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# Medium Term Financial Strategy

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## Change History

Version	Date	Description	Change ID
0.1	23.11.21	Initial Draft from JH	
0.2	21.12.21	Version for Corporate Board January	
0.3	10.1.22	Version for Operations Board January	
0.4	24.1.22	Version for Executive February	
0.5	27.1.22	Amended version for Executive February	

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## 1. **Foreword**

- 1.1 There are a lot of unknowns for Local Government finance in the future. The impact of the Covid-19 pandemic will be felt for a number of years and is likely to change how public services are delivered in the long term. The Government Spending Review (SR22) that was announced in October 2021 was for a three year period for Local Government overall, but the Local Government finance settlement (LGFS) was only for a one year period, 2022-23. The absence of a longer term financial envelope for Local Government does mean that there remains significant uncertainty over the financial position from 2023-24. This strategy does though provide estimates for future years and sets out a range of scenarios to help understand the impact on future budgets.
- 1.2 The Council has a history of strong financial management and has a reserves position that, though comparatively remains constrained, is sufficient to allow some flexibility and support in how we can tackle future budgets to avoid having to make knee-jerk responses. The Council has also received continued significant Government financial support for the Covid-19 pandemic and to help protect the in-year financial position of the Council.
- 1.3 The MTFS does factor in investment for the future. This is included for the Council Strategy delivery plan, social care demand modelling and for capital investment. Further information on capital investment can be found in the capital strategy itself, and this is vital for the future prosperity of our district, and it is incumbent on us to ensure that infrastructure investment takes place to keep West Berkshire as a great place to live. All of these items above will help plan for the long term financial success of the Council in delivering the Council Strategy for our residents and businesses.

## 2. **Executive Summary**

- 2.1 The Medium Term Financial Strategy (MTFS) highlights the financial planning, high level proposals, and sensitivity analysis that underpins the financial resources that deliver the Council Strategy (2019-23). The Strategy is in itself subservient to the Council Strategy, but in its own right attempts to provide the financial planning framework for the coming years as well as act as guide to the organisation in developing projects and schemes to deliver financial balance and the Council Strategy.
- 2.2 The MTFS looks to a four year horizon; enough to provide some stability over an increasingly volatile financial future, but short term enough so that the first year represents the budget proposals for 2022-23, and for the next three years there are a variety of themes included which form the basis of the future savings areas. The MTFS also includes information on financing the capital strategy and how the scale and profile of this strategy has an impact on the overall financial position of the Council.
- 2.3 The longer term outlook is dominated by three key factors; firstly, the macro-economic recovery from the Covid-19 pandemic and the impact that this will have on the UK economy; secondly the impact on Government reform in Adult Social Care, and thirdly, the long awaited fair funding review and proposed further business rates retention proposals for 2023-24 and beyond which should have a

significant impact on the Council's finances and hopefully provide some longer term financial planning certainty.

### 3. Introduction

#### 3.1 Purpose

3.2 The purpose of the MTFs is to set out the financial planning assumptions and resources available to the Council to deliver the Council Strategy. The MTFs includes both revenue and capital implications. The MTFs attempts to balance the resources known, and estimated, to be available with the ambitions of the Council Strategy. There is always a calculation to make to even out the additional and current investment in the Council Strategy objectives against the cost of doing so and the pressure that puts on the MTFs.

#### 3.3 Vision

3.3.1 The Vision of the MTFs is:

“To ensure that the Council has the financial resources available to work together to make West Berkshire an even greater place in which to live, work and learn”

#### 3.4 Dependencies

3.4.1 The delivery of the MTFs cannot occur through the Council alone. A significant proportion, 50%, of the Council's budget is delivered through partners in the private, public and voluntary sectors. The Council's proposals for future financial stability will involve all of these partners including where there are proposals to invest in infrastructure, deliver core services and transform how the Council delivers its services in the future.

3.4.2 The delivery of the strategy is also dependent on the Government and most importantly the DLUHC (Department for Levelling Up, Housing and Communities) review of 'fair funding' and further business rates retention.

3.4.3 This fair funding review was originally due to impact on the 2020-21 budget but is now most likely to come into effect from 2023-24 at the earliest. The Review has not been consulted upon yet, so figures included in the MTFs are indicative, but the working assumption in the MTFs is (beyond the known figures for 2022-23):

- No new additional monies are provided to the Council as part of the Spending Review 2022-23 (both the services grant and lower tier services grant are expected to be removed, but their value is assumed to remain in a reworked funding system)
- The notion of no 'negative RSG (Revenue Support Grant) is maintained and incorporated into the new fair funding model
- That there is a hard reset of business rates to a new baseline so growth above the existing baseline is not retained by WBC – at a cost of £4m p.a. – but a transitional funding scheme comes into place to mitigate this impact over a 3 year period

- Extra funds for ASC beyond the £0.3m are provided in 2023-24 and 2024-25 but these are allocated for new costs in Adult Social Care due to the implications of the ASC reforms
- New Homes Bonus is removed and replaced with a funding system that delivers equivalent levels of reward to 2022-23
- Council Tax referendum levels remain at 2% and ASC Council Tax precept levels revert to 1% from 2023-24
- Inflation remains at 2% in the longer term

#### 4. Medium Term Financial Plan

4.1 The MTFS is supported by a Medium Term Financial Plan (MTFP). This MTFP sets out the financial planning assumptions and is included below:

**Figure 1.1 – MTFS model**

1.99% £m	Line ref	Medium Term Financial Plan (MTFP)	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
£m		Council Tax income	1.00%	1.99%	1.99%	1.99%
0.00%		Adult Social Care Precept	3.00%	1.00%	1.00%	1.00%
104.3	1	Council Tax (incl. ASC)	110.1	114.1	118.2	122.4
23.2	2	Retained Business Rates/rates funding	24.3	23.0	21.9	20.8
3.2	3a	Additional Government Covid Funding	0.0	0.0	0.0	0.0
0.0	3b	2022/23 Services Grant	1.2	1.2	1.2	1.2
1.1	4	New Homes Bonus	1.2	1.2	1.2	1.2
0.2	5	Lower tier services grant	0.2	0.2	0.2	0.2
6.5	6	Adult Social Care BCF and iBCF ringfenced funding	6.7	6.8	6.9	7.0
2.8	7a	Social Care Grant	3.9	4.0	4.1	4.2
	7b	Market Sustainability & Fair Cost of Care Fund	0.3	1.8	2.4	2.4
-2.2	8	Collection Fund deficit (-)/ surplus	-2.5	-0.8	0.0	0.0
<b>139.1</b>	<b>9</b>	<b>Funds Available</b>	<b>145.5</b>	<b>151.5</b>	<b>156.1</b>	<b>159.4</b>
130.3	10	Base Budget	133.1	141.1	145.5	149.2
1.7	11	Pay inflation	3.3	2.7	2.7	2.7
0.7	12	Contract inflation and non pay inflation	2.0	1.4	1.4	1.4
1.4	13a	Modelled growth	5.2	3.1	3.1	3.1
	13b	Cost of ASC reforms	0.0	1.8	0.6	0.0
0.8	14	Investment in Council Strategy priorities	0.7	0.4	0.5	0.5
0.0	15	Investment due to Covid-19	0.2	0.0	0.0	0.0
1.2	16	Other investment	1.4	1.1	0.2	0.2
0.5	17	Increase in capital financing cost	0.6	0.6	0.6	0.6
-3.7	18	Savings and income requirement	-5.5	-6.6	-5.4	-5.2
<b>133.1</b>	<b>19</b>	<b>Annual Budget Requirement</b>	<b>141.1</b>	<b>145.5</b>	<b>149.2</b>	<b>152.4</b>
3.7	20	One off investments	2.8	0.5	0.1	0.1
6.5	21	Adult Social Care BCF and iBCF ringfenced funding	6.7	6.8	6.9	7.0
<b>143.3</b>	<b>22</b>	<b>Budget Requirement</b>	<b>150.5</b>	<b>152.8</b>	<b>156.2</b>	<b>159.5</b>
-2.0	23a	Use of reserves to support one off investment	-1.9	-0.5	-0.1	-0.1
	23b	Use of Covid Reserve	-0.7	0.0	0.0	0.0
	23c	Use of Transformation Reserve	-0.5	0.0	0.0	0.0
	23d	Use of reserves to support 22/23 budget gap	-0.5	0.0	0.0	0.0
-2.2	24	Use of Collection Fund and Business Rates reserves	-1.4	-0.8	0.0	0.0
<b>139.1</b>	<b>25</b>	<b>Budget Requirement after use of reserves</b>	<b>145.5</b>	<b>151.5</b>	<b>156.1</b>	<b>159.4</b>
		<i>£10k roundings may apply</i>				

4.2 The MTFP at 4% highlights the need for cost base reductions of £22.8m over the next four years and is based upon a number of assumptions which are considered below.

**Figure 1.2**

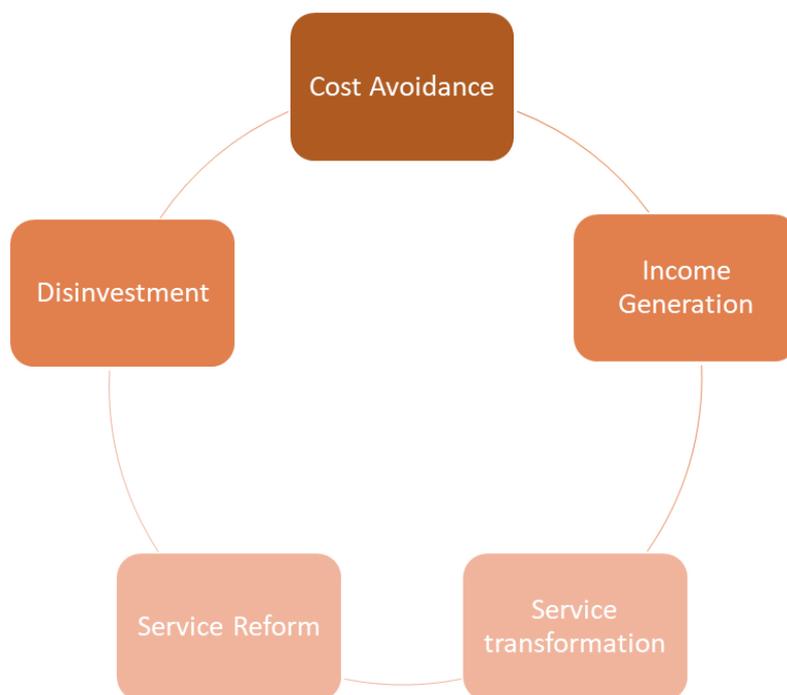
Ref	Item	Commentary
1a	Council Tax Income	<p>This is the amount of Council Tax (excluding the ASC precept, see below) raised. A 1% change in the Council Tax base<sup>1</sup> or Council Tax levied equals approximately £1m. Council Tax provides 65% of the Council's funding excluding fees and charges (73% with the ASC precept).</p> <p>Any increase of this number above 2% must be the subject of a public referendum.</p>
1b	Adult Social Care Precept	<p>A specific element of Council Tax, with a maximum increase of 4% allowed for 2022-23, to help provide funds for Adult Social Care. It has been assumed the ASC precept is set at a maximum of 1% but no announcements have been made from Government on the future of the precept beyond 2022-23 other than an assumption that 1% will be allowed throughout the MTFP period.</p>
2	Retained Business Rates	<p>The Council collects £93m of business rates, and are allowed to retain some of this through a Government controlled scheme. The amount left over for WBC after payments to the Government is £24m. If business rates increase through new growth in the value of business rates, the Council retains approximately 25%, and 100% of all renewable energy schemes.</p> <p>In 2023-24 there is an expected reset of the business rates baseline which will reduce the amount of retained business rates the Council receives.</p> <p>This line shows the amount of retained business rates after an expected transitional fund is provided – see scenario planning for a 'hard' business rates reset.</p>
3a	Additional Government Covid funding	<p>This is non-ringfenced Government funding for Covid-19 costs in respect of 2022-23 – primarily in respect of Adult Social care and leisure costs.</p>
3b	Services Grant	<p>One off grant in the LG Finance Settlement in 2022-23. It is assumed this level of funding will continue although by other routes.</p>
4	New Homes Bonus/other grants	<p>The New Homes Bonus is a scheme from the Government since 2010 that allows Councils to keep the equivalent band D Council Tax on all additional homes built in the district for one year in 2022-23..</p>
5	Lower Tier Services grant	<p>Grant, non ring-fenced, created in 2021-22.</p>
6	ASC BCF / I-BCF ring-fenced funding	<p>This is the Adult Social Care (ASC) Better Care Fund (BCF) or Improved Better Care Fund (iBCF). This income is exactly matched by expenditure later in the MTFP and is ring-fenced to support the integration of care services with NHS partners.</p>
7	Social Care Grants	<p>In 2020-21 Government provided additional grant funding. This grant funding has been boosted for 2021-22.</p>

<sup>1</sup> the amount of properties in the district adjusted for the Council Tax Reduction scheme and discounts

<b>Ref</b>	<b>Item</b>	<b>Commentary</b>
8	Collection Fund	This is the surplus or deficit on 2021-22 Council Tax and business rates income budget versus the expected actual income. Councils do not account for this in the year it occurred, but in the subsequent year. This has been spread over three years in line with the Government requirement due to Covid-19 support.
9	Funds available	Total non-ring-fenced income available, excluding fees and charges.
10	Base budget	The budget from the previous year including £350m expenditure, £190m ring-fenced grant income and £30m income from fees and charges.
11	Pay inflation	Increased costs due to any pay awards (2% assumption 2022/23), increased employer pension costs and incremental pay changes. It should be noted that inflation looks to be much higher in 2022-23 than the Bank of England's assumed rate of 2% but then is expected from 2023-24 to fall back to this level
12	Contract inflation	The amount of funds set aside for key budgets that have a contractual inflation element; the most significant being the Waste PFI (Private Finance Initiative).
13	Modelled budget growth	Increases to demand led services through estimated increases in client numbers and/or complexity.
14	Investment in Council Strategy priorities	Funding investment to deliver the Council Strategy.
15	Investment – Covid-19	Ongoing future financial pressures relating to the impact of the Covid-19.
16	Investment in other priorities	Investment to ensure the delivery of core services.
17	Increase in capital financing costs	The revenue funding for additional borrowing that supports the delivery of the Capital Strategy.
18	Savings and income requirement	Items that reduce cost via the themes identified.
19	Annual budget requirement	Sub-total of the above.
20	One off investments	Additional costs that net off the Covid-19 income in line 3 and other one off investments.
21	ASC BCF / iBCF funding	Expenditure that equals the income from this funding source in line 6 above.
22	Budget requirement	Sub-total of the above.
23	Use of Reserves	Use of any earmarked or unallocated reserves to support future budgets.
24	Use of collection fund and business rates reserve	Cost of the deficit highlighted in line 8 above.
25	Budget requirement	The new budget that equates to the funds available in line 9.

4.3 The MTFS considers investment as well as savings. The latter is discussed in further detail below but, importantly, the MTFS does have investment set aside over the next four years of in excess of £22m. This includes a wide range of areas and remain in line with the Council Strategy ambitions – i.e. investment to achieve the strategy, continue to build on our strengths and investment in infrastructure to deliver the Council Strategy and other supporting strategies. The savings place for the MTFS is based on the model below:

**Figure 1.3**



4.4 The model has been considered to drive different strands of activity and reflect that are a variety of different ways of delivering a long term balanced budget. The Council has moved to a more outcomes based budgeting approach for this MTFS.

4.5 Below is a summary of the five key themes and some of the proposals that are included in 2022-23 budget and that are being considered for future financial years. For years beyond 2023-24 worked up proposals will be required for future years and incorporated into the annual budget for that financial year. There is a gap between proposals at present and the total savings requirement in the MTFS, but this highlights that proposals are being considered in advance of their requirement to ensure greater medium term financial planning. At present there is a requirement of £22.8m of which £11.8m has been highlighted in proposals for future budgets.

### **Cost Avoidance - £2.3m**

The projects involving, for example, intervening in service demand early to reduce future modelled costs. This is particularly evident in Adult and Children Social Care where the modelled budget line can be reduced through interventions that either avoid anticipated costs or provide alternative service arrangements at no cost to the Council.

### **Income Generation - £0.9m**

Either new income generating opportunities or through increasing additional revenue from existed income sources from fees and charges.

### **Service Transformation - £1.4m**

Opportunities to transform how services are provided by the Council. Key elements included in this are digital opportunities so that more services are available for those who want to use them online and out of core office hours. The Council is also looking at the physical location of its offices and opportunities to transform how services are delivered and from where to improve customer service and deliver financial savings.

### **Service Reform - £0.9m**

This element is focussed on the improved efficiency and effectiveness of existing services and where incremental adaptations can be made so that they are delivered at a lower cost. Historically, this has been an area of success for the Council but as each year occurs, the scale of the opportunities reduce.

### **Disinvestment - £0.0m**

This is the removal of an existing service or a reduction in the level of service provided without a compensating transformation. This will be the area that the Council prioritises last, but does have to be considered with all other options depending on the overall funding position.

### **Reserves - £5m**

Reserves have been set aside to support the profiling of savings in the MTFS and the delivery of Council Strategy outcomes. The deployment of these reserves will depend on the outcomes of the fair funding review, but they are held to ensure that there is a lesser requirement to make immediate and significant revenue budget changes that would make a deterioration in service delivery without a longer term consideration.

<b>Use of Reserves to support the 2022/23 Budget</b>	<b>£m</b>
Covid Reserve	0.7
Transformation Reserve	0.5
Collection Fund Reserves/General Fund	1.4
Council Strategy Reserve	0.2
Outcomes Based Budgeting Reserve	0.5
General Reserve	1.3
Other Reserves	0.4
<b>Total</b>	<b>5.0</b>

4.6 It is also important for the MTFS to consider the different scenarios that relate to the MTFP. Appendix A highlights the detail behind these and is summarised below:

**Figure 1.4: Scenario planning**

<b>Scenario</b>	<b>Best / highest case</b>	<b>Financial impact</b>	<b>Worst Case</b>	<b>Financial impact</b>
Council Tax base changes	1.25% growth p.a.	£0.8m p.a.	0% growth from 2022-25	£0.7m p.a.
Council Tax referendum levels	3%	£1m p.a. from 23/24	0%	£2m p.a. from 23/24
ASC precept	3%	£2m p.a. from 23/24	0%	£1m p.a. from 23/24
Business Rates reset	No reset – keep retaining growth	£1.3m in year 1	Full reset – no transition	£5m drop from 2023-24
Fair Funding review	Additional funding	£3m increase over MTFS	Significant redistribution	£9m loss over the MTFS linked to BRates reset
New Homes Bonus replacement	Replaced to the 2022-23 budgeted level	None	Removal in full with no replacement	£1.2m p.a.
Inflation and pay award	0%	£3.7m p.a.	3% increase	£3m
Capital financing costs	Rates drop by 0.25%	tbc – gilt rates dependent	Increased rates of 1%	£0.2m

## 5. **Priorities**

5.1 The overarching priorities of the MTFS are:

- To ensure a balanced financial position over the medium term
- To ensure that there are sufficient resources to deliver the Council Strategy
- To enable longer term decision making by providing financial planning over a 4 year timeframe

## 6. **Actions**

6.1 Unlike other strategies that have a clear action plan, the MTFS is slightly different in that it provides an over-arching view of the financial position and the actions to deliver the strategy are contained in other Council strategies – see interaction below:



## 6.2 Key actions to take place though include:

- Review of fair funding outcome and future of business rates
- Further savings proposals for years 2 to 4 of the MTFS
- Further review of reserves to highlight further areas to support the MTFS where required
- Investment in preventative work to support long term cost recovery or avoidance where demonstrable

## 7. Implementation

7.1 The MTFS is implemented through the revenue budget for the year ahead (2022-23) as well through the oversight of the Budget Board, an internal board at the Council, which considers changes to the financial planning assumptions as well as future options for delivering the MTFS.

7.2 The MTFS also provides a steer for officers on the approach to take and the themes articulated above will help to shape future budgets.

## 8. Conclusion

8.1 There remains significant uncertainty over future years within the MTFS caused by a variety of factors, including the macro economic position due to Covid-19, the local economic impact from covid-19, and Government funding reforms due from 2023-24. To help meet the challenge of this uncertainty, the Council has a balanced

budget proposed for 2022-23 and a range of savings options from 2023-26 that are being developed. Though these do meet the entire savings requirement, the Council does have reserves set aside to help the profiling of budgets as to ensure that immediate impacts of any of severe funding reductions can be met to enable the Council to deliver the Council Strategy.

## **Glossary**

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None

## **Appendices**

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Appendix A – Scenario planning

## **Other relevant documentation**

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Previous Medium Term Financial Strategies  
Accompanying budget papers for 2022-23  
Local Government Finance Settlement 2022-23 (MHCLG)

## Appendix A – Scenario planning

The below sets out some of the potential changes on the specific lines of the MTFP – all of these are estimates. The amounts show the cumulative position over the MTFs (4 years).

Item	Base Case	Best Case	Worst Case	Commentary
Council Taxbase growth	0.21% growth 21/22, 1.5% 22/23 and 0.6% growth thereafter	1.25% growth p.a from 2022/23 = <b>£2.4m increase</b>	0% p.a. from 2022/23 = <b>£2.2m drop</b>	Historic estimates have been above the actual build rate of properties. Covid-19 has provided a lag in the speed of house building
Council Tax referendum levels	1.99%	3% = <b>£3.6m increase</b>	0% = <b>£7m drop</b>	Level of Council Tax increases allowed before requiring a referendum
ASC precept	3% 22/23 1% thereafter	3% = <b>£7.3m increase</b>	0% = <b>£3.5m drop</b>	Allowable level of ASC precept
Business Rates growth	0% growth	1% growth = £0.23m increase	5% fall = £1.1m drop	Estimates - as depends on previous year scheme outturns and interaction with the collection fund position
Business Rates reset	Reset with transitional period	No reset, retain growth = <b>£6.8m increase over MTFs</b>	Full reset, no transition = <b>£4m + p.a. drop from 2022-23</b>	
Fair funding review	Reduction in net income with transitional impact	More funding applied to the Council = <b>£3m increase</b>	Over MTFs period = <b>£9m drop</b>	Scheduled in for 2023-24 but has been delayed for number of years. Consultation expected in Spring 2022 on principles.
New Homes Bonus replacement	£1.2m per year	Replaced to 2021/22 budget level = <b>£0m</b>	Not replaced = <b>£3.6m</b>	
Inflation & pay award	Various % inflation; 2% pay each year	0% inflation = <b>£3.7m benefit p.a.</b>	3% increase = <b>£3m additional cost p.a.</b>	Based on various inflationary impacts across the Council.
Savings proposals	100% achieved	10% over achieve = <b>£2.2m benefit</b>	20% not achieved = <b>£4.4m cost</b>	Historically we have a good track record of achieving over 80% of savings
Covid-19 further outbreak at scale of Spring 2020	Not assumed	None	Further loss of income of <b>@2m</b>	Depends on Government support, behaviour of individuals for car parking etc
Interest rates changes and PWLB impact	Slow increase per investment strategy	A fall of 1% in PWLB = <b>£0.2m</b>	An increase of 1% in PWLB = <b>£0.2m</b>	Interest Rates are at lows ates of 0.25%.