The Medium Term Financial Strategy

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 many others around the world, is now in recession. This has had a knock-on impact on Council budgets, with increased costs and reduced levels of income. Looking forward, there remains significant uncertainty around how long these will continue to impact on budgets, as well as policy uncertainty with a general election due in 2024.

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.

Brexit

2.2 The UK officially left the EU on 1st January 2020 and entered into a one-year transition period which has now ended. Whilst it was possible for the UK to strike a trade deal with the EU, there remain a number of controversial issues between the two sides. As predicted by many on both sides of the debate, Brexit has created some economic turbulence, although it is difficult to be clear on the precise extent given other significant issues. It is likely that this will continue, at least in the short term, and may even get worse if differences of view cannot be resolved amicably. This is likely to have some impact on key drivers such as interest rates, inflation, public sector finances and Council Tax and Business Rates income.

Coronavirus Pandemic

2.3 The current financial year has again been impacted by the Coronavirus pandemic, albeit to a lesser extent. The social and economic impact has been immense with significant knock-on consequences for both public sector and local government finances. At the time of writing this report, the numbers of those directly affected by the disease continue to fluctuate, although some of the worst impacts have been mitigated by the roll-out of the vaccination programme. Nonetheless, it is clear that there will be a long-lasting impact on government finances and on the wider economy across the globe. Just as with Brexit this will have a wide-ranging impact on the financial drivers impacting public finances.

2.4 The consequences of the virus have been wide-ranging, for example changing many people's working and shopping patterns and creating significant backlogs in the NHS. For some local government services income levels have returned to roughly pre-pandemic levels, but for others this has not been the case and indeed may never be the case. The original support for local authorities by central government to compensate for lost income has long since been removed and uncertainty remains over the rate of recovery.

War in Ukraine

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

UK Political Situation

2.6 There has been considerable political turbulence at a national level in recent times and much of this looks set to continue for a while yet. 2022 saw three different Prime Ministers and four different Chancellors of the Exchequer, creating instability and considerable turbulence in financial markets. Whilst things have now calmed down on that front, the so-called "cost of living crisis" is creating a breakdown in industrial relations between many public service workforces and their employers.

The Climate Emergency and Environmental Challenges

2.7 The Council declared a climate emergency in February 2019 committing to the goal of a net zero Reading by 2030, recognising the existential threats posed by a changing climate and the urgency of the need to act. The net zero by 2030 target, which signifies a higher level of ambition than the UK Government's target of net zero by 2050, was adopted for both the Borough and the Council as an organisation and is reflected in our Corporate Plan as a focal point of the 'Healthy Environment' objective. Both measures (Borough and corporate carbon footprint) are included as Key Performance Indicators in the Corporate Plan, underlining the high priority which the Council attaches to its response to the climate emergency.

2.8 Following the Climate Emergency Declaration, the Council worked with partners in the Reading Climate Change Partnership to develop the Reading Climate Emergency Strategy 2020-25 and endorsed the Strategy in November 2020. Implementation is now underway, and the Council supports the Partnership in producing annual reports on the Strategy to monitor progress. The most recent of these, covering the 2021/22 financial year, reported that Reading has reduced its carbon footprint by 55% since 2005, the 4th largest reduction out of 374 UK local authority areas according to the national dataset for 'emissions within the scope of influence of local authorities'. The Council also monitors its own carbon footprint, which has reduced by 71.3% since 2008/09 as a result of investment in energy efficiency and renewable energy. Whilst this represents significant progress, there are no grounds for complacency and huge challenges remain to deliver the net zero ambition which, as the Climate Emergency Declaration made clear, cannot be delivered by local action along and requires significant changes in national policy, supported by additional resources for delivery.

2.9 That said, the Council has a clear role to lead by example and is investing in projects and initiatives which will help both the wider borough and the Council itself meet net zero targets, as set out in the Climate Emergency Strategy and Carbon Plan. Major capital investments in public transport, bus priority infrastructure, active travel routes and electric vehicle charging infrastructure are included in our capital programme for the MTFS period to help residents travel more sustainably in line with our climate change commitments. We are also investing heavily in retrofit of the Council's housing stock to improve energy efficiency and reduce its carbon footprint. For our own estate, we have invested in carbon reduction in civic offices, streetlighting, leisure centres and our main works depot as we make the transition away from fossil fuels to low carbon electricity. Further provision to continue this transition is included in the MTFS period. The Reading Climate Emergency Strategy highlights the need for Reading to become more resilient to climate impacts, as well as reducing carbon emissions. This is likely to be a growing consideration for our financial strategy in future given the significant potential costs arising both from extreme weather events, which are expected to increase in both frequency and intensity, and the costs of adapting our buildings, infrastructure and services to become more resilient to future climate impacts.

2.10 Reading was proud to retain its 'A' list status in the Carbon Disclosure Project's annual assessment process in 2022, recognising our leadership in taking 'bold climate action'. We are not, however, complacent. The challenge of net zero by 2030, and the costs associated with both mitigating and adapting to climate change, remain significant, and will be an increasingly important consideration in our financial strategy as 2030 approaches and the impacts of climate change become more apparent.

2.11 Whilst the Council itself has recognised a Climate Emergency, there are other related issues such as waste management, particularly plastics, as well as the spread of pests and diseases and a significant reduction in biodiversity which threaten our food and water supplies and are likely to lead to substantial political instability across the world.

2.12 In 2021 the UK hosted the United Nation (UN) Climate Summit (COP26), postponed from 2020 due to the Coronavirus pandemic. This has demonstrated the enormous political challenges of tackling such a complex issue. Whilst further steps forward have been made the scientists suggest that this is far from enough. Indeed, this was largely acknowledged by the summit itself, as was agreed to hold the next summit this year's where they "must try harder". The behavioural changes required are likely to have significant impacts upon economic activity. This suggests that the relatively short-term challenges presented by Brexit and Covid-19 are unlikely to be replaced by much better times ahead, but rather that the operational environment is likely to remain challenging in the medium to long term. It is unclear exactly what this will mean, but it is probable that the Council will need to show both flexibility and leadership in response.

Demographic Forecasts

2.13 One of the key drivers of demand for Council services, and hence cost pressures, is demographic growth, principally in terms of resident and customer numbers but additionally in net daily inflows of visitors. Whilst general central government funding has seen real-terms decreases over the last decade, service demand and demographic pressures have risen, not fallen, in comparison. Since 2011, Reading's population has risen by 11.9% to 174,200 (2021 census). Whilst the average increase is 11.9%, the rise in 0-19 year olds is 11.4% and the rise in over 65s is 17.4%, thus creating a demographic shift towards the older ages.

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

Adult Social Care

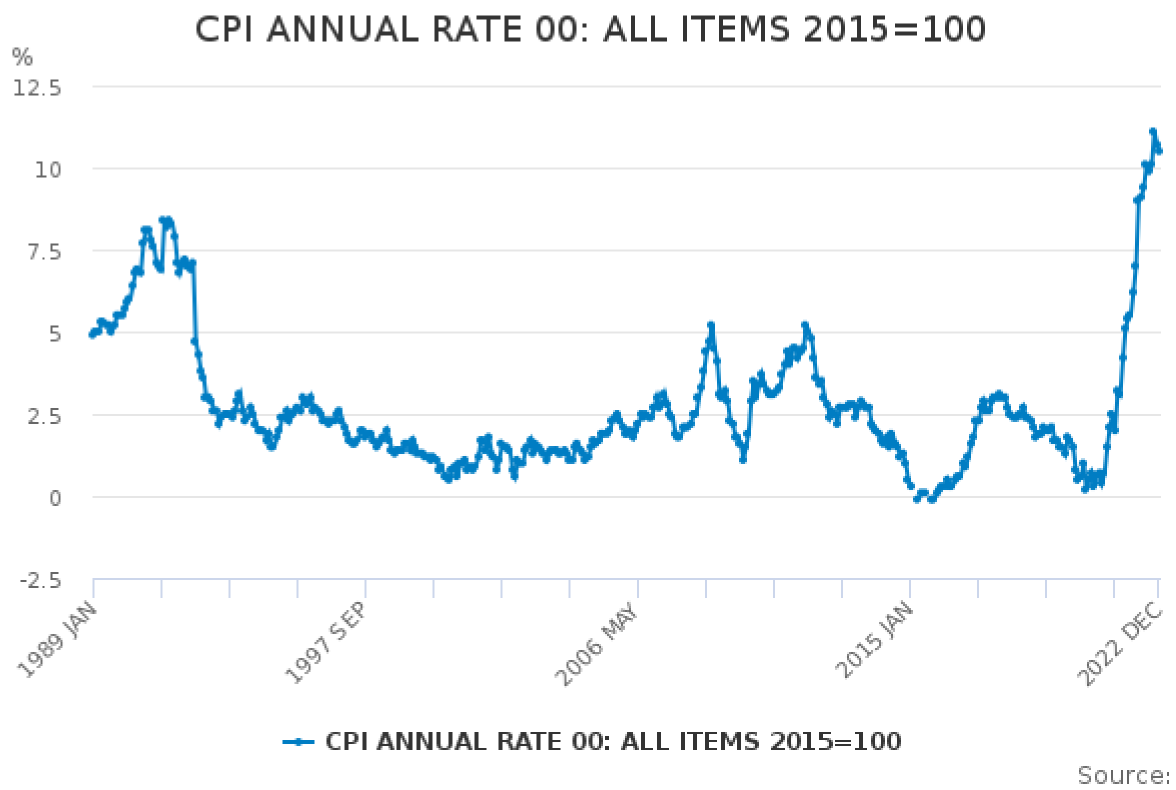
2.15 There are also significant pressures in the social care system that have been exacerbated by recent inflationary pressures. This updated MTFS includes a proposed increase of £4.4m in the budget for Adult Social Care services for next year to fund the impact of those cost pressures, including the ongoing commitment to fund care providers at a level that allows them to pay staff at the rate recommended by the Living Wage Foundation rather than the lower national living wage rate set by central government.

Inflation Expectations

2.16 Inflationary pressures on the Council's employee and contractor costs represent a significant annual pressure that needs to be funded. Equally, inflation rates impact on fees and charges, Council Tax capping levels and business rate income through the nationally set Non-Domestic Rates Multiplier.

2.17 The annual inflation rate in the United Kingdom as measured by CPI stands at around 10% (CPIH 9.2%, CPI 10.5%) as of December 2022, down slightly from its recent peak of around 11% (CPIH 9.6%, CPI 11.1%) in October 2022. The October peak was the highest it has been in over 30 years. Inflation has climbed steadily since February 2021 as the restrictions due to the Pandemic were eased leading to increased demand, but also a range of supply side challenges. By February 2022, inflation was already over 5% at the start of the Russian invasion of Ukraine. The knock-on consequences of that have restricted the world supply of gas and oil as well as of some basic food supplies, which has led to further inflationary pressures. In response the Bank of England has increased interest rates despite this increasing the likelihood of recession. Most commentators think that inflation will fall in 2023, but the view on by how much is contested. Much will depend upon how major issues play out, such as Covid, the war in Ukraine and extreme climate events.

Figure 1. CPI Annual Rate



UK Unemployment

2.18 The headline rate of UK unemployment is 3.7% for the quarter ending November 2022, the same as a month earlier. This is slightly lower than the level immediately prior to the Coronavirus pandemic (4.0% March 2020) and is one of the lowest levels in recent history. This position is also reflected in the figures for employment which has risen to 75.6% as at November 2022, 1.0% lower than pre-pandemic and 0.1% higher than the previous quarter. Previous distortions created by the Furlough scheme have now worked their way out of the system so these figures should give a true reflection of the position. However, there remains considerable uncertainty over the direction of travel due to the volatility in the wider economy.

2.19 It is hoped that falling unemployment will reduce the number of Local Council Tax Support Scheme claimants, thereby increasing the tax base and thus the amount of Council Tax income collectable. By contrast if the levels of inflation squeeze those on lowest incomes and with the least wealth, this increases the risk of non-payment.

Deprivation

2.20 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].

2.21 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:

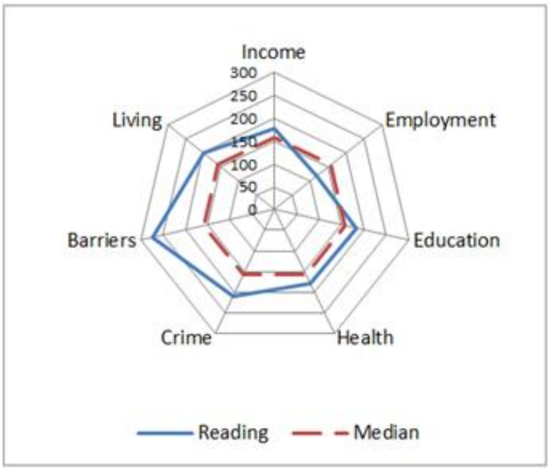
- Income Deprivation (22.5%)
- Employment Deprivation (22.5%)
- Education, Skills and Training Deprivation (13.5%)
- Health Deprivation and Disability (13.5%)
- Crime (9.3%)
- Barriers to Housing and Services (9.3%)
- Living Environment Deprivation (9.3%)
- Index of income deprivation affecting children
- Index of income deprivation affecting older people

2.22 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, noting that these are relatively measured);
- Reading has 4 LSOAs in the most deprived 5% in the country on the Education, Skills and Training domain (3 according to IMD 2015).

2.23 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)



Interest Rates

2.24 Whilst in 2020 the Bank of England cut interest rates to record low levels in response to the economic damage caused by the coronavirus outbreak, it has now had to reverse that stance due to the significant inflationary pressures, including those resulting from the conflict in Ukraine. On 2nd January 2023 the Bank of England raised the Bank Rate again to 4.0%.

2.25 Based on the assumed increases to the Bank of England interest rates above, the forecast Public Works Loan Board (PWLB) rates range between 4.60% and 3.40% between March 2023 and December 2024. The MTFS assumes an average borrowing rate of 4.3% for 2023/24, decreasing to 3.8% and 3.4% in 2024/25 and 2025/26 respectively.

2.26 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-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
	%	%	%	%	%	%	%	%
Bank Rate	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00
5-year PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40
10-year PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50
25-year PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80
50-year PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60

Summary Financial Position

2.27 The Quarter 2 Performance and Monitoring Report, presented to Policy Committee in December 2022, set out a projected adverse net variance on service expenditure of £3.509m. This variance is offset by a projected £4.776m positive net variance on Corporate Budgets, of which £3.627m relates to the unallocated Corporate Contingency, resulting in a projected overall positive net variance of £1.267m.

2.28 Should this projected positive variance crystallise then the balance will be transferred into the Council's reserves as part of the 2022/23 Outturn processes and Report to Policy Committee in July 2023.

The Autumn Statement 2022

2.29 The Autumn Statement 2022 was delivered by the Chancellor on 17th November 2022. The statement emphasised stability in an attempt to calm the turbulence in financial markets created by the previous Chancellor. As a consequence, the multi-year statement was probably a little more generous in the short term than the Chancellor may have wished and pushed back the trickier issues until after the next general election, due in 2024. The announcement included the following matters that are pertinent to the Council's finances and the wider environment in which it operates:

- The Government has delayed the national rollout of social care charging reforms from October 2023 to October 2025. Funding for implementation will be maintained within local government to enable local authorities to address current adult social care pressures;
- The Government will make available up to £2.8 billion in 2023/24 in England and £4.7 billion in 2024/25 to help support adult social care and discharge. This includes £1 billion of new grant funding in 2023/24 and £1.7 billion in 2024/25, further flexibility for local authorities on council tax and delaying the rollout of adult social care charging reform from October 2023 to October 2025;

- A proposed basic Council Tax referendum limit of 3% for 2023/24;
- The ability to levy an additional adult social care precept of up to 2% for 2023/24;
- From 1st April 2023, business rates bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of targeted support worth £13.6 billion over the next five years is intended to support businesses as they transition to their new bills. It is stated that local authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs;
- The business rates multipliers will be frozen in 2023/24 at 49.9p and 51.2p;
- The Government is limiting the increase in social housing rents. Under current rules, rents could have risen by up to 11.1% – but now they will only be able to rise by a maximum of 7% in 2023/24. This policy change applies to social housing provided by Registered Providers (including Local Authorities and Housing Associations);
- The National Living Wage for individuals aged 23 and over will increase by 9.7% to £10.42 an hour from 1 April 2023;
- £1 billion will be provided to enable the extension of the Household Support Fund in England over 2023/24. The Fund is administered by local authorities who will deliver support to households to help with the cost of essentials;
- The Chancellor did not make any announcements about the future of the Fair Funding Review (also known as the Review of Relative Needs and Resources), or business rates reset, but further clarification was subsequently provided as part of the Provisional Finance Settlement (see below).

3. LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24 & OTHER CHANGES FROM THE DECEMBER 2022 MTFS UPDATE

3.1 Despite the multi-year Autumn Statement, a one-year provisional Local Government Finance Settlement was published on 19th December 2022 with the Final Local Government Finance Settlement announced on 6th February 2023.

3.2 Nonetheless, the Local Government Finance Settlement does provide more detail for 2023/24, which for Reading is as follows:

New Homes Bonus

3.3 The settlement has provided specific allocations for 2024/25 only. The Council's 2023/24 allocation was announced as £1.453m; £0.354m higher than the £1.099m assumed in the draft budget. The Government have again indicated that they will introduce a new scheme in the near future, but no details of this have yet been made available. This is clearly not the political priority it once was. It has therefore been assumed, for sake of prudence, that 2024/25 and 2025/26 allocations for Reading will be zero, a loss compared to the £1.099m previously assumed for those years. Reading may receive some funding through New Homes Bonus in future, but this is not going to be on the scale previously allocated.

Lower Tier Services Grant

3.4 The Government have announced the removal of the Lower Tier Services Grant, with the funding being used to create a new Minimum Funding Guarantee. As Reading are already above the minimum threshold there is no allocation from the new funding stream. Therefore this change represents a loss of £0.288m in each year of the MTFS when compared to the previous assumption.

Social Care Grant

3.5 Despite last year's grant allocation being on a one year only basis and the pushing back of the Care Reforms to October 2025, funding to local authorities has been increased in (part) recognition of the pressures on these services. Whilst the allocation methodology may change subsequently via new funding reforms 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. The increase in grant from the allocation assumed in the December 2022 MTFS update is £3.047m in 2023/24 and £4.239m in subsequent years.

Services Grant

3.6 The Services Grant, new in 2022/23 has been reduced in 2023/24. In part this is to reflect the removal of the Health and Social Care Levy, the funding for which was included within this grant, but further money from this grant has also been 'repurposed', presumably to part fund some of the Social Care increases. Looking at the sums involved for this grant in isolation, the 2023/24 allocation of £1.241m represents a reduction of £1.124m compared to the figure assumed in the December Policy Committee report.

Revenue Support Grant

3.7 Revenue Support Grant (RSG) has been the core general purpose grant from central government for some years now. For 2023/24 it has been increased in line with inflation and the MTFS assumes that a further inflationary increase will be applied the following year also. However, if the Government do make changes to the funding mechanism for local government, after the next general election, this grant may be replaced altogether, or its distribution between authorities radically altered, making accurate prediction difficult. It tends to be the case that when governments make changes to funding systems that they are phased in using transitionary protection arrangements to avoid causing too great a disturbance. On this basis and given that the RSG is a relatively small source of funding now, the assumption of maintaining the status quo over the planning period is reasonable. There is an increase in Revenue Support Grant for 2023/24 of £0.269m over the level assumed in the draft budget and an increase of £0.362m in 2024/25 and £0.316m in 2025/26.

Section 31 Grant (Compensation for Additional Business Rate Relief)

3.8 Due to the Business Rate Retention Scheme reset now being pushed back until after the next general election, Section 31 Grants to provide compensation for additional business rate reliefs announced by central government will continue for 2023/24 and presumably 2024/25. The amount of Section 31 Grants that the Council estimates it will receive for 2023/24 is £15.183m, which is £1.212m higher than previously assumed. It is estimated that this will rise slightly in 2024/25 to £15.954m, when previously it was assumed that the reset would take place in 2024/25 and that as a consequence the Section 31 Grant would cease.

3.9 The current planning assumption shown in the MTFS is that the reset will take place in 2025/26 as it is prudent to work on this basis. However, although this is still possible, it is unlikely that the business rates reset will be a top priority for any new government of whatever political persuasion, so may be pushed back further given the lead in times necessary.

Business Rates Levy Surplus

3.10 In the final finance settlement the Government announced the distribution of the Business Rates Levy Surplus, which for Reading provides one-off additional funding of £0.257m in 2023/24.

Adult Social Care Discharge Fund

3.11 A new Adult Social Care Discharge Fund has been created from repurposed, reduced grant streams already mentioned above. This will be delivered through the same methodology as the Improved Better Care Fund and will be similarly ringfenced. Therefore it is assumed that the allocation of £0.378m in 2023/24 and estimated £1.243m in 2024/25 will be matched by corresponding expenditure. It is then assumed that this funding source will cease in 2025/26 as a result of being absorbed into the new Care Reforms arrangements.

Market Sustainability and Improvement Fund

3.12 Given that the Care Reforms have been pushed back to October 2025 the previous Market Sustainability and Fair Cost of Care Fund has been slightly rebadged as the Market Sustainability and Improvement Fund. Despite the delay in the reforms the funding remains in the system and is being distributed to local authorities by a number of means (mainly the Social Care Grant). The allocation to Reading for this particular funding stream in 2023/24 is £1.334m a reduction of £1.988m on the previous grant. In 2024/25 it is estimated that the allocation will rise to £2.005m a reduction of £3.412m on previous assumptions. It is assumed that these will be required to match fund additional expenditure.

Public Health Grant

3.13 Unlike previous years, the Final Local Government Finance Settlement did not include an announcement on the allocations in respect of Public Health Grant. As the grant is ringfenced, any increase/decrease to the Council's grant allocation is offset by a corresponding increase/decrease in expenditure. Therefore, the MTFS assumes a nil impact on the bottom line.

Summary of Changes

3.14 The changes outlined in paragraphs 3.3-3.12 are summarised in Table 2 below:

Table 2 - Changes Arising from the Local Government Finance Settlement

	2023/24 £'000	2024/25 £'000	2025/26 £'000
Net Budget (Surplus)/Deficit as at December 2022 Policy Committee	**2,394**	**10,493**	**12,586**
New Homes Bonus	(354)	1,453	0
Lower Tier Services Grant	288	0	0
Social Care Grant	(3,047)	(1,192)	0
Services Grant (Funding for Social Care Levy now removed)	1,124	0	0
Revenue Support Grant	(269)	(93)	46
Section 31 Grant	(2,147)	(14,795)	16,942
Business Rates Levy Surplus Distribution	(257)	257	0
LCTS Admin Grant (included within RSG)	150	0	0
Council Tax Support Fund	(209)	209	0
Independent Living Fund	234	0	0
Adult Social Care Discharge Fund - Income	(378)	(1,243)	1,621
Adult Social Care Discharge Fund - Expenditure	378	1,243	(1,621)
Market Sustainability and Improvement Fund Income	1,988	1,424	0
Market Sustainability and Improvement Fund Expenditure	(1,988)	(1,424)	0
Sum of Changes from Finance Settlement	**(4,487)**	**(14,161)**	**16,988**
Cumulative Impact of Changes	**(4,487)**	**(18,648)**	**(1,660)**
Net Budget (Surplus)/Deficit after Settlement	**(2,093)**	**(8,155)**	**10,926**

Other Changes from the December 2022 MTFS Update

Council Tax

3.15 The Chancellor announced in the Autumn Statement 2022 that the level of increase in Council Tax requiring a local referendum will be 3.00% for 2023/24, with indicatively a similar figure for 2024/25. The MTFS proposes to increase Council Tax by 2.99% for 2023/24 and 2024/25 with a 1.99% increase in 2025/26, subject to confirmation of the referendum limit in subsequent years. This is an increase from the assumptions included in the December 2022 MTFS update, which was based on a 1.99% increase across all years.

3.16 The Chancellor also announced as part of the Autumn Statement 2022 that Councils can raise an Adult Social Care (ASC) Precept at a maximum of 2.00% of the Council Tax rate for 2023/24, with an indication of similar allowance in the following year. Given the considerable pressures on social care spending, the MTFS proposes to utilise the ability to increase the ASC Precept by 2.00% for the next two years, subject to confirmation of the referendum limit in subsequent years. This is an increase from the assumptions included in the December 2022 MTFS update.

3.17 At its meeting on 31st January 2023, Council approved a revised Council Tax Base of 57,826.56 (band D equivalent) properties for 2023/24 – an increase of 1.34% on the 2022/23 Tax Base of 57,059.55. The approved tax base is higher than that assumed at the time of the draft budget and thus leads to an increased Council Tax yield. The effect of this increase is additional income of £0.370m in each year of the MTFS period.

Business Rates

3.18 The budget has been updated to reflect the latest available information and assumptions included in the NNDR1 return made to central government in January 2023. 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 now estimated to be higher than forecast in the December 2022 MTFS update by £0.599m in 2023/24 and £6.066m lower in 2024/25. The increase in 2023/24 largely relates to the higher than expected increases in rateable values as part of the 2023 revaluation. The decrease for 2024/25 is as a result of pushing the assumed business rates reset out to 2025/26, however, this decrease is more than off-set by Section 31 Grant which now remains in 2024/25.

3.19 As already mentioned in 3.9 above the Government have now pushed back the business rates reset until 2025/26 at the earliest. The December MTFS update previously assumed this to take place in 2024/25. This shift of assumption means that the local share of business rates is now forecast to increase in 2025/26 by £1.979m compared to previous assumptions, however it is also assumed that the reliefs will be accommodated within the reset and the Section 31 grants removed completely. The consequence of all of this is that the £1.979m represents the net gain across the MTFS period when compared to previous assumptions.

Council Tax & Business Rates Collection Fund Surplus/Deficit

3.20 The Council Tax Base report also declared the estimated balance on the Council Tax Collection Fund. The estimated surplus balance is an additional one-off source of funding of £1.723m from that which was assumed in the Draft Budget.

3.21 The revised estimated Business Rates Collection Fund Balance is an additional one-off source of funding of £2.492m from that which was assumed in the Draft Budget.

Detailed Savings Proposals and New Bids

3.22 Since December a number of new and revised business cases have been submitted, reviewed and included within the revised figures presented here. This adds a further £1.276m net pressures to the 2023/24 budget, but a net reduction of £0.190m in 2024/25 and a reduction of £0.171m in 2025/26.

Capital Financing

3.23 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 reduction of £0.103m across the MTFS period.

Contingency

3.24 The Contingency provision has been reviewed in order to ensure that any possible slippage or non-achievement of higher risk savings and/or income targets over the period are mitigated against.

Contribution to/(from) Reserves

3.25 After accounting for all of the above changes, there is a £6.621m budget surplus for 2023/24. This one-off surplus has subsequently been budgeted for to be transferred into Earmarked Reserves predominantly to directly fund capital projects not yet approved. This is a prudent approach given that the current forecast for 2025/26 shows a deficit of £5.687m, which has yet to be addressed. Specific drawdowns from earmarked reserves totalling £0.493m have also been included for 2023/24, therefore the net contribution to reserves is £6.128m.

3.26 Although 2024/25 indicates a further surplus of £2.781m any allocation of this to on-going expenditure will further exacerbate the £5.687m deficit shown for 2025/26. This position is predominantly caused by the anticipated Business Rates reset. Whilst it is not certain that the reset will happen in 2025/26, it is clear that whenever it does occur it will cause a significant budget challenge for Reading. Addressing this must, therefore, be the focus of attention looking forward.

Summary of Changes

3.27 The changes outlined in paragraphs 3.14-3.25 are summarised in Table 3 below:

Table 3 - Local Changes Arising Since the December Policy Committee Meeting

	2022/23 £'000	2023/24 £'000	2024/25 £'000
Net Budget (Surplus)/Deficit after Provisional Settlement	**(2,093)**	**(8,155)**	**10,926**
Changes to Council Tax Base	(370)	0	0
Changes to Business Rate Base (including S31 Grant)	336	6,718	(9,033)
Council Tax Collection Fund (Surplus)/Deficit	(1,723)	1,723	0
Business Rates Collection Fund (Surplus)/Deficit	(2,492)	2,492	0
Increase in Council Tax	(2,116)	(1,771)	(171)
Council Tax LCTRS Support	450	0	(450)
Additional/Revised Service/Corporate Budgets	1,276	(190)	(171)
Adjustment to Capital Financing Costs	(112)	797	(788)
Increase/(Decrease) to Contingency	356	0	0
Additional Contribution to/(from) Reserves	6,488	(6,488)	0
Sum of Local Changes	**2,093**	**3,281**	**(10,613)**
Cumulative Impact of Changes	**2,093**	**5,374**	**(5,239)**
Net Budget (Surplus)/Deficit after All Changes	**0**	**(2,781)**	**5,687**

4. EXPENDITURE ASSUMPTIONS

Pay Award

4.1 4.0% has been allowed for pay inflation in 2023/24 with 2.0% for the years thereafter. However, with inflation currently running higher than this there may be pressure on the National Employers to agree a higher figure, at least in the short term.

National Living Wage

4.2 In the Autumn Statement the Chancellor announced that the National Living Wages for the over 23's will increase by 9.7% from £9.50 to £10.42 per hour from April 2023.

General Inflation

4.3 Where services are experiencing specific inflationary pressures, these are included as bids supported by a business case.

Pension Fund

4.4 The triennial valuation of the Berkshire Pension Fund took place as at 31st March 2022 with the results published in the autumn of 2022. Consequently, the primary contribution has been increased from its previous level of 14.8% to 16.2% across all years of the MTFS. The secondary contribution (Deficit Lump Sum) has been reduced to £5.770m for 2023/24, but then stepped back up by £0.230m each year. The actual amount payable will depend upon the discount rate applied for each year.

Capital Financing

4.5 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.

5. RISKS

5.1 The main risks to delivering the proposals set out within this MTFS include:

- The ability to contain demographic demand pressures;
- The speed of recovery and buoyancy of the general and local economy from the current recession;
- Adverse interest rate movements;
- Increased inflationary pressures;
- Delivery of capital receipts to fund the flexible use for transformation purposes and avoid prudential borrowing charges;
- Future local government financing settlements from central government and potential impacts from changes to the Fair Funding Review;
- The timing and impact of any business rates reset;
- The capacity of Officers to deliver the savings and income projections in line with assumptions; and
- Slippage in the Capital Programme adversely impacting savings assumed within the MTFS.

5.2 Additionally, the Council's 2019/20, 2020/21 and 2021/22 accounts are still subject to audit which may mean there could be some movement in the assumed baseline level of reserves.

5.3 However, in setting the new three-year MTFS, contingency provisions of £4.108m in 2023/24; £4.913m in 2024/25 and £5.116m 2025/26 have been provided for to allow for slippage or non-delivery of higher risk savings and income targets. The contingency provision increases in the latter years of the MTFS due to the increased level of risk in delivering future savings.

6. RESERVE LEVELS

6.1 CIPFA have stated that there should be no imposed limit on the level or nature of balances required to be held by an individual Council. Many authorities are currently struggling to manage their pressures, with a few Local Authorities issuing s114 notices and a number of others requesting exceptional financial support during the last three 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.

6.2 The Council drew heavily on its reserves in 2016/17. Since then, the Council has contributed to reserves in each year between 2017/18 and 2021/22. As a result, reserves have been returned to a more sustainable level.

6.3 Based on the latest data available (2021/22), the Council's reserves position is now marginally above the average compared to all unitary authorities, which is a significant improvement from the 2017/18 position and continues the trend from the previously published data.

7. SAVINGS

7.1 Savings required to balance the 2023/24 budget and assumed within the Draft MTFS are comprised of efficiency savings, invest-to-save initiatives and increased income from fees and charges and summarised in Tables 4 and 5 below. Further detail is provided in Appendices 2 and 3:

Table 4. General Fund Savings Summary 2023/24 to 2025/26 by Directorate

	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	Total (£'000)
Adult Social Care & Health Services	(461)	0	0	(461)
Economic Growth & Neighbourhood Services	(3,277)	(1,771)	(930)	(5,978)
Resources & Chief Executive	(1,007)	(846)	(299)	(2,152)
Corporate	(250)	0	0	(250)
Total Council Services	(4,995)	(2,617)	(1,229)	(8,841)
Children's Services (BFfC)	(300)	(600)	(100)	(1,000)
Total	(5,295)	(3,217)	(1,329)	(9,841)

Table 5. General Fund Savings Summary 2023/24 to 2025/26 by Type

	Efficiency Savings (£'000)	Invest to Save Schemes (£'000)	Income, Fees & Charges (£'000)	Total (£'000)
Council Services	(5,065)	(874)	(2,902)	(8,841)
Children's Services (BFfC)	(1,000)	0	0	(1,000)
Total Savings	**(6,065)**	**(874)**	**(2,902)**	**(9,841)**

7.2 In order to Balance the MTFS in the final year of the plan on a sustainable basis further savings of £5.687m need to be identified by that year based on current projections.