

WEST BERKSHIRE COUNCIL

**MEDIUM TERM
FINANCIAL STRATEGY
2004 – 2008**

1. EXECUTIVE SUMMARY

1.1 The Medium Term Financial Strategy (MTFS) ensures that the Council's Corporate Plan drives the resource allocation decisions of the budget.

1.2 It is set in the context of the Government's Public Expenditure Plans and the operation of the Revenue Support Grant. A number of significant local financial commitments have to be taken into account as well as impact of regulation and new legislation.

1.3 The Corporate Plan and Community Strategy identify priorities and the MTFS ensures that resources are focussed upon them. Resources are enhanced by partnership working, our local Public Service Agreement, the capital strategy and the use of balances. The MTFS at present identifies a resource gap of the order of £2m to £2.25m in each of the next three years, a cumulative total of around £6.5m p.a. which needs to be addressed over the lifetime of the strategy. This implies that alongside the development of priorities there is a continuing need to identify non-priority areas for disinvestment and for constant seeking of efficiency savings.

1.4 The strategy identifies areas of work needed to maximise our resources and various mechanisms which can be brought into play. The budget build process for 2005/06 is described as are the next steps in the process to identify those proposals which will be brought forward both to resource the key projects of the corporate plan and to close the identified resource gap.

2. INTRODUCTION

Purpose of the Financial Strategy

2.1 The financial strategy is a high level document outlining how the Council's priorities, service delivery objectives and targets can be achieved in the medium term.

2.2 The overall objectives that the Medium Term Financial Strategy will seek to deliver are:

- To ensure that the Council's Corporate Plan objectives drive the financial and resource allocation decisions of the budget making process. It is accepted that resources need to be found from non-priority areas to fund key projects that support the Council's Strategic Priorities and Development Themes.
- There is effective medium term financial planning and forecasting to inform our financial resource management.
- There is a deliverable financial strategy within the constraints set by government.

3. SETTING THE CONTEXT

Public Expenditure Plans

3.1 Government has for many years been assuming real increases in Council Tax levels above the level of inflation and continues to build such increases into Treasury models. Ministerial pronouncements that Local Authorities receive generous settlements and have no need for real terms increases are not consistent with published government plans, the actual operation of grant distribution mechanisms and the experience of all Local Authorities over the medium term..

3.2 Government has indicated that for the foreseeable future grant methodology changes will be kept to the minimum. However, the spending review 2004 will be conducted against a very austere financial climate. The Chancellor's budget statement included some glimpses of the information that will contained be in the spending review when published in July. Firm totals for Education spending are given at seemingly generous levels (5.5% rising to 7% p.a. across the three years). However the global totals for Local Authority expenditure are held down to 2.5% which implies significant real reductions in other local government services at around 2.5% p.a. across the period. It must be stressed that this partial information is more difficult to interpret than usual as much of the supporting detail is missing.

3.3 If as is expected the DfES continues to insist that all local authorities passport all additional education funding directly to schools, the conflict with the ODPM's operation of floors and ceilings within the grant distribution formulae could do significant damage to several authorities including West Berkshire. The LGA recognise that the cost of floors should be borne across the whole community not just by those authorities in the ceiling, however the present injustices have presentational advantages for Government and a sustained campaign will be necessary to achieve desirable change.

3.4 The 2004/05 budget round saw Government introducing the threat of capping for any council deemed to have set an excessive budget. Government sought council tax increases in low single figures, regardless of the levels of grant support, passporting, etc that any individual authority may receive. For West Berkshire each 1% increase in Council Tax raises approximately £600K of revenue. The Government has designated four Unitary Councils (Torbay, Hereford, Nottingham and Telford) two districts and the Hereford & Worcester Fire Authority for capping in respect of 2004/05. However the cost of capping Hereford, Nottingham, Telford and the fire authority will exceed the savings made by taxpayers and the Secretary of State may opt instead to nominate these authorities for 2005/06 in addition to a number of other fire and police authorities. This will in effect set a budget limit for 2005/06 for those authorities deemed to have set an excessive Council tax rise in 2004/05. Final announcements on capping are due to be made shortly. The interaction of ceilings, capping and passporting does not appear to have been properly thought through by Government and this issue lies at the heart of the difficulties facing West Berkshire.

3.5 West Berkshire received the 25th worst financial settlement of all upper tier authorities (150) in 2004/05 measured by the increased grant remaining after passporting in full to schools the whole of the Education FSS increase. This poses difficulties for other priority areas where Government requires additional spending but is both withholding support and severely constraining the ability of the local authority to raise its own finance.

3.6 Other Government legislation such as the asylum seekers, care leavers, new licensing regime, freedom of information act and increasing requirements for data protection and child protection also require significant new resources. These major funding pressures must be recognised along with the priority areas within the allocation of resources to each service area.

3.7 The Integrated Waste PFI Project will require significant resources over the planning period under review. This PFI project is designed to be the most cost-effective way of meeting the mandatory Government targets contained in the waste strategy. If it does not progress there will be an even more significant increase in resources required due to higher landfill taxes. The successful delivery of the Integrated Waste PFI will reconfirm West Berkshire's capacity to deliver major procurements. The continuing demonstration of such capacity is essential if West Berkshire wishes to seek inclusion in Government initiatives such as the early waves of "Building Schools for the Future".

Comprehensive Performance Assessment (CPA)

3.8 Along with all other upper tier Councils' West Berkshire has been subject to the CPA regime. The Council received a Fair rating from the first CPA assessment announced in December 2002.

3.9 The CPA Inspection Team identified West Berkshire to be an impoverished Council in a wealthy area. This situation creates a number of difficulties:

- The Council is unlikely to "benefit" from the FSS changes and is still currently trapped in the ceiling (a grant distribution mechanism which limits the additional grant flowing to grant gaining authorities to help pay for floors which protect grant losing authorities), therefore external finance will not increase unless some of the injustices in the present system are addressed.
- The amount of revenue contributed by local tax payers will be higher than the national average
- The impact of needing to raise more revenue will be a burden directly on local taxpayers.

3.10 Excellent and good authorities will in future receive a lighter audit and inspection regime and weak and poor authorities may be subject to an increased regulatory and inspection regimes. Authorities in the fair category are subject to the standard level of audit and inspection attention. The council expects that a new Comprehensive Performance Assessment refresh for West Berkshire will take place during 2005.

Local Government Act 2003

3.11 The key aspects of the Local Government Act 2003 that have an impact on the financial strategy are:

- Introduction of new capital financing regulations known as the Prudential Regime – this is dealt with as part of the capital strategy
- A requirement for the Chief Financial Officer (CFO) to ensure that sound financial practices are operated throughout the council. This covers budget setting and monitoring and the need to retain adequate reserves in order to cover risk and uncertainty. The CFO must formally report on these issues as part of the budget setting process
- Business Improvement Districts (BID). This permits partnerships between councils and the local business community for certain purposes. Regulations are currently being developed for the operation of BIDs
- Retention of Local Business Rates. The Secretary of State intends to make regulations to enable Councils to retain some or all of the business rates it collects. The scheme is currently being consulted on. Regulations will be made during 2004 with a target date for introduction of the scheme of 01.04.05.
- Amendments to Council Tax Regulations in respect of discounts and exemption e.g. second homes and empty properties. This area was the subject of a report to the Executive in November 2003
- Revaluation of properties for Council Tax will be undertaken ready for the 2007/08 budget

- Fire Authorities have now become precepting bodies
- A new power to allow Councils to charge for discretionary services has been introduced. The fees and charges working party will cover this in future reviews.
- Section 95 of the act provides power for the Secretary of State to make an order enabling councils ranked as fair, good and excellent to trade in any of their ordinary functions through a company.

Audit Commission review of Council Tax increases for 2003/04

3.12 In late 2003 the Audit Commission published a review of council tax increases for 2003/04. They identified that the causes of increased spending by councils included:

- Cost pressures such as pay and price increases;
- Additional demand pressures e.g. the need to provide social services to increasing numbers of elderly people;
- National policy priorities such as increasing the funding for schools by amounts determined by government and the meeting of national waste recycling targets; and
- Local policy priorities such as additional spending upon transport.

3.13 They noted that amongst the external pressures on Councils to increase spending, and therefore council taxes were:

- Public expectation that services will improve;
- Pressure from central government to spend more to meet government priorities; and
- The role of inspectorates and other regulators requiring councils to meet more demanding standards.

The Audit Commission found evidence that this additional spending has provided better services e.g. improvements in Social Services and additional funding for road maintenance.

3.14 They further noted that grant distribution had moved grant from London and the South, to the Midlands and the North and that there was a clear association between the size of grant increase a council received and its increase in council tax. No relationship existed between budget and council tax increases and the political party running the council.

3.15 The Audit Commission made the following recommendations:

For Government

- To increase certainty about future allocations of resources;
- To provide greater transparency about factors to be taken into account in grant increases;
- To reduce direct control over councils through targets;
- To continue to reduce the ring fencing of grants; and
- To recognise that public engagement is more likely to achieve a balance between council tax rises and service provision, which is acceptable to citizens, than the use of capping powers.

For councils

- To improve the processes for delivering efficiencies in service delivery and carrying out longer term financial and service planning; and
- To communicate and consult with the public more effectively about council tax and spending decisions.

For inspectors and auditors

- To increase the focus on efficiency;
- To balance recommendations for service improvements with the requirements to keep spending within levels acceptable to the public; and
- To indicate clearly the cost implications of recommendations.

3.16 The Audit Commission conclude that the grant system is too complex for local citizens to understand and that there is a lack of accountability as a result of small increases in spending having a big impact upon council tax rises. Fundamental flaws in the local tax system for councils need to be addressed by the review of the future of funding of local government currently being chaired by the local government minister Nick Raynsford to enable citizens to fully engage in key decisions that affect their lives. The review is due to conclude in the Summer of 2004.

4. RESOURCING OUR PRIORITIES

Links to the Corporate Plan

4.1 A key objective of the Financial Strategy is to ensure that financial resources are focussed on priorities identified in the Community Strategy and Corporate Plan. Given the constrained financial envelope within which the Council is existing this will inevitably involve disinvestment from lower priority areas.

The Corporate Plan includes a table of key projects which require resourcing over the period of this Medium Term Financial Strategy. Not all of these projects are yet fully resourced and in addition the model set out as appendix A identifies the need for a significant resource gap, to be addressed, of the order of £2m to £2.25m in each year, a cumulative total of around £6.5m over the life of the plan. This clearly implies that alongside the development of our priorities West Berkshire will also need to identify non-priority areas for disinvestment and constantly seek for efficiency savings.

Partnership Working

4.2 The Council's Medium Term Financial Strategy must also link in with the priorities and financial planning in respect of partner organisations e.g. Health, voluntary sector, Amey etc. We will seek to exploit opportunities that can arise from pooled budgets, in order to facilitate joint working to reduce costs and to achieve greater service benefits. Some of this is identified as part of the Amey Partnership Plan.

Local Public Service Agreements

4.3 The Council has concluded its negotiations in respect of Local Public Service Agreements. The PSA covers the period from 01.04.03 to 31.03.06. There are 12 targets identified in the PSA as detailed in appendix C. The benefits to the Council of completing a Public Services Agreement are:

- Pump Priming Grant of up to £900,000 received in 2003/04.
- Performance Reward Grant of up to approximately £3.2m which will become payable in 2006/07 if the Council achieves its stretch targets. The current model assumes that some £2.4m will be paid to West Berkshire Council and this forms the majority of funding available to create headroom for desirable change.
- Improved "quality of life for the residents of West Berkshire" by virtue of the Council and its partners meeting challenging national and local targets.
- Better working relationship with the Council's strategic partners in the pursuit of the delivery of the PSA.

Capital Strategy

4.4 The Council prepares a separate Capital Strategy that sits along the Medium Term Financial Strategy. The revenue costs arising from the capital programme are reflected in the revenue plans. The key elements on respect of capital financing that need to be taken into account are:

- In 2004/05 the Government is introducing a new system of capital financing known as the "Prudential Regime". This system replaces the current system, based on borrowing controls, to one based on the concepts of affordability. A series of indicators are set by the Council as part of the budget setting process. These indicators establish the amounts of capital funding that an authority can afford to sustain within its overall revenue budget.
- The model assumes that West Berkshire Council can afford the equivalent of £13m p.a. capital expenditure from its own resources and that this sum is used to finance assets with a mean life of 25 years.
- Under the new prudential regime the term "debt free" falls away i.e. government no longer acknowledges it. However, there will still be councils, like West Berkshire, that do not have any long term external debt. We are able to utilise any resources held in the debt free fund, as they are technically reserved capital receipts, which under the new regime can be accessed freely by councils.
- In reality West Berkshire has always serviced its share of the accumulated debts inherited from the old Berkshire County Council, which are administered by Reading District Council. It is currently estimated that West Berkshire will cease to be "debt free" at some point in 2005/06 and that at that point it will make sense for the administration of West Berkshire's inherited share of the BCC debt to be transferred to Amey West Berkshire.

Use of Balances

4.5 As part of the 2004/05 Budget process, the Council agreed to utilise additional balances of £2m as part of a medium term financial strategy. However it is fundamental to the medium term financial strategy that the Council plans for an adequate level of balances to support its ongoing level of expenditure. This then enables contingency action to be taken in year without distorting medium term priorities simply to deal with particular crises. It implies, that as over the years as our revenue budget increases, the level of balances held needs to rise at a similar pace. This has been factored into the model as set out in appendix B. However the outturn for 2003/04 has identified both an increased level of underspend for that year compared with that anticipated at budget setting and also potential levels of underspending in 2004/05. These have been brought into account and by the use of balances have effectively ensured that this additional resource is moved forward to support expenditure in future years.

5. OUR STRATEGY

5.1 The Council has already begun the preparatory work for building the budget for 2005/06 alongside the refresh of the Corporate Plan thus ensuring the integration of financial planning with policy priorities. This Medium Term Financial Strategy (MTFS) highlights the financial context for Corporate Planning for the next three years and indicates that demographic, inflationary and service improvement pressures are likely to outpace the available resources. A gap between resources and desired levels of activity exists.

5.2 To meet this challenge the Council will take a number of steps to ensure that resources are brought in to line with activity and focussed on priorities. The comprehensive approach that we are adopting involves making efficiency gains and savings, building capacity, setting service levels and investing any resources for development through a rigorous process of business case building. This both builds our capacity by maximising the resources available and radically reviews the mechanisms for matching resource to priorities through strategic resourcing mechanisms.

Resources

- ◆ **Government Grant** – Continue to lobby for changes in ceilings that act to withhold grant from WBC. In each of the last two years West Berkshire has had nearly £4m withheld. Should this be corrected it will release additional capacity for West Berkshire but this has not been anticipated in the model. Appropriately cautious assumptions have been made about the level of support likely to be made available, particularly in the latter years of the model.
- ◆ **Council Tax** – Council tax increases are kept as low as possible. The assumptions built into the model are for rises of 6% in 2005/06; 5% in 2006/07; 4% in 2007/08. It must be stressed that much information is not yet available and that these increases, particularly for the latter years of the model can only be indicative.
- ◆ **Partnership working** – Build capacity by aligning our activities with others in private, public and voluntary sectors to deliver more effective outcomes.
- ◆ **External fund raising** – Put additional emphasis on securing external grants for West Berkshire in partnership with others
- ◆ **Income generation** – Continue to maximise income where appropriate from activities and agreements that generate income. A small contribution of £100k p.a. above the rate of inflation is built into the model.
- ◆ **PSA reward Grant** – The assumption has been made that three quarters of the total reward grant will become available to the Council in 2006/07. This is a major part of the provision for investment in priorities and the detailed PSA targets are set out in appendix C.

Strategic Resourcing Mechanisms

- ◆ **Review of services with Corporate Directors** – A small group of Members of the Administration are working with each Director to identify potential for disinvestment in non-priority areas and any areas for efficiency or effectiveness savings.
- ◆ **Service Levels Review** – This project (part of building capacity D2 Action plan) is intended to be a comprehensive look at service levels to ensure that resources are best used to preserve high service levels in priority areas and to adjust service levels in non-priority areas to achieve optimal deployment of resources. It will also help with clarifying for the public and partners the level of service the Council offers.

- ◆ **Modernisation of Services** – A key driver of the Council's partnership with Amey is to secure the expertise and investment in customer focussed services that will drive the modernisation of the Council's way of working. This approach should improve services and provide efficiency gains to lower unit costs. (part of Customer Focus D3 Action Plan)
- ◆ **Invest to save mechanism** – Further Investment either to improve services or deliver efficiency savings to be tied to business case methodology.

The resource gap will be closed by the resources released from the review of services, service level review, modernisation and any invest to save proposals. Clearly these mechanisms have significant overlap and the real strength of this approach will be realised through close integration of each of them in a "whole Council" approach.

Relationship with the Annual Budget Cycle

5.4 The annual budget cycle remains a crucial part of decision making. However, it becomes the opportunity to fine tune and adjust service budgets, rather than a lengthy and uncertain process as has historically been the case. It must be stressed that this is dependent upon methodologies and key control factors being predictable. Government deliberately seeks to influence Council spending levels and priorities across England and reserve information until the latest stages of the process, which can inhibit local authority discretion.

5.5 The Medium Term Financial Strategy provides a planning vehicle for the next 3 years. It is built on a range of assumptions based on the best information available at this point in time. The model is properly cautious about the assumptions made for the latter years of the period. The annual budget process is the mechanism that is used to set the actual budget for the year and is therefore the point at which assumptions made in the Medium Term Financial Strategy are translated into reality.

5.6 The model attached as appendix A builds upon the 2003 Medium Term Financial Strategy but assumes that schools expenditure will rise at 6% p.a. fully passported. It makes provision for known variations outside the authority's control along with provision for demography and new statutory responsibilities. A rigorous reassessment of our base in the light of the levels of underspending in 2003/04 has identified estimated underspending of £1.26m, which can be achieved in 2004/05 and passed through balances to reduce the budget requirement in 2005/06. A further assumption has been made that an estimated £400k arising from similar factors will flow through from 2005/06 to 2006/07. These assumptions increase the level of risk contained in the model but may better reflect actual recent experience. £660k has been included in 2005/06 to provide for some investment into the key projects supporting priorities of the corporate plan. In 2006/07 this sum is substituted by the PSA reward grant see 5.2 above. The model make the assumption that flexibility will be afforded to weigh up the relative merits of proposals for investment against proposed efficiency and disinvestment savings.

Budget Build

5.7 The annual Budget build process will remain an essential part of the Financial Strategy. Essential elements of budget build will continue to be:

- pay inflation currently included at 3%
- non-pay inflation currently included at 2%
- adjustments for service changes, new financial rules etc
- taking out one off funding
- building in approved growth that is set out in the medium term financial strategy
- "below the line" items e.g. levies, interest etc.

The Council does not have the resources to undertake a full zero based budgeting approach across the whole authority to the budget build. However, the Best Value toolkit will be developed to include an in depth budget review model. In addition, consideration will be given to undertaking a zero based approach to delivery of the Council's priorities. This will be addressed as part of the corporate plan review.

Cash Limiting Budgets

5.8 Cash limits were used as part of the 2002/03 budget setting process and proved effective in terms of identifying pressures and savings within service groupings.

5.9 It is intended that a range of financial freedoms will be developed to enable service areas to plan and control over and under spending at the end of each year that can be carried forward into the following year. These freedoms will be introduced on a phased basis over the life of the strategy. The aim is by 2006/07 to have cash limited budgets with full carry forward of over or under spends. A timetable for full implementation will be prepared during the course of this year's cycle.

5.10 Cash Limits will continue to be used as part of the budget setting process.

Achieving Savings

5.11 The Council has achieved significant savings since 1998 in excess of £23m. These savings have been achieved in order to deliver other priorities and have taken place against a backdrop of continuous improvement throughout the Council. The model identifies the need to identify further savings of around £2m in each of the next three years, an adjustment to the level of our base expenditure of around £6.5m by the end of the programme. This can only be achieved by taking strategic action to reconfigure some areas of our provision to concentrate resources on priority areas. It must be stressed that this model is based on information, which will undoubtedly change over time. In particular the later years of the model are based on cautiously prudent levels of Government support. If some of the injustices identified in 3.13 above are addressed then further resources may be available for investment in our priorities.

5.12 The next steps in the process are to identify the proposals to be brought forward to close the resources gap and to identify the resource allocation to key projects as yet unresourced in the Corporate Plan. The small group of members reviewing services with Corporate Directors will need to identify their specific proposals and these will need to be adopted by the Administration. Consultation will be needed with Trades Unions, our Partners and the public and the implications for services will need to be identified and drawn to the attention of Government Ministers. The Medium Term Financial Strategy will then set the framework within which the budget for 2005/06 and subsequent years will be built.

APPENDIX C

No.	Description	National Target	Local Target
1.	By August 2006 to reduce the number of pupil absences (unauthorised and authorised)	✓	
2.	Improve the quality of life and independence of older people so that they can live at home wherever possible, by increasing the number of those supported intensively to live at home.	✓	
3.	Increase participation of problem drug users in drug treatment programmes by 55% by 2004 and by 100% by 2008, and increase year on year the proportion of users successfully sustaining or completing drug treatment programmes.	✓	
4.	Improve delivery and value for money of local services by overall annual improvements in cost effectiveness of 2% or more per annum.	✓	
5.	To improve delivery and value for money Of local services by building on capability to deliver priority services electronically, increase the proportion of enquiries resolved at the first point of contact, and improve user satisfaction levels.	✓	
6.	To reduce theft of vehicles by 37.5% from 1998-99 to 2005-06 To reduce theft from vehicles by 32.5% from 1998-99 to 2005-6	✓	
7.	Reducing deaths and serious injuries on the roads in West Berkshire (excluding the M4 and the A34 bypass).	✓	
8.	Increase the use of Kinship (Family & Friends) Care, maximising opportunities for placements with relatives/friends, avoiding entry to the care system where appropriate alternatives are developed, and increasing permanence solutions for Looked After young people through exiting public care.		✓
9.	To increase the number of unwanted vehicles collected through West Berkshire's free of charge collection scheme, and to reduce the time taken to remove abandoned vehicles as recorded by the Council's database.		✓
10.	Providing new opportunities for people with a learning disability to promote the key Valuing People principles of Rights, Choice, Independence and Inclusion.		✓
11.	To increase the number of children with Special Educational Needs/Disability included in specialist and mainstream settings.		✓
12.	To improve home safety within West Berkshire, particularly in relation to fire safety.		✓