

Appendix 1 - The Medium Term Financial Strategy (MTFS) 2024/25 – 2026/27

1. Background

- 1.1. This Medium Term Financial Strategy (MTFS) pulls together in one place all known factors affecting the financial position and financial sustainability of Reading Borough Council over the medium term. The MTFS balances the financial implications of objectives and policies against constraints in resources and provides the basis for decision making.
- 1.2. The MTFS is central to the delivery of our priorities in an affordable and sustainable way over a 3-year period. It aids robust and methodical planning as it forecasts the Council's financial position, taking into account known pressures and major issues affecting the Council's finances. The MTFS recognises the key role that financial resources play in the future delivery of outcomes and in enabling the effective planning, management and delivery of services.
- 1.3. The key overriding aim of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic priorities.
- 1.4. This updated MTFS has been developed to reflect the changing landscape in which Councils are now operating. The UK economy, as with many others around the world, is now heavily impacted by the cost of living crisis. This has had a knock-on impact on Council budgets, due to increased unit costs, service demand increasing and reduced levels of income. Looking forward, there remains significant uncertainty regarding the future funding of local government and the broader public sector, in particular health, as well as policy uncertainty with a general election due later this year.

2. The Current Economic and Financial Environment

- 2.1 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.

Coronavirus (Covid-19) Pandemic

- 2.2 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.
- 2.3 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

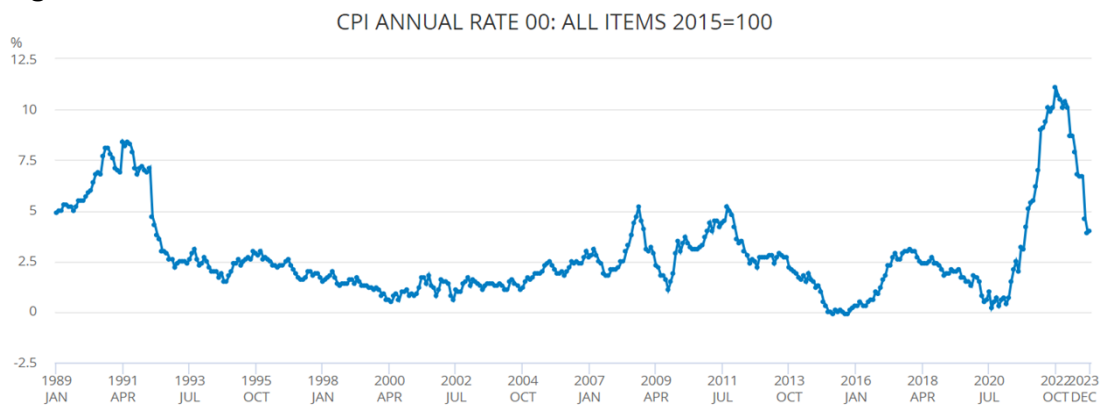
- 2.4 Since late 2021, the UK has been experiencing what is referred to as a "cost of living crisis", whereby the cost of everyday essentials like energy and food are rising much faster than average household incomes.

- 2.5 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.
- 2.6 In addition, in an attempt to control inflation, the Bank of England has gradually increased the bank rate up to 5.25%. These increases have impacted on borrowers and mortgage holders by reducing their levels of disposable income.
- 2.7 The resulting pressures are impacting on the Council directly through increased costs but also through increased service demand. For example, landlords in the private rented sector have been exiting the market, putting increased pressures on the rental market and putting more individuals at risk of homelessness. Coupled with the increase in the number of asylum seekers being granted leave to remain, the number of households living in temporary accommodation in England is at an all-time high.

Inflation Expectations

- 2.8 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.
- 2.9 The annual inflation rate in the United Kingdom as measured by the Consumer Prices Index (CPI) stands at 4.0% as at December 2023, down from 10.5% in December 2022. The Consumer Prices Index including owner occupiers' housing cost (CPIH) stands at 4.2% as at December 2023, down from 9.2% in December 2022.
- 2.10 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.
- 2.11 Although inflation rates are falling, this does not mean that prices are also falling, just that prices are rising more slowly than before. Inflation rates are still higher than the Bank of England targets and is continuing to cause significant financial pressures for the residents of Reading and on delivery of council services.

Figure 1. CPI Annual Rate



UK Government

- 2.12 Contained within the written statement released by the Government on 24th January 2024 that a further £600m of funding would be awarded to councils as part of the Final Local Government Finance Settlement 2024/25, was a statement setting out that the Government is committed to improving the Local Government Finance Settlement in the next parliament and that the Minister for Local Government will be engaging with the sector in this over the coming months.
- 2.13 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 and intended future policies and spending plans regarding local government may be subject to change.

Environmental Challenges

- 2.14 In the Council's climate emergency declaration, a commitment was made to work towards a net zero Reading by 2030. This target was already very challenging, even before taking account of the more recent financial pressures facing the Council, and local authorities in general, in addition to the government's recent scaling back of its net zero strategy commitments. Whilst the long term benefits of taking action will likely exceed the cost of inaction on climate change, this does not ease the challenge of finding resources for climate action in the immediate future.
- 2.15 2023 has been confirmed as the hottest year on record, with an estimated increase in global average temperatures close to 1.5°C above pre-industrial levels. The significance of this is that 1.5°C has been identified as the 'safe' limit beyond which more dangerous climate impacts are expected to increase in terms of their likelihood, extent, and severity. Weather records at home and abroad are being broken with a frequency which has alarmed scientists and policymakers alike. Extreme events like the heatwave of 2022, which led to thousands of excess deaths across the UK, and the fluvial flooding of January 2024, which affected homeowners, communities, and businesses in large parts of Reading, were a reminder that climate impacts are not just a matter for far-away places or the distant future but are very much here and now. The science suggests that these impacts, and their financial consequences, will continue to increase unless and until 'net zero emissions' are reached.
- 2.16 From a financial perspective, climate impacts can be expected to add to the inflationary pressures already being experienced by the Council, as it is likely to lead to increasing disruption to supply chains, restrict the availability of key goods and services, disrupt transport and manufacturing systems, and impose additional costs as a result. Climate impacts will also threaten the integrity of the Council's infrastructure, whether that be

weathering of highway surfaces or damage to buildings, and potentially their occupants, from extreme weather events. In fact, it is likely that climate impacts are already a factor in inflationary pressures which are more commonly attributed to geopolitical events or international trade issues.

- 2.17 Tackling both the causes and consequences of climate change remains, therefore, an economic as well as an environmental imperative and it is important that the Council's revenue and capital budgets reflect this reality. For these reasons, and in keeping with its Climate Emergency declaration in 2019, the Council is increasingly scrutinising budget proposals for their alignment with its climate policy commitments, including for the first time this year incorporating a climate impact assessment for individual budget proposals within the budget setting process.

The Autumn Statement 2023

- 2.18 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, Local Housing Allowance rates will be increased to the 30th percentile of local market rents to help low income households with housing costs.
- The National Living Wage for individuals aged 21 and over will increase by 9.8% to £11.44 an hour from 1st April 2024.

2.19 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 114’ 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).
- 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

2.20 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.

2.21 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.

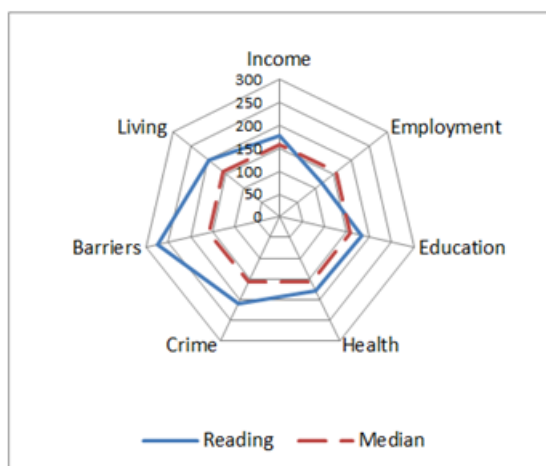
Unemployment

- 2.22 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%.
- 2.23 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

- 2.24 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).
- 2.25 IMD scores and weightings are based on seven domains of deprivation and are weighted individually to provide an overall IMD score. The percentage weightings applied, as well as 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
- 2.26 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).
- 2.27 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

- 2.28 When the 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% into 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.
- 2.29 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 in respect of the level of current and 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 therefore has less cash available for longer term investments that generate higher levels of investment income.
- 2.30 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.
- 2.31 Current UK interest rate forecasts (including the 20-basis point certainty rate reduction) are outlined in the following table:

Table 1. Interest Rate Forecasts

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
	%	%	%	%	%	%	%	%
Bank Rate	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00
5-year PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70
10-year PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90
25-year PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20
50-year PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00

3. Expenditure Assumptions

Pay Award

- 3.1 3.0% has been allowed for pay inflation in 2024/25 with 2.0% for the years thereafter.

National Living Wage

- 3.2 In the Autumn Statement the Chancellor announced that the National Living Wages will increase by 9.8% from £10.42 to £11.44 per hour from April 2024 with the age threshold lowered from 23 to 21 years old.

Real Living Wage

- 3.3 The Real Living Wage Foundation, a charity that campaigns for fair pay, announced that the Real Living Wage rate would be increased by 10.1% from £10.90 to £12.00. Reading Borough Council is a real living wage employer; therefore, this represents a significant proportion of the inflationary increases in adult social care provider contracts in particular.

General Inflation

- 3.4 Where services are experiencing specific inflationary pressures, these are included as proposed budgetary changes supported by a corresponding business case.

Pension Fund

- 3.5 The triennial valuation of the Berkshire Pension Fund took place on 31st March 2022. The primary rate is set 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.

Capital Financing

- 3.6 Capital Financing costs include Minimum Revenue Provision (MRP), notionally the repayment of debt, as set out in the Council's MRP Policy within the Treasury Management Strategy included elsewhere on this agenda. Additionally, these costs include any interest on external borrowing.
- 3.7 Central Government is currently consulting on proposed changes to MRP guidance, which is set out in more detail within the Treasury Management Strategy Statement.

4. Significant Impacts on the Council's 2024/25 Budget

Adult Social Care

- 4.1 Social care is one of the highest budget risks facing local authorities and reform of adult social care is essential. From the report by the Royal Commission on Long-term Care in 1999, to the Dilnot Commission's Fairer Care Funding in 2011, to Build Back Better: Our Plan for Health and Social Care in 2021, proposals have been made to make adult social care charging fairer and to end unpredictable and unlimited care costs.
- 4.2 The charging reforms introduced in Build Back Better: Our Plan for Health and Social Care, and expanded upon in the Autumn Budget and Spending Review 2021 and People at the Heart of Care: Adult Social Care Reform, were split into four elements:

1. A cap on personal care costs
2. Changes to the means test
3. Implementing Section 18(3) of the Care Act 2014
4. Fair cost of care and market sustainability

- 4.3 These charging reforms were to be introduced in October 2023. The government announced in the Autumn Budget and Spending Review 2021 that £3.6bn would be provided over three years to fund the reforms. This figure included £1.4bn to support local authorities to move towards a fair cost of care and improve the sustainability of the provider market. A proposed health and social care levy would contribute to funding the reforms.
- 4.4 In the Autumn Statement 2022, the Chancellor Jeremy Hunt announced that the cap on personal care costs and changes to the means test would be delayed until October 2025, but that elements of the fair cost of care and market sustainability reforms would still go ahead. Some of the funding for the charging reforms has since been redirected to address current adult social care pressures, and the health and social care levy has been scrapped.
- 4.5 The revised implementation date of October 2025 falls after the next general election, which raises questions regarding whether the reforms will actually go ahead as currently planned.
- 4.6 In the absence of those reforms, there are significant pressures in the adult social care system. The 2024/25 Budget includes a proposed increase of £5.464m 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.

Children Social Care

- 4.7 There are even greater financial pressures in Children's Social Care, with increasing demand on services, increasing complexity of need, reducing numbers of foster carers, and an insufficient supply of adequate residential placements driving up costs.
- 4.8 On 31st March 2013 there were 68,060 children looked after in England. On 31st March 2023, the number stood at 83,840, an increase of more than 23%.
- 4.9 In 2018, there were just 120 placements in England costing at least £10,000 a week. By 2023, that figure had risen to more than 1,500.
- 4.10 Reading is experiencing similar cost pressures. The 2024/25 Budget includes a proposed increase of £7.409m increase in the Brighter Futures for Children (BFfC) contract sum. This includes inflationary increases and a significant growth pressure in respect of placements for Children Looked After.

Dedicated Schools Grant - High Needs Block

- 4.11 High needs funding supports provision for pupils and students with SEND who require additional resources to participate in education and learning, from their early years to age 25 in schools and colleges (excluding students aged 19 to 25 who do not have an Education, Health and Care Plan (EHCP) or students who are over the age of 25) and pre-16 pupils in Alternative Provision (AP) who, because of exclusion, illness, or other

reasons, cannot receive their education in mainstream schools. High needs funding is provided to local authorities through the high needs block of the DSG.

- 4.12 High needs block funding has been increasing significantly in recent years, but those increases have not kept pace with increasing costs. As a result, a significant number of local authorities are accumulating deficits on the high needs block. In some cases, those deficits are so significant that they would potentially trigger a s114 notice. As a temporary measure, the Government has issued a statutory override for the Dedicated Schools Grant that excludes DSG deficits from the calculation of General Fund reserves. This override will continue until 31st March 2026.
- 4.13 In Reading, the Council is forecasting a cumulative deficit of £12.000m on the high needs block by 31st March 2024, with that deficit forecast to reach £27.600m by the time the statutory override ends in 2026. Council reserves will not be sufficient to fund this deficit, potentially triggering the need to issue a s114 notice. It is therefore critical that action is taken to address the deficit.
- 4.14 The Council is one of 55 local authorities taking part in the Department for Education's Delivering Better Value programme. The aim is to support local authorities and their local area partners to improve the delivery of SEND services for children and young people whilst working towards financial sustainability. The Council has been awarded a grant of £1.000m to support the implementation of new programmes of work.

Homelessness

- 4.15 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 rates reaching as high as £130 in August 2023. There has also been a reduction in the number of available properties to use. The 2024/25 Budget includes a proposed increase of £1.000m in respect of funding this pressure.

Waste Disposal

- 4.16 The 2024/25 Budget includes a proposed increase of £1.069m 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.

Capital Financing

- 4.17 On 30th November 2021, the Department for Levelling Up, Housing & Communities published a consultation about proposed changes to the capital financing framework and the calculation of Minimum Revenue Provision (MRP). MRP is the amount that has to be set aside from the revenue budget for the repayment of borrowing taken out to finance capital expenditure.
- 4.18 The consultation responses highlighted concerns that the proposed changes could have unintended consequences that may adversely affect the delivery of priorities such as housing where councils were providing capital loans to finance delivery. In response, the proposals were amended to offer more flexibility regarding capital loans, balancing the need for MRP with the risk of non-repayment. The consultation on these changes ran from June to July 2022.

- 4.19 A further consultation, seeking views on the proposed changes to the Statutory MRP Guidance and Regulations, in line with changes proposed in the June to July 2022 consultation (with some minor changes to reflect consultation responses), was launched on 21st December 2023. This consultation will close on 16th February 2024 with the Government response expected on 15th March 2024.
- 4.20 One of these proposals would, if implemented, require councils to provide MRP on any commercial loans given to third parties and wholly owned companies. MRP would not need to be provided for non-commercial loans as long as the loan was being re-paid. The Council's current MRP Policy, as well as repayment schedules of the loans to the Council's wholly owned companies would therefore need to be reviewed and any required additional budgetary provision made within the Council's revenue budget in order to comply with this change, should it materialise.
- 4.21 The latest information we have is that any changes will take effect from 2024/25 at the earliest; it is not the Government's intention that these changes are applied retrospectively.
- 4.22 As the outcome of this consultation is still outstanding, the 2024/25 MRP Policy, contained within the 2024/25 Treasury Management Strategy has been prepared in line with the current guidance and regulations.

2023/24 Financial Position

- 4.23 The Quarter 2 Performance and Monitoring Report, presented to Policy Committee in December 2023, 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.
- 4.24 Should an adverse variance crystallise then the balance of the variance will need to be funded by a draw from earmarked reserves as part of 2023/24 outturn processes and the 2023/24 Performance Report to Policy Committee in July 2024.

5. Local Government Finance Settlement 2024/25 & Other Changes from the December 2023 MTFS Update

- 5.1 A one-year Final Local Government Finance Settlement was published on 5th February 2024. The settlement provides more detail for 2024/25, which for Reading is as follows:

New Homes Bonus

- 5.2 The Council's 2024/25 allocation for the New Homes Bonus was announced as £1.255m; £0.198m lower than the £1.453m assumed in the December 2023 MTFS update to Policy Committee. 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 £0.638m.

Social Care Grant

- 5.3 It is currently unclear if there will be new funding when social care charging reforms are implemented in October 2025 or whether this funding will be repurposed towards the reforms again from 2025/26. Whilst the allocation methodology may change when implemented, it is clear that the funding remains within the national control totals and given the pressures on social care will need to be directed, by whatever means, to

authorities with those responsibilities. For this reason, the MTFS assumes that this funding will continue.

- 5.4 In the final settlement the Council's 2024/25 allocation for the Social Care Grant was announced as £9.948m; £1.256m higher than the £8.692m assumed in the December 2023 MTFS update.

Services Grant

- 5.5 The Services Grant allocation has been reduced to £0.214m in 2024/25; £1.027m lower than the £1.241m assumed in the December 2023 MTFS update, due to an 82% reduction in the total grant available in 2024/25. It has been assumed that this reduced level of funding will continue in 2025/26 and 2026/27.

Revenue Support Grant

- 5.6 Revenue Support Grant (RSG) has been the core general purpose grant from central government for some years now. For 2024/25 RSG has been increased by 6.7% in line with inflation. There is a decrease in RSG for 2024/25 of £0.002m over the level assumed in the December 2023 MTFS update. It has been assumed that this level of funding will continue in 2025/26 and 2026/27.

Minimum Funding Guarantee

- 5.7 The Government announced in the final settlement that it will provide a Minimum Funding Guarantee to ensure that all councils have at least a 4% increase in their Core Spending Power before any decisions about organisational efficiencies, use of reserves or council tax levels. The Council's 2024/25 allocation is £0.979m. The December 2023 MTFS update assumed that the Council would not receive any minimum funding guarantee. It has been assumed that this level of funding will continue in 2025/26 and 2026/27.

Public Health Grant

- 5.8 The Final Local Government Finance Settlement also announced the allocations in respect of Public Health Grant for 2024/25. The Council's allocation is £10.860m, which is an increase of £0.207m from 2023/24. 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.

Other Changes from the December 2023 MTFS Update

Council Tax

- 5.9 The Government announced as part of the Local Government Finance Policy Statement 2024/25 on 5th December 2023, that the level of increase in Council Tax requiring a local referendum will remain at 3.00% and the Adult Social Care precept will remain at 2.00% for 2024/25. A general Council Tax increase of 2.99% and an additional Adult Social Care precept of 2.00% is proposed across all years of the MTFS period 2024/25-2026/27, subject to confirmation of the referendum limit in subsequent years.
- 5.10 At its meeting on 31st January 2023, Council approved a revised Council Tax Base of 58,994.73 (band D equivalent) properties for 2024/25 – an increase of 1.93% on the 2023/24 Tax Base of 57,826.56.

- 5.11 The Tax Base of 58,944.73 band D equivalents has been updated from the Tax Base of 58,948.93 used in the December 2023 MTFS update in order to reflect updated figures in respect of the number of chargeable dwellings, discounts, exemptions, eligible Local Council Tax Reduction Scheme claimants and revised estimates of new build and collection performance. The effect of this is a marginal decrease in Council Tax income of £0.009m for 2024/25.

Business Rates

- 5.12 The budget has been updated to reflect the latest available information and assumptions included in the NNDR1 return made to central government in January 2024. This is a complex area exacerbated by the Government now regularly deferring the promised business rates reset and extending reliefs to businesses. In terms of the local share of business rates retained by the Council this is now estimated to be higher than forecast in the December 2023 MTFS update by £1.156m for 2024/25.
- 5.13 In the absence of any 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. 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.

Council Tax & Business Rates Collection Fund Surplus/Deficit

- 5.14 The Council Tax Base report, approved by Council on 30th January 2024, declared the estimated balance on the Council Tax Collection Fund as at 31st March 2024. The Council's share of the estimated deficit balance is £1.701m.
- 5.15 The NNDR1 return to central government in January 2024 projected an estimated deficit balance on the Business Rates Collection Fund as at 31st March 2024, primarily as a result of the forecast adjustment to the appeals provision. The Council's share of this deficit is £2.473m.

Additional/Revised Service/Corporate Budgets

- 5.16 Since December, a number of new and revised business cases and technical budget adjustments have been submitted, reviewed and amended e.g. for revised inflation forecasts. This adds a further £0.935m net pressures to the 2024/25 budget, but a net reduction of £1.070m in 2025/26 and a net reduction of £1.649m in 2026/27.

Capital Financing

- 5.17 The revenue impact of the proposed Capital Programme has been updated to reflect changes to existing schemes (including re-profiling) and the addition of new schemes. The cumulative effect of these changes on capital financing costs is a small increase of £0.334m across the MTFS period.

Contingency

- 5.18 The Contingency provision has been removed across all years of this MTFS period following a review of existing and newly identified savings proposals. These savings and the associated budgets have been amended to reflect the revised delivery forecasts. The risk of non-delivery of savings will now be mitigated by a requirement to identify compensating savings and ultimately earmarked reserves.

Contribution to/(from) Reserves

5.19 The 2024/25 Budget is balanced by an overall £3.084m assumed draw on (contribution from) earmarked reserves, consisting of:

- £0.200m to fund service specific expenditure from specific earmarked reserves. This was already assumed in the December 2023 MTFS Update;
- £2.884m from the Collection Fund Smoothing Reserve as a contribution towards funding the deficits on the Council Tax and Business Rates Collection Fund balances arising in 2024/25.

5.20 The projected net draw on earmarked reserves in 2025/26 and 2026/27 relate solely to funding service specific expenditure from specific earmarked reserves.

Summary of Changes

5.21 The changes outlined in paragraphs 5.2-5.20 are summarised in Table 2 below:

Table 2. Summary of Changes from December 2023

	2024/25 (£000)	2025/26 (£000)	2026/27 (£000)
Net Budget (Surplus)/Deficit as at December 2023 Policy Committee	4,107	13,022	12,883
<i>Changes Arising from the Final Local Government Finance Settlement:</i>			
New Homes Bonus	198	(223)	0
Social Care Grant	(1,256)	0	0
Services Grant	1,027	0	0
Revenue Support Grant	2	0	0
Minimum Funding Guarantee	(979)	0	0
Public Health Grant Income	(207)	0	0
Public Health Grant Expenditure	207	0	0
Market Sustainability and Improvement Fund Income	(487)	0	0
Market Sustainability and Improvement Fund Expenditure	487	0	0
<i>Other Changes since the December 2023 MTFS Update:</i>			
Changes to Council Tax Base	9	(319)	(19)
Changes to Business Rate Base (including S31 Grant)	(1,156)	3	(697)
Council Tax Collection Fund (Surplus)/Deficit	1,701	(1,701)	0
Business Rates Collection Fund (Surplus)/Deficit	2,473	(2,473)	0
Additional/Revised Service/Corporate Budgets	935	(1,070)	(1,649)
Adjustment to Capital Financing Costs	(48)	213	169
Increase/(Decrease) to Contingency	(4,129)	(203)	0
Additional Contribution to/(from) Reserves	(2,884)	2,884	0
Sum of Changes	(4,107)	(2,889)	(2,196)
Cumulative Impact of Changes	(4,107)	(6,996)	(9,192)
Net Budget (Surplus)/Deficit after Changes	0	6,026	3,691

6. Risks

6.1 The main risks to delivering the proposals set out within this MTFs 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.

6.2 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.

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 41.99% of net revenue expenditure.

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. Savings

8.1 Savings required to balance the 2024/25 budget and assumed within the MTFs Update include efficiency savings, invest-to-save initiatives and increased income from fees and charges. They are summarised in Tables 3 and 4 below. Further detail is provided in Appendices 3 and 4:

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

	2024/25 (£000)	2025/26 (£000)	2026/27 (£000)	Total (£000)
Communities and Adult Social Care	(1,078)	595	(6)	(489)
Economic Growth & Neighbourhood Services	(2,804)	(1,172)	(318)	(4,294)
Resources & Chief Executive	(40)	(529)	(180)	(749)
Total Council Services	(3,922)	(1,106)	(505)	(5,532)
Children's Services (BFfC)	(721)	(1,134)	(1,077)	(2,932)
Total	(4,643)	(2,240)	(1,582)	(8,465)

Table 4. General Fund Savings Summary 2024/25 to 2026/27 by Type

	Efficiency Savings	Invest to Save Schemes	Income, Fees & Charges	Total
	(£000)	(£000)	(£000)	(£000)
Council Services	(3,782)	(749)	(1,002)	(5,533)
Children's Services (BFfC)	(2,732)	0	(200)	(2,932)
Total Savings	(6,514)	(749)	(1,202)	(8,465)

- 8.2 In order to balance the MTFS in future years on a sustainable basis, further savings need to be found for 2025/26 and 2026/27.