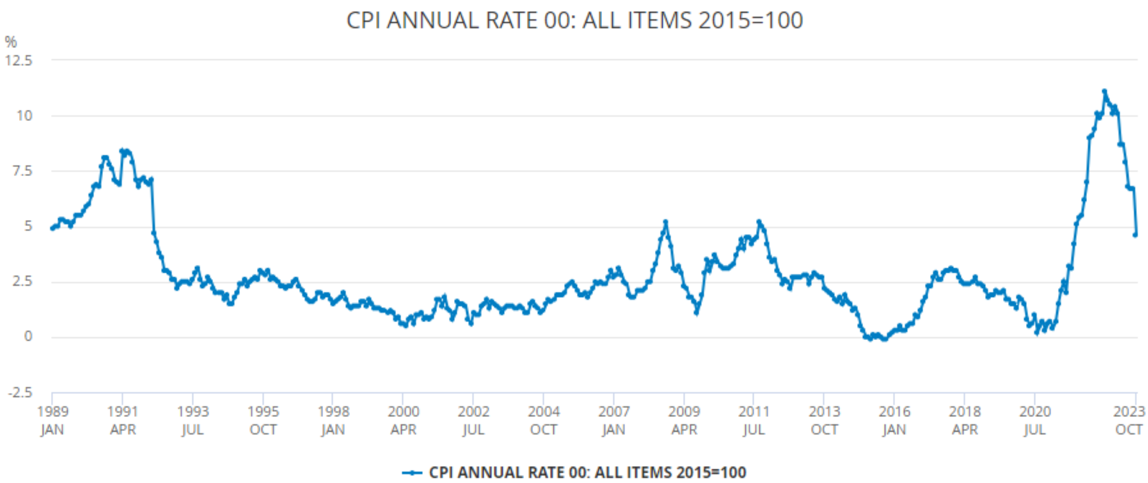
Inflation Expectations

1.28 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 rates income through the nationally set Non-Domestic Rates Multiplier.

1.29 The annual inflation rate in the United Kingdom as measured by the Consumer Prices Index (CPI) stands at 4.6% as at October 2023, down from 11.1% in October 2022. The Consumer Prices Index including owner occupiers' housing cost (CPIH) stands at 4.7% as at October 2023, down from 9.6% in October 2022.

1.30 Inflation climbed steadily between February 2021 and October 2022 due to increased demand and limited supply on various products, including gas, oil, and food supplies, following the pandemic restrictions easing and the Ukrainian invasion. The Bank of England has set a target to reduce inflation to 2% by the end of 2025 and has been gradually increasing interest rates to achieve this. As a result, since its peak in October 2022, inflation has fallen significantly and is expected to continue its decline.

Figure 1. CPI Annual Rate



UK Government

1.31 A general election is due to be held no later than 28th January 2025. This creates a level of uncertainty as, depending on the outcome of this election, the Government's existing policies and spending plans regarding local government may be subject to change.

Environmental Challenges

1.32 The Summer of 2023 has been confirmed by scientists as the hottest season the world has experienced since records began in 1880. Exceptional temperatures were felt across much of the world, exacerbating deadly wildfires in Canada and Hawaii, and searing heatwaves in Europe, South America, Japan and the USA.

1.33 The Council declared a Climate Emergency in February 2019, with the intention of achieving a carbon neutral Reading by 2030, which will require further financial commitment to achieve.

1.34 Reading has cut its carbon emissions by 51% since 2005 and the Council has cut its own carbon footprint by 74% in 14 years.

Public Sector Spending Plans

1.35 The Autumn Statement 2023 was delivered by the Chancellor on 22nd November 2023. The announcement included the following matters that are pertinent to the Council's finances and the wider environment in which it operates:

- For 2024/25, the small business rate multiplier in England will be frozen for a fourth consecutive year at 49.9p, while the standard multiplier will be uprated by September CPI to 54.6p. The retail, hospitality and leisure Business Rates relief has also been extended for 2024/25. Local Authorities will be fully compensated for the loss of income in respect of these.

- DLUHC intend to bring forward plans for authorities to offer guaranteed accelerated decision dates for major developments in England in exchange for a fee, ensuring refunds are given where deadlines are not met and limiting use of extension of time agreements. This will also include measures to improve transparency and reporting of planning authorities' records in delivering timely decision-making.

- The government is providing £110 million of funding to support Local Planning Authorities to deliver schemes to offset nutrient pollution, unlocking planning permissions that are otherwise stalled. The government is also investing £5 million in additional funding for DLUHC's Planning Skills Delivery Fund for Local Planning Authorities to target application backlogs.

- The government is announcing £450 million for a third round of the Local Authority Housing Fund to deliver 2,400 new housing units to house Afghan refugees and ease wider housing and homelessness pressures.

- The government intends to extend 'thank you' payments into a third year for Homes for Ukraine sponsors across the UK, remaining at £500 per month. The government is also providing £120 million funding for the devolved administrations and local authorities in England to invest in homelessness prevention, including to support Ukrainian households who can no longer remain in sponsorship.

- From 2024/25, rates of the Local Housing Allowance will be increased to the 30th percentile of local market rents to help low income households with housing costs.

- The NLW for individuals aged 21 and over will increase by 9.8% to £11.44 an hour from 1 April 2024.

1.36 The Office for Budget Responsibility (OBR) subsequently issued its assessment of the Autumn Statement, with the key points relating to local government set out below:

- The financial implications of the announcements contained within the Autumn Statement would require a 2.3% cut in 'unprotected" government departmental spending from 2025/26 in order to remain within the total spending envelope outlined in the Spending Review 2021. Delivering a 2.3% a year real terms fall in day-to-day spending would present challenges for local government. Performance indicators for local government continue to show signs of strain, and eleven 'section 114s' notices have been issued by local authorities since 2018, compared to two in the preceding 18 years (these notices indicate that the authority's forecast income is insufficient to meet its forecast expenditure for the next year). *This total increased to 12 in the week following the Autumn Statement.*

- If Defence and Official Development Assistance spending increases in line with the Government's ambitions, this would lead to unprotected spending (including local government) needing to fall by an average of 4.1% a year.

- Since 2010/11, local authority spending has fallen from 7.4% to 5.0% of Gross Domestic Product (GDP), and it falls further in the OBR forecast to 4.6% of GDP in 2028/29. Given local authorities' statutory duty to provide a range of services where demand is likely to continue to grow, such as adult and child social care, pressure on local authority finances and services will continue.

- Locally financed capital expenditure is expected to fall slightly in 2023/24 to £8.0 billion and then to £7.7 billion in 2028/29. Borrowing for capital expenditure is expected to fall from its 2019/20 peak of £11.5 billion to £7.0 billion in 2028/29. This reflects the financial pressures facing local authorities and higher interest rates on loans from the Public Works Loan Board, their principal source of financing.

- Net use of current reserves increased by £2.3 billion in 2022/23. This is the first time since 2019/20 that local authorities have drawn on their reserves for current spending. The OBR estimates that due to the ongoing funding pressures on local authorities, there will be further drawdowns during the current Spending Review period, of £1.5 billion in 2023/24 and £0.8 billion in 2024/25, compared to an assumption of no drawdown in both years in their March forecast.

Demographic Forecasts

1.37 Demographic growth is one of the key drivers of demand for Council services and, consequently, cost pressures. Whilst general central government funding has seen real terms decreases over the last decade, service demand and demographic pressures have risen.

1.38 According to the Office of National Statistics' latest census in 2021, since 2011 Reading's total population has risen by 11.9% to 174,200, one of the highest percentage increases in the South East. However, its demographic composition has changed, shifting towards an older population, with increases of 17.2% of residents aged 65+, 11.7% aged 15-64, and 8.6% aged under 15, which includes a decrease of 14.2% in the 0-4 age category.

Unemployment

1.39 Around 3,800 people aged 16 and over in Reading were unemployed in the year ending June 2023. This is a rate of 3.9%. This was an increase compared to the year ending June 2022 when the unemployment rate was 3.5%. Across the South East, from the year ending June 2022 to the year ending June 2023, there was also a slight increase in the unemployment rate from 3.3% to 3.4%.

1.40 It is hoped that the relatively low levels of unemployment will keep the number of Local Council Tax Support Scheme claimants low, thereby maximising the tax base and thus the amount of Council Tax income collectable.

Deprivation

1.41 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).

1.42 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

1.43 Key Headlines are:

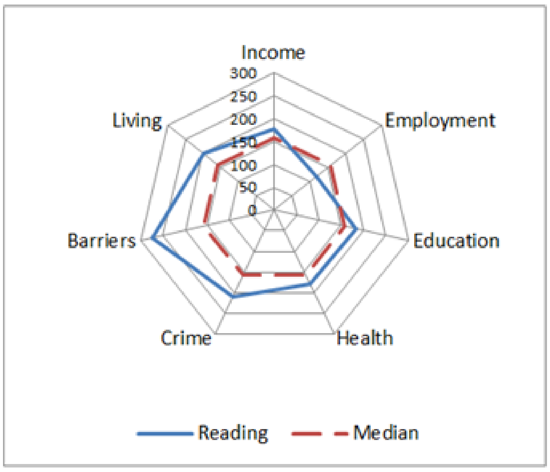
- Reading as a whole is ranked the 141st most deprived out of 317 local authorities in the country;

- 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).

1.44 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

1.45 When the 2023/24 Budget and 2023/24-2025/26 MTFS was approved in February 2023, the Bank of England Bank Rate stood at 4.00%. In an attempt to control inflation, the Bank Rate was increased steadily up to 5.25% through to August 2023 where it currently remains, though further increases have not been ruled out and there is an expectation that interest rates will remain higher for longer than had been previously anticipated.

1.46 Interest rates impact on both the amount of interest that the Council forecasts it will need to pay in respect of current and forecast future borrowing, as well as the amount of interest receivable income in respect of the levels of forecast investments. As set out in the Council's Borrowing Strategy, the Council is currently attempting to avoid taking any long term borrowing whilst interest rates remain high ahead of forecast decreases in future years. As a consequence, the Council is utilising existing cash balances to cashflow Capital Programme expenditure and has less cash available to invest in longer term investments that generate higher levels of interest receivable income.

1.47 For planning purposes, the Council has assumed that the Bank of England will maintain interest rates at 5.25% through to September 2024 followed by gradual decreases to 3.00% by December 2025. The MTFS assumes an average borrowing rate of 4.70% for 2024/25, decreasing to 3.20% and 3.00% in 2025/26 and 2026/27 respectively. These assumptions will be further reviewed prior to the report to Policy Committee in February 2024.

2 Local Government Finance Settlement

2.1 At the time of writing, the Provisional Local Government Finance Settlement (PLGFS) for 2024/25 has yet to be announced. Our assumptions around funding levels and changes to the finance system 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 2024.

2.2 The formal announcement of the 2024/25 PLGFS is expected in mid-December. After a period for consultation, the final settlement will be confirmed in January/February 2024.

3 Future Changes to the Local Government Finance System

3.1 No official announcements on future changes to the Local Government Finance System were made as part of the 2023 Autumn Statement. However, the new minister for local government has stated categorically that there is currently no fair funding review taking place or that there are any plans to reform the local government funding formula.

3.2 In the absence of an official announcement, and the fact that a business rates reset can technically be implemented without a fair funding review, this MTFS update assumes that the business rates reset will be implemented for 2025/26. This assumption will be reviewed following the Provisional Local Government Finance Settlement.

4 Current Year Financial Position – as at the end of September 2023

4.1 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.

4.2 The Quarter 2 Performance & Monitoring report, which appears elsewhere on the agenda, is forecasting a net adverse variance of £3.685m, consisting of £10.984m of net pressures within Service expenditure budgets partially offset by a positive net variance of £7.299m across Corporate Budgets.

4.3 The Housing Revenue Account is projecting a positive net variance of £0.457m as at the end of Quarter 2, which results in a forecast drawdown from HRA Reserves of £2.042m rather than the originally budgeted £2.499m.

4.4 The General Fund Capital Programme for 2023/24 has an approved budget of £107.178m. The Quarter 2 Financial Monitoring report is proposing that the budget is revised to reflect additional schemes that are fully funded by grants or contributions as well as budgets for several schemes being re-profiled to later years, which would result in a revised Capital Programme budget for 2023/24 of £67.090m.

4.5 The Housing Revenue Account Capital Programme for 2023/24 has an approved budget of £36.442m. It is proposed that the budget is also revised to reflect additional schemes that are fully funded by grants or contributions as well as the reprofiling of several schemes into later years, which would result in a revised HRA Capital Programme budget for 2023/24 of £33.564m.

Section B General Fund Revenue Budget

5 Overall Three-Year Budget Position

5.1 In February 2023 the Council agreed an MTFS which balanced in year 1 (2023/24) with a contribution of £6.128m to earmarked reserves, had a surplus of £2.781m in 2024/25 and a deficit of £5.687m in 2025/26. The Council has reviewed its income and expenditure assumptions across all three years of the MTFS period (2024/25-2026/27) with a view to setting a balanced budget for all three years. However, due to considerable levels of uncertainty and cost pressures within the system, this has not been possible at this stage of the process.

5.2 The biggest impact on the latest MTFS arises from the significant inflationary pressures currently being felt within contract pricing, pay and demand pressures in areas like homelessness. 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.

5.3 As outlined above, the proposals as set out in this report do not result in a balanced budget for 2024/25 or a balanced 2024/25-2026/27 MTFS. The current budget gap is set out in the following table:

Table 2. Current Budget Gap over the MTFS Period 2024/25-2026/27

	2024/25	2025/26	2026/27	Total
	£000	£000	£000	£000
Budget Gap	4,107	8,915	(139)	12,883
Cumulative Budget Gap	**4,107**	**13,022**	**12,883**	**12,883**

5.4 Work is ongoing to refine and clarify planning assumptions and identify additional savings to close the budget gap and allow a balanced budget to be approved in February 2024.

5.5 The Council's policy is for the General Fund Balance to be 5% of the Net Budget Requirement. Based on the figures in this report the General Fund Balance would need to be increased from the current 2023/24 balance of £8.221m to £8.763m for 2024/25 rising to £9.673m by 2026/27. 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.

5.6 The position set out in this report relies on achieving service savings and additional income of £6.369m over the three years 2024/25 to 2026/27. Of the £6.369m due to be delivered, £1.071m relates to savings needing to be found in Children's Services delivered in partnership with Brighter Futures for Children, the Council's wholly owned Children's company. The residual £5.298m has to be found from other directly managed Council services as summarised below:

Table 3. General Fund Savings Summary 2024/25 to 2026/27

	Efficiency Savings	Invest to Save Schemes	Income, Fees & Charges	Total
	£000	£000	£000	£000
Children's Services (BFfC)	(871)	0	(200)	(1,071)
Other Council Services	(3,498)	(583)	(1,217)	(5,298)
Total	**(4,369)**	**(583)**	**(1,417)**	**(6,369)**

5.7 The updated MTFS proposals include £32.194m of service growth items (£16.383m pay and other inflationary pressures and £15.811m other service-related pressures).

5.8 The proposals for 2024/25 include £20.119m of service growth items (£8.991m pay and other inflationary pressures and £11.128m other service-related pressures) and £4.802m of service savings (£3.719m efficiencies and invest-to-save initiatives and £1.083m from uplifted income). Within those growth and savings assumptions, BFfC represents £8.125m of the pressures with efficiency savings and income of £0.600m, resulting in a net contractual sum increase of £7.525m from the 2023/24 contract sum (a £7.158m increase from the previously agreed contract sum for 2024/25).

5.9 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

	2024/25	2025/26	2026/27
	£000	£000	£000
Community and Adult Social Care	57,270	62,154	64,998
Economic Growth & Neighbourhood Services	19,104	19,226	19,307
Resources	18,245	18,180	18,256
Chief Executive Services	1,583	1,583	1,583
Children's Services retained by Council	833	833	833
Children's Services delivered by BFfC	58,955	60,150	61,521
Total Service Expenditure	**155,990**	**162,126**	**166,498**
Capital Financing	18,474	18,916	19,779
Contingency	4,129	4,332	4,332
Movement to / (from) Reserves	(200)	(220)	(220)
Other Corporate Budgets	(3,125)	839	3,080
Total Corporate Budgets	**19,278**	**23,867**	**26,971**
Total Net Budget Requirement	**175,268**	**185,993**	**193,469**
Financed by:			
Council Tax Income	(118,893)	(126,074)	(133,689)
NNDR Local Share	(30,724)	(42,389)	(42,389)
New Homes Bonus	(1,453)	(613)	(613)

Section 31 Grant	(16,196)	0	0
Revenue Support Grant	(2,654)	(2,654)	(2,654)
Other Government Grants	(1,241)	(1,241)	(1,241)
One-off Collection Fund (Surplus)/Deficit	0	0	0
Total Funding	**(171,161)**	**(172,971)**	**(180,586)**
Budget (Surplus)/Gap	**4,107**	**13,022**	**12,883**

6 Value for Money & Efficiency

6.1 During 2020/21, 2021/22 and 2022/23 the Council delivered savings totalling £7.579m, £14.319m and £7.401m respectively. As at the end of September 2023, £0.235m of savings have been delivered in year with a further £3.219m on track to be delivered by the end of the year, against the target of £8.118m, amidst the turbulent economic climate.

6.2 Over the next three years the proposals included in this MTFS update assume delivery of a further £4.952m of savings as well as additional income of £1.417m, (£3.719m and £1.083m respectively assumed in 2024/25).

6.3 Since 2017/18, to support the delivery of efficiencies and ongoing savings, transformation funding has been made available within the Council's Capital Programme funded from Capital Receipts. Appendix 6 attached sets out the Council's Strategy for the 'flexible use of capital receipts', together with the proposals to be funded and spend to date against those already agreed.

6.4 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.

7 Reserve Levels

7.1 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 an increasing number of local authorities issuing s114 notices or requesting exceptional financial support over recent 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.

7.2 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 2022/23. As a result, reserves have been returned to a more sustainable level.

7.3 Based on the latest data available (2021/22), the level of reserves held by Reading Borough Council equated to 57.88% of net revenue expenditure. This placed Reading as the 23rd highest among 51 Unitary Authorities.

7.4 The Council is also placed towards the "lower risk" end of the scale in terms of the "Reserves Sustainability" and "Change to Reserves" measures.

8 Planning Assumptions

8.1 The following planning assumptions are included within this Medium Term Financial Strategy Update:

a) **Base Budget** - The starting point for planning is the 2023/24 base budget as agreed by Council in February 2023, adjusted for any approved budget virements;

b) **Council Tax Increase -** A 2.99% basic increase and a 2.00% Adult Social Care Precept for each year 2024/25-2026/27;

- On these assumptions, the standard band D charge would rise by £95.86 to £2,016.88 for a full year in 2024/25;

- The impact on taxpayer bills (before any reduction for discounts) of the Council's proposed increase is a £1.84 per week rise for a band D Council Tax household comprising at least two adults.

- 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 2024/25 would be £85.21, an increase of £1.64 per week.

c) **Council Tax Base -** Increases in the Tax Base for organic growth are currently assumed at 1.43% for 2024/25 and 1.00% for 2025/26 and 2026/27 and will be reviewed and updated as required as part of the Council Tax Base calculation which is reported to Council in January 2024;

d) **Capital Borrowing Rates** – average borrowing rates of 4.70%, 3.20% and 3.00% 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 Bank of England Monetary Policy Committee (MPC) meeting on 14th December 2023 and the resulting interest rate forecasts provided from Link Group, the Council's Treasury Management advisors;

e) **Investment Interest** – The Bank Rate set by the Bank of England is currently 5.25% 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 2023. The Council currently also benefits from:

- **Externally Managed Property Investments** – The Council has £15.000m invested in property funds. The Council makes a return of around 4.75% on a quarterly basis (based on 2023/24 returns); and

- **Investment Properties** – The Council owns investment properties valued at £67.775m as at 31st March 2023. These properties provide a gross return of 7.76% pa (before capital financing costs).

f) **Inflation** – CPI is currently at 4.6% as at October 2023 and is forecast to continue to fall over the MTFS period;

g) **Pay Assumptions** – 3.0% per annum has been budgeted for 2024/25 with 2.0% for the remaining two years of the three-year period;

h) **Pensions** - The triennial valuation of the Pension Fund took place on 31st March 2022. The primary rate is being held at 16.2% for the first two years of the MTFS period, with a forecast increase to 17.2% in the final year. The secondary (recovery) rate is expected to fall slightly as the primary rate increases. The impacts of these changes have been reflected in the MTFS at a corporate level at this stage;

i) **Increases in Fees and Charges** – Changes to fees & charges have been incorporated within the budget proposals where appropriate. A full schedule of fees & charges will be presented as an appendix to the Budget Report in February 2024;

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

k) **Transformation Programme** – The Council has funded £15.352m of transformation projects to 31st March 2023 and has allocated £4.790m of funding for 2023/24, with a further £1.587m for 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.

8.2 The Council's MTFS and General Fund Budget updates are set out in Appendices 1 and 2.

9 General Fund Revenue Risk Implications

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

9.2 Aside from bridging the current budget gap, the main risks to delivering the proposals set out within this report include:

- The ability to contain demand pressures;
- The speed of recovery and 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 and avoid prudential borrowing charges;
- Future local government finance settlements from central government;
- The capacity of Officers to deliver the savings and income projections in line with assumptions;
- Slippage in project delivery adversely impacting efficiencies assumed within the MTFS.

9.3 Additionally, the Council's 2020/21 to 2022/23 accounts are still subject to audit which may mean there could be some movement in the assumed baseline level of reserves.

9.4 However, in setting the new three-year MTFS, contingency provisions of £4.129m in 2024/25 and £4.332m in 2025/26 and 2026/27 have been provided for to allow for slippage or non-delivery of higher risk savings and income targets.

Section C Housing Revenue Account

10 Housing Revenue Account (HRA) Budget

10.1 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.

10.2 Following the abolition of the statutory limit on HRA borrowing known as the debt cap in October 2019, the HRA is able to undertake prudential borrowing to support the creation and acquisition of long-term assets, as long as it is prudent, affordable and sustainable within the context of its overall Business Plan. The Current 30-year Business Plan allows for £45.841m of new borrowing under the prudential code in 2024/25-2026/27. The Plan shows that the HRA is able to fund the proposed capital investment which will raise the peak debt in the HRA from £199.554m to £245.394m in 2026/27. However, the Plan demonstrates that the proposed borrowing is prudent, affordable and sustainable as the HRA has the capacity to repay £124.839m of this in later years and that the projected outstanding debt level at year 30 is forecast to be £120.555m.

10.3 A summary of the HRA revenue budget over the three years of the current MTFS plan period is set out below and detailed in Appendix 3.

10.4 The rent increase for 2023/24 was capped by Government at 7% which avoided the rents being set at the standard CPI + 1% which would have been 11.1% for 2023/2024. The standard CPI + 1% rate is the baseline assumption for 2024/25 and is based on the CPI rate in September 2023 of 6.7%, therefore the presumed rate is 7.7%. Unlike 2023/24 the indications from Government are that there would be no cap imposed preventing this level being used.

10.5 Work has been undertaken to model the impact of a 7.7% increase on the 30-year business plan along with many other assumptions on future inflation. The modelling includes expenditure to maintain our properties, creating New Build properties and investing in low carbon investments in our housing stock to make council homes more energy efficient and reduce energy costs for tenants over the longer term.

10.6 The 30 year Business plan presumes a reduction of the current circa £40m HRA Reserve balance level over the next 10 years until the PFI contract is completed. Balances will however remain considerably above the minimum level approved by the Director of Finance (based on 10% of Rental values) throughout this period. Beyond 2035 when the PFI contract is completed and the houses return to the Council the Reserve balances are projected to return to current levels and rise beyond, this additional resource would be available in future years for further investment into Housing stock beyond the current assumptions built in.

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

	2024/25	2025/26	2026/27
	£000	£000	£000
Total Income	(51,697)	(52,588)	(54,379)
Total Expenditure	54,329	54,507	56,176
Net (Surplus)/Deficit	**2,632**	**1,919**	**1,797**
Opening HRA Balances	**(34,231)**	**(31,599)**	**(29,680)**
Net (Surplus)/Deficit	2,632	1,919	1,797
Closing HRA Balances	**(31,599)**	**(29,680)**	**(27,883)**

11 Housing Revenue Account Risk Implications

11.1 Many of the risks identified in respect of the General Fund revenue budget (see para 11.1-11.2 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 benefits 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 following Brexit.

Section D Capital Programme

12 Overall Capital Programme

12.1 Details of the Capital Programme update for 2024/25 to 2026/27 are set out in Appendix 4 for the General Fund and Appendix 5 for the HRA. This includes carried forward underspends and overspends from 2022/23 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 6 to this report.

12.2 During 2023/24, the Capital Programme Board has reviewed all Capital Programme schemes in respect of scheme deliverability with project managers and re-forecast spending plans with the aim of right sizing the budget to match individual scheme delivery profiles, and to address historic reprofiling/slippage issues.

12.3 At this stage, other than fully grant funded and rolling programme schemes, no new schemes funded by borrowing have been added into the Capital Programme as this would result in an increased overall budget gap. The Capital Programme will be further reviewed in January, following the Local Government Finance Settlement.

13 Capital Programme Risk Implications

13.1 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.

14 Budget Next Steps

14.1 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 2024. 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.

14.2 Policy Committee, at its meeting on 19th February 2024, will be asked to approve a balanced 2024/25 budget and three-year MTFS and recommend its adoption by Council at its meeting on 27th February 2024.

15 Contribution to Strategic Aims

15.1 Full details of the Council's Corporate Plan and the projects which will deliver these priorities are published on the Council's website. These priorities and the Corporate Plan demonstrate how the Council meets its legal obligation to be efficient, effective, and economical. An updated Corporate Plan is currently being drafted and will be presented to Policy Committee in February 2024 prior to Council, also in February 2024.

15.2 Delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

16 Environmental and Climate Implications

16.1 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 enroute to net zero by 2030. The Council's Corporate Plan monitors progress in reducing the carbon footprint of both the Borough and the Council.

16.2 Reading is one of only 119 towns and cities in the world to make the CDP A List 2023 – recognised as the gold standard of environmental reporting. It is the third successive year Reading has achieved the status which is shared with only 25 other UK local authorities this year. The Council has worked with local partners to make the A List and is calling on all Reading residents, businesses and organisations to work together to help us reach our ambitious target of a net zero Reading by 2030.

16.3 There are no specific environmental and climate implications to report in relation to the recommendations set out in this report.

17 Community Engagement

17.1 Budget-related communications and consultations will continue to be a priority over the next three years as we work to identify savings and efficiencies.

18 Equality Implications

18.1 The equality duty is relevant to the development of the Budget. The specific savings and income proposals included in the budget are subject to consultation and equality impact assessments where required and these are being progressed as appropriate.

18.2 An Equality impact Assessment of the proposals contained within this MTFS Update is attached as Appendix 7.

19 Other Relevant Considerations

19.1 There are none.

20 Legal Implications

20.1 The Local Government Act 2003 requires that the Authority reviews its Budget throughout the year and takes any action it deems necessary to deal with the situation arising from monitoring. Currently monitoring reports are submitted to Policy Committee quarterly throughout the year.

21 Financial Implications

21.1 The financial implications are set out in the body of this report.

22 Timetable for Implementation

22.1 Not applicable.

23 Background Papers

23.1 There are none.

Appendices

1. **Summary of the Proposed General Fund Budget 2024/25 to 2026/27**
2. **Summary of General Fund Budget Changes 2024/25 to 2026/27**
3. **Summary of HRA Budget 2024/25 to 2026/27**
4. **General Fund Capital Programme 2024/25 to 2026/27**
5. **HRA Capital Programme 2024/25 to 2026/27**
6. **Flexible Capital Receipts Strategy**
7. **Equality Impact Assessment**