

Policy Committee

17 February 2025



Reading
Borough Council
Working better with you

Title	2025/26 Budget & Medium Term Financial Strategy 2025/26 - 2027/28
Purpose of the report	To make a recommendation to Council
Report status	Public report
Report author	Darren Carter, Director of Finance
Lead Councillor	Councillor Terry, Leader of the Council
Corporate priority	Our Foundations
Recommendations	<p>That Council having due regard of the results of the budget engagement exercise and Resident's Survey (as outlined in Appendices 11 and 12), approve the 2025/26 General Fund and Housing Revenue Account budgets, Capital Programme and Medium Term Financial Strategy as set out in Appendices 1-10, noting the following:</p> <ol style="list-style-type: none">1. The Council's General Fund Budget Requirement of £178.109m for 2025/26 and an increase in the band D Council Tax for the Council of 2.99% plus an additional 2.00% Adult Social Care Precept, representing a band D Council Tax of £2,117.52 per annum, an increase of £100.64 per annum excluding precepts from Police and Fire, as set out in paragraph 2.4 below;2. The proposed efficiency and invest to save savings of £7.065m together with additional income of £7.277m in 2025/26 required to achieve a balanced budget for that year as set out in Appendices 2 and 3;3. The overall savings proposed within the MTFs of £16.135m (£11.559m savings and efficiencies and £4.576m additional income) and three-year growth changes to service budgets of £50.190m as set out in Appendices 3 and 4;4. The budgeted net drawdown from earmarked reserves in 2025/26 totalling £3.945m, as set out in paragraph 10.2;5. The Housing Revenue Account budget for 2025/26 of £57.304m as set out in Appendix 5 and the average increase of 2.7% in social dwelling rents from April 2025;6. The allocation of £117.432m Dedicated Schools Grant (DSG) as set out in Appendix 6;7. The General Fund and Housing Revenue Account Capital Programmes totalling £155.487m and £178.261m respectively over the next five years, as set out in Appendices 7a and 7b;8. The Strategy for the use of flexible capital receipts to deliver future transformation and ongoing savings as set out in Appendix 8;9. The Fees and Charges set out in Appendix 9 of the report; and10. The Equalities Impact Assessment as set out in Appendix 10.

1. Executive Summary

- 1.1. Policy Committee at its meeting on 18th December 2024 reviewed the Medium-Term Financial Strategy (MTFS) Update for the three years 2025/26 – 2027/28. This report updates Members on the results of the subsequent budget engagement exercise, changes arising from the publication of the Final Local Government Finance Settlement 2025/26 as well as other changes that have arisen since the report to Policy Committee in December.
- 1.2. The Ministry of Housing, Communities and Local Government (MHCLG) published the Final Local Government Financial Settlement 2025/26 on 3rd February 2025. Most of the figures remained the same as the Provisional Settlement (18th December 2024), however there was one change that impacted on the Council's net budget: the Employer National Insurance Contribution Grant was announced as £1.572m, which was an increase of £0.035m from what had been estimated.
- 1.3. Allocations in respect of the Public Health Grant for 2025/26 were announced on 7th February 2025. In 2025/26 the Council's allocation is £11.604m. As the grant is ringfenced any increase/decrease to the Council's grant allocation is offset by a corresponding increase/decrease in expenditure. Therefore, the MTFS assumes a nil impact on the bottom line.
- 1.4. The underpinning rationale of the Medium-Term Financial Strategy is to deliver a balanced and affordable 2025/26 budget, to ensure that the Council's finances are robust and sustainable over the medium term and that, in the longer term, the Council's finances are not reliant on the unsustainable use of one-off reserves or funding. The Strategy is informed by the Council's Vision: "to help Reading realise its potential and to ensure that everyone who lives and works here can share the benefits of its success", as well as its Corporate Plan priorities.
- 1.5. Reading Borough Council is not immune to national issues. The 2025/26 Budget and MTFS 2025/26-2027/28 reflects the changing landscape in which Councils are now operating and is based on another one-year Local Government funding settlement from Central Government. The most significant impacts on the Budget and the MTFS include demand pressures, exacerbated by the impact of the cost of living crisis, in particular, increased placement costs in adult and children's social care services arising from increased demand, complexity and market challenges; the cost of temporary accommodation arising from increased homelessness presentations due to landlords moving out of the private rented sector and pressures on Housing Benefit resulting from the significantly increased demand in temporary accommodation and supported accommodation for which Housing Benefit subsidy is not 100% recoverable.
- 1.6. The budget and MTFS assumptions include:
 - a) Council Tax increases of 2.99% plus an Adult Social Care precept of 2.0% for each year 2025/26-2027/28;
 - b) Delivery of £16.135m of efficiencies and increased income across 2025/26-2027/28;
 - c) A net draw from earmarked reserves totalling £3.945m in 2025/26, as set out in paragraph 10.2;
 - d) A housing rent increase for 2025/26 of 2.7% in line with approved government policy of CPI + 1%;
 - e) General Fund capital investment of £155.487m and Housing Revenue Account (HRA) capital investment of £178.261m over the 5 year period 2025/26 to 2029/30;
 - f) An initial allocation of £1.500m of transformation funding for each year from 2025/26 to 2029/30 to support delivery of efficiency savings assumed within the

MTFS, taking the total transformation funding to £29.229m across the whole life of the Delivery Fund.

- 1.7. The Dedicated Schools Grant High Needs Block is anticipated to be £26.503m in deficit by 31st March 2025. Further details are set out in paragraphs 2.8 to 2.11 below and in Appendix 6.
- 1.8. This report has been prepared with reference to the following documents:
 - Medium Term Financial Strategy 2025/26-2027/28 Update Report agreed by Policy Committee (18th December 2024)
 - Autumn Budget 2024 – HM Treasury (30th October 2024)
 - Final Local Government Finance Settlement 2025/26 – MHCLG (3rd February 2025)

2. Policy Context

- 2.1. The Council's Medium Term Financial Strategy provides the financial framework to support the delivery of the Council's vision and Corporate Plan priorities.

Overview

- 2.2. Attached to this summary report are a series of appendices which together provide a comprehensive overview of the Council's financial position in the short to medium term given the constraints outlined in paragraph 1.5.

General Fund

- 2.3. Appendix 1 sets out the Council's Medium Term Financial Strategy and is supported in respect of the General Fund (GF) by Appendices 2, 3 and 4 which set out the financial figures for the 2025/26 Budget and the indicative budgets for 2026/27 and 2027/28. As illustrated in Appendix 2, this provides for a balanced budget in 2025/26 and a Net Budget Requirement of £178.109m, which after allowing for other funding streams leaves a Council Tax Requirement of £126.134m. The indicative budgets for 2026/27 and 2027/28 are not currently balanced with a budget gap of £10.943m currently forecast for 2026/27, increasing to a gap of £11.633m for 2027/28.
- 2.4. The 2025/26 budget proposals assume a Council Tax increase of 2.99% and an Adult Social Care Precept of 2.00%. This results in a Band D Council Tax of £2,117.52 for 2025/26, an increase of £100.64 per annum or £1.93 per week. The same percentage uplift is assumed for both 2025/26 and 2026/27.

Housing Revenue Account

- 2.5. Appendix 5 sets out the Housing Revenue Account budget proposals. The proposed expenditure budget for 2025/26 is £57.304m. A balanced budget is delivered across all three years with a drawdown from reserves of £4.466m in 2025/26, £3.491m in 2026/27 and £2.656m in 2027/28.
- 2.6. The proposal is to increase rents by 2.7% for 2025/26 in line with the maximum rent increase of CPI (as of September 2024) + 1%. The average weekly rent increase is between £2.77 and £4.28 depending upon the type of property.
- 2.7. Appendix 5 also sets out the full 30 Year Plan, which includes details of planned investments, how these are funded and the impact on the HRA balance. Within the 30 year HRA Business Plan the housing service is investing an additional £17.747m between 2025/26 and 2027/28 in existing housing stock in line with the Council's Climate Change ambitions. Further requirements for Net zero investment in the Housing stock are in development.

Dedicated Schools Budget

- 2.8. Appendix 6 sets out the Dedicated Schools Grant Budget proposals for 2025/26. Dedicated Schools Grant (DSG) is split into four blocks, for which the allocations for 2025/26 were published by the Government on 18th December 2024. Overall, the gross DSG for schools will increase by £19.415m (10.8%) from £180.066m to £199.480m. Details of the allocations are provided at Appendix 6.
- 2.9. High needs funding supports provision for pupils and students with Special Educational Needs and Disabilities (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.
- 2.10. 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. The Government have not announced whether the override will be extended beyond this point.
- 2.11. In Reading, the Council is forecasting a cumulative deficit of £26.503m on the high needs block by 31st March 2025. The deficit is forecast to reach £40.373m by the time the statutory override is currently due to end in March 2026 and is forecast to reach £53.165m by 31st March 2027. 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.

Capital

- 2.12. The Council's overarching Capital Strategy is set out in a separate report elsewhere on this agenda and has been extended to provide a five year projection in accordance with best practice. The specific projects laid out in the Capital Programme, attached at Appendix 7a for the General Fund and Appendix 7b for the HRA are also set out over a five year period to align with the Capital Strategy. The General Fund Capital Programme totals £155.487m and the HRA Capital Programme totals £178.261m; which will require the support of £83.199m and £163.860m respectively of council resources including capital receipts and external borrowing over the five year period.
- 2.13. The Council's transformation programme supported by the extension to the flexible use of capital receipts permitted by regulation is set out in Appendix 8.

Fees & Charges

- 2.14. The 2025/26 schedule of Fees and Charges assumed within the budget proposals and effective from 1st April 2025 is set out in Appendix 9.

Engagement

- 2.15. The Council is required by legislation to consider the impact of its budget proposals upon all groups within the local community. This is demonstrated by the Equalities Impact Assessment of the Budget Proposals set out in Appendix 10.

- 2.16. A summary of the results of the budget engagement held from 19th December 2024 to 16th January 2025 and the Residents Survey carried out in the summer of 2024 are provided within Appendices 11 and 12 respectively.
- 2.17. The engagement analysis highlights that the top service areas where respondents would be least comfortable with the Council reducing spend on or increasing income from were Street Cleaning, Homelessness Prevention and Facilities in Parks and Open Spaces. The proposed Revenue Budget and Capital Programme responds to this feedback by protecting these services, such as in Homelessness Prevention, where the council is investing an additional £0.884m in 2025/26. In terms of identifying savings, the areas where respondents were most comfortable reducing spending on or increasing income on were Home to School Transport, Fees and Charges and Voluntary Sector Funding. Savings against these areas have all been proposed as part of the MTFs.
- 2.18. The Council consulted with local business rates payers on 5th February 2025 as part of its statutory requirements.

3. Key Considerations

- 3.1. Local Government finance is in crisis. Since 2018, local authorities have issued thirteen 'section 114s' notices, which notifies of severe financial distress, compared to two in the preceding 18 years. Moreover, local authorities are increasingly reporting concerns about their financial positions and their ability to maintain delivery of their services.
- 3.2. The financial crisis that local authorities are encountering comes after significant reductions in local authorities' spending power which has itself coincided with increasing demand for their services and inflationary pressures driving up costs. Ultimately, the levels of funding available to local authorities, through council tax, retained business rates, and government grants have not kept pace with these pressures, leading to a funding gap which the Local Government Association (LGA) has estimated at £6.2 billion over the next two years.
- 3.3. The proposed 2025/26 budget has been based on current information available, but it is important that the Council is aware of the significant risks it faces in a number of key areas:

Funding Reform

- 3.4. As part of the Local Government Finance Policy Statement, the Government announced its intention to reform the local government finance system from 2026/27, creating a new funding system based on an up-to-date assessment of need and local resources. These reforms are set to be built on the proposals set out in the review of Relative Needs and Resources (also referred to as the 'Fair Funding Review'), using the best available evidence to inform local authority funding allocations.
- 3.5. The Government also announced its intention to 'reset' the business rates retention system, starting in 2026/27. The reset is planned to further allow the Government to match funding to where it is needed most. The reset will apply nationally, but business rates growth generated within designated areas such as Freeports, Enterprise Zones and Investment Zones will be exempt in line with current policy.
- 3.6. It has also been announced that 2026/27 will mark the first multi-year funding Settlement for local government in 10 years – aiming to provide improved planning certainty for local authorities.

Adult Social Care

- 3.7. There are significant pressures in the social care system. These pressures include an increase in the number of service users, in addition to the number of complex care

packages and increasing contract inflation. This updated MTFs includes a net increase of £5.094m for Adult Social Care services in 2025/26 to address these pressures.

Children's Social Care

- 3.8. There is widespread recognition of the need to reform Children's Social Care, with increasing demand on services, increasing complexity of need, reducing numbers of foster carers, an insufficient supply of adequate residential placements, and an over-reliance on private sector providers driving up costs. This budget invests significant additional funds in Children's Social Care placements, but the upward trend is unsustainable.

Special Education Needs and Disabilities

- 3.9. The Council is forecasting a cumulative deficit of £26.503m on the high needs block by 31st March 2025. The deficit is forecast to reach £40.373m by the time the statutory override is currently due to end in March 2026 and is forecast to reach £53.165m by 31st March 2027. 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.

Homelessness

- 3.10. Homelessness has been increasing both locally and nationally due to the "cost of living crisis" and national legislative changes. Subsequently the use of temporary and paid nightly accommodation has been increasing across the board primarily due to evictions from the private rented sector as landlords become increasingly concerned about their financial position. In Reading the numbers of households in Emergency Accommodation at the end of December was 182: the budget assumed a figure of around 70 households. The MTFs update includes a net increase of £0.884m in the budget in respect of funding homelessness pressures but this scale of increase is unsustainable.

Housing Benefit

- 3.11. Demands on Homelessness and Adult Social Care have caused further pressures on Housing Benefit. During 2024/25 there have been significant additional temporary accommodation pressures, as set out in the previous paragraph, and supported accommodation costs that are not 100% recoverable through the Housing Benefit Subsidy e.g. the Council pays out more Housing Benefit than it can recover in Housing Benefit Subsidy from Central Government. As a result, a budget increase of £3.134m has been calculated as a requirement for 2025/26.

Inflation and Demand Risk

- 3.12. Whilst the budget proposals include consideration for risk, primarily in relation to the non-achievement of income targets and efficiency savings, risk remains that demographic, inflationary or other demand pressures may exceed budget and place pressures on available provisions.

Savings

- 3.13. The MTFs assumes £16.135m of additional savings and income, if these are not delivered or there is any delay to their delivery, it would pose a potential threat to the sustainability of the Council's budget. Based on the 2024/25 Quarter 2 Performance and Monitoring Report that was presented to Policy Committee in December 2024, £3.280m of savings are currently at risk of non-delivery. As part of the 2025/26 budget setting process, a review of all existing savings proposals was carried out and where appropriate, non-deliverable savings were reprofiled, reduced or even removed.

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

- Reading Transport Limited (RTL) – Customer numbers have continued to rise in 2024/25. Patronage recovery has grown to 91.7% of pre-pandemic levels since September 2024, with patronage 10.4% up on the same time last year, including new routes. Financial performance has also been improving, driven by strong revenues from higher customer numbers, partly underpinned by the £2 fare cap. The most recent published accounts for the year ended 31st March 2024 show that profit before tax increased from £0.526m to £4.498m, with income increasing from £55.668m to £61.047m.
 - Homes for Reading (HfR) – the housing stock is in the process of being transferred to the HRA following the decision in 2024/25 to close the company.
 - Brighter Futures for Children (BFfC) - the Council's children's company has requested a contract sum of £64.426m which is an increase of £5.587m compared to the 2024/25 contract sum. This covers increased inflationary pressures relating to pay and contractual inflation, and particularly the increasing costs of children's social care placements. The demand pressures on social care placements present an on-going risk in terms of numbers and complexity.
- 3.15. The current global and national economic position has the potential to impact the Council in a variety of ways, particularly in the current cost of living environment, these include increases in demand for social care and the levels of income and funding available to be distributed through central government. As upper tier authorities across the country are finding, changes in social care demand creates significant cost pressures within adults and children's social care budgets.
- 3.16. The Council's Chief Finance (Section 151) Officer is required under Section 25 of the Local Government Act to report to Council on the robustness of the estimates made for the purposes of the calculations of the budget and the adequacy of the proposed level of financial reserves. This report will be presented to Council on 25th February 2025.

4. Contribution to Strategic Aims

- 4.1. Full details of the Council's current 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 will be presented to Council in March 2025.
- 4.2. Delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

5. Environmental and Climate Implications

- 5.1. 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. Reading has cut its carbon emissions by 54% since 2005 and the Council has cut its own carbon footprint by 73% in since 2008. The Council's Corporate Plan monitors progress in reducing the carbon footprint of both the Borough and the Council.
- 5.2. The Council's 2030 climate 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.

- 5.3. Reading is one of only 120 towns and cities in the world to make the most recently published 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 currently shared with only 25 other UK local authorities. 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 its ambitious target of a net zero Reading by 2030.
- 5.4. The Council's proposed Capital Programme for the next five years includes investment of £2.506m in 2025/26 in energy saving measures in buildings and renewable energy infrastructure which contribute towards the Council's net zero carbon ambitions. This covers the Salix Decarbonisation Fund and the Corporate Solar Programme schemes as detailed below:
- The Salix Decarbonisation Fund is designed to enable more ambitious carbon reduction projects such as the installation of High Voltage EV charging infrastructure at the Bennet Road depot to support the growing fleet of EVs. This scheme has a budget of £0.603m for 2025/26;
 - The Corporate Solar Programme scheme has a budget of £1.903m in 2025/26 for solar installations.
- 5.5. Additionally, both the New Performance space at the Hexagon Theatre and New Reading Library at the Civic Centre Levelling Up schemes include further investment in energy saving and decarbonisation infrastructure.
- 5.6. Other capital investments, in offices, housing, transport and waste, will also contribute to the Council's carbon reduction ambitions by improving the efficiency of our buildings and operations as well as in the wider community.
- 5.7. As part of the budget setting process, 'Environment' is one of the weighting criteria applied to bids for capital funding. Going forward, major capital projects which will contribute directly to greenhouse gas emissions reduction include:
- £1.903m for the Corporate Solar Programme (2025/26);
 - £0.603m for energy saving measures via the Salix Decarbonisation Fund (2025/26);
 - £0.250m for tree planting programmes (2025/26-2029/30);
 - £7.449m for Replacement Vehicles (2025/26-2029/30) – where part of the budget is allocated to the purchase of electric vehicle such as waste collection vehicles;
 - £16.637m for Levelling Up Delivery Plan – New Performance Space at the Hexagon Theatre;
 - £7.183m for Levelling Up Delivery Plan – New Reading Library at the Civic Theatre.

6. Community Engagement

- 6.1. The public was consulted as part of the 'Budget Engagement', which ran from 19th December 2024 until 16th January 2025. The feedback from this engagement, alongside the feedback from the Residents' Survey 2024 is set out in Appendices 11 and 12.
- 6.2. The Council consulted with local business rates payers on 5th February 2025 as part of its statutory requirements.

7. Equality Implications

- 7.1. Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 7.2. An initial assessment of the proposals as set out in the MTFS has been undertaken and Appendix 10 sets out the individual savings proposals where specific equality impact assessments will need to be undertaken prior to implementation.
- 7.3. Additionally, when considering changes to service provision, local authorities are under a duty to consult representatives of a wide range of local stakeholders. Authorities must consult representatives of council tax payers, those who use or are likely to use services provided by the authority and those appearing to the authority to have an interest in any area within which the authority carries out functions. The budget engagement exercise on the budget proposals assists with this requirement.
- 7.4. As well as the Council's current Council Tax Reduction Scheme there are statutory discounts and exemptions available to residents who may otherwise struggle to pay their Council Tax, details are available on the Council's website.

8. Other Relevant Considerations

- 8.1. There are none.

9. Legal Implications

- 9.1. The Council must set its budget in accordance with the provisions of the Local Government Finance Act 1992. Approval of a balanced budget each year is a statutory responsibility of the Council.
- 9.2. The provisions of section 25, of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to Full Council at its budget setting meeting in February.

10. Financial Implications

- 10.1. The financial implications are set out in the body of this report and associated appendices.
- 10.2. The 2025/26 Budget is balanced by an overall £3.945m assumed draw on (contribution from) earmarked reserves, consisting of:
- £1.179m to fund service specific expenditure from specific earmarked reserves. This was already assumed in the December 2024 MTFS Update;
 - £2.766m from the Financial Resilience Reserve to balance the 2025/26 budget.
- 10.3. Further savings to close the budget gap in 2026/27 and beyond will need to be identified as part of the future budget setting process.
- 10.4. The Council's General Fund balance is set at 5% of the net budget requirement for 2025/26.

11. Timetable for Implementation

11.1. Not applicable.

12. Background Papers

12.1. There are none.

Appendices

- 1. The Medium Term Financial Strategy 2025/26 - 2027/28**
- 2. Summary of the Proposed General Fund Budget 2025/26 - 2027/28**
- 3. General Fund Revenue Budget by Service 2025/26 - 2027/28**
- 4. Detailed General Fund Budget Changes 2025/26 - 2027/28**
- 5. The Housing Revenue Account Proposed Budget 2025/26 - 2027/28**
- 6. The Dedicated Schools Grant Budget Proposals 2025/26**
- 7. The General Fund and HRA Capital Programmes 2025/26 - 2027/28**
- 8. The Flexible Use of Capital Receipts Strategy 2025/26**
- 9. Fees and Charges Proposals from April 2025**
- 10. Equality Impact Assessment of the Budget Proposals**
- 11. Summary of the Response to the Budget Engagement**
- 12. Summary of the Residents' Survey 2024**