Medium Term Financial Strategy: 2013-16

1. Introduction

The organisation has a record of strong financial management. Historically budgets have been delivered without significant over or underspends and the Council operates with low level of reserves. The Council's ability to manage within significant financial change is vital to its continuing success in delivering the Council Strategy.

In recent years the Council has delivered historically low levels of Council Tax changes year on year, including a Council Tax freeze in 2011-12 and in 2012-13. Also, since 2010 there has been unprecedented reductions in the Council's grant from Central Government. The Council has responded to these challenges by reducing costs across its different services whilst ensuring that services remain focussed on the priorities contained within the Council Strategy (2012-16).

As will be outlined in Chapter 2, the council needs to identify an expenditure reduction programme that will save £17m over the course of the medium term financial strategy in order to match predicted income levels. This gap will be closed through a mix of income generation, expenditure reductions, efficiency savings and a modest rise in council tax of 2% in 2013/2014.

A number of challenges lie ahead for the Council. The Government's strong focus on deficit reduction will mean continued cuts to Government grants to the Council until 2018. The Government has also put in place significant reforms to Council finances by allowing Councils to retain some of the growth in local Business Rates. Ensuring that businesses thrive and grow within West Berkshire will therefore be an increasing priority for the Council; not just to ensure that the district retains its strong base as a place to do business, but also to enable the Council to retain sufficient monies so as to deliver its services in line with the Council Strategy. Another Government reform has been to let Councils set up their own Council Tax Support scheme, but with a 10% reduction in funding from Central Government, to encourage people into work. Both of these reforms will require close monitoring to ascertain how they will impact on the Council's finances from 2013.

During this period the demand for many Council services will continue to increase. Adult Social Care (ASC) has seen a significant increase in demand in recent years. The ASC efficiency programme is making strong inroads into delivering the necessary year on year savings whilst protecting access and quality of service. Demand in other areas such as Children's services - where additional cost pressures are occurring due to extra child placements – are also increasing our spend.

Government reforms to benefits payments will also create shifts in demand for Council services, especially for the Housing Services. In Education, Government reforms create significant instability over the Council's future role in influencing the education of the district's children, with funding flows moving away from 'maintained' schools. At the same time, the Council's universal services (such as Waste management, highways, planning and cultural services) must respond to an increasing population, reduced Government funding and built-in contractual cost increases.

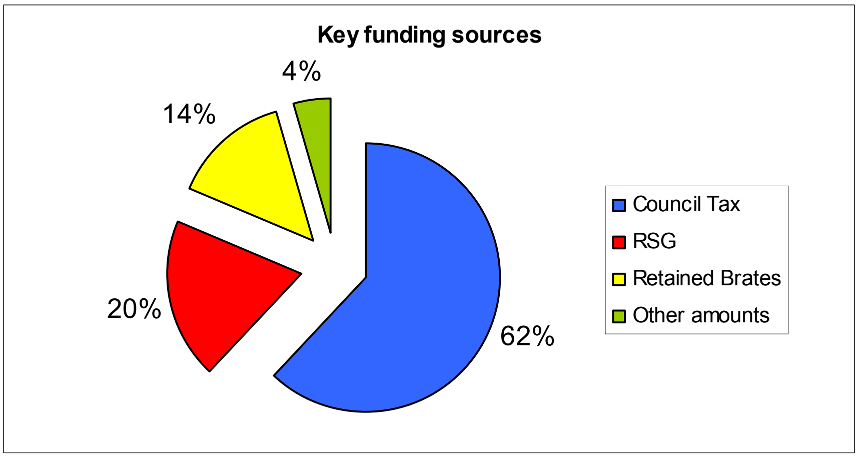
The Council has responded positively to all these challenges and will continue to do so. This document sets out in further detail the financial impact on the Council, what the Government's financial reforms mean and how the Council will respond within the anticipated financial resources over the next three years.

2. The Financial Challenge

The Council has seen significant reductions to it's Government Grants over the past three years, and expects to see further reductions in the coming years. At the same time, the Council has suppressed Council Tax levels and the working assumption is to maintain low levels of Council Tax rises in the future.

As the graph below highlights, from 2013-14 the Council's primary financing sources are from three main areas:

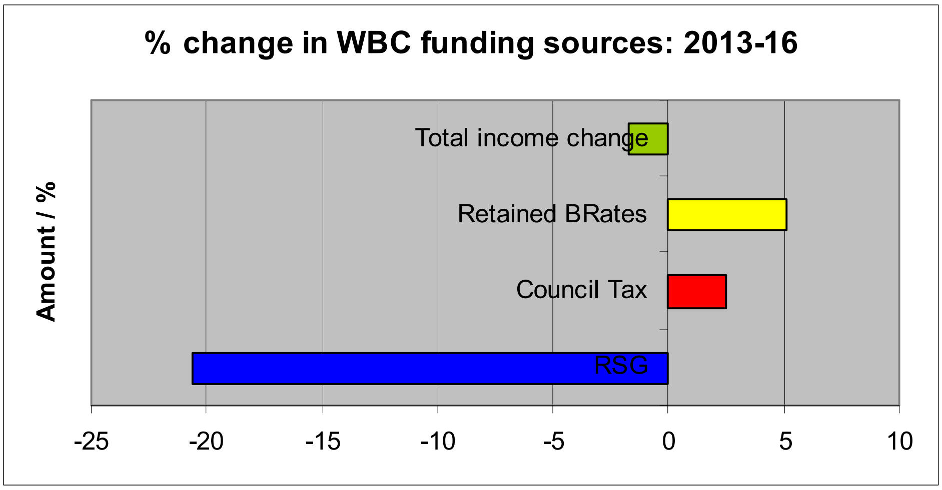
Graph 1.1: Funding sources



This highlights that nearly two thirds of the Council's funding comes directly from the local population in the form of Council Tax; therefore decisions around its level, and the increase in properties on which the Council can charge Council Tax (the Council Taxbase) is extremely important for West Berkshire Council.

The changes of the three main areas of WBC's funding is highlighted below:

Graph 1.2: Percentage changes to WBC funding: 2013-16



The impact of the graph above is significant. If the Council is to perform exactly the same functions year on year with no additional demands (for example in Adult or Children's Social Care) then the Council's costs rise by just over 2% year on year. This is due to a combination of nationally driven pay awards and cost increases on the contracts the Council has with external service providers.

The top bar shows that expected income is reducing, primarily due to reductions in RSG. Therefore, just to 'stand still' the Council must find over 6% of savings (circa £7m) over this period before adjusting for any reduction in funding levels and additional cost pressure on the Council (modelled at circa £10m) hence the savings requirements of circa £17m over the next three years.

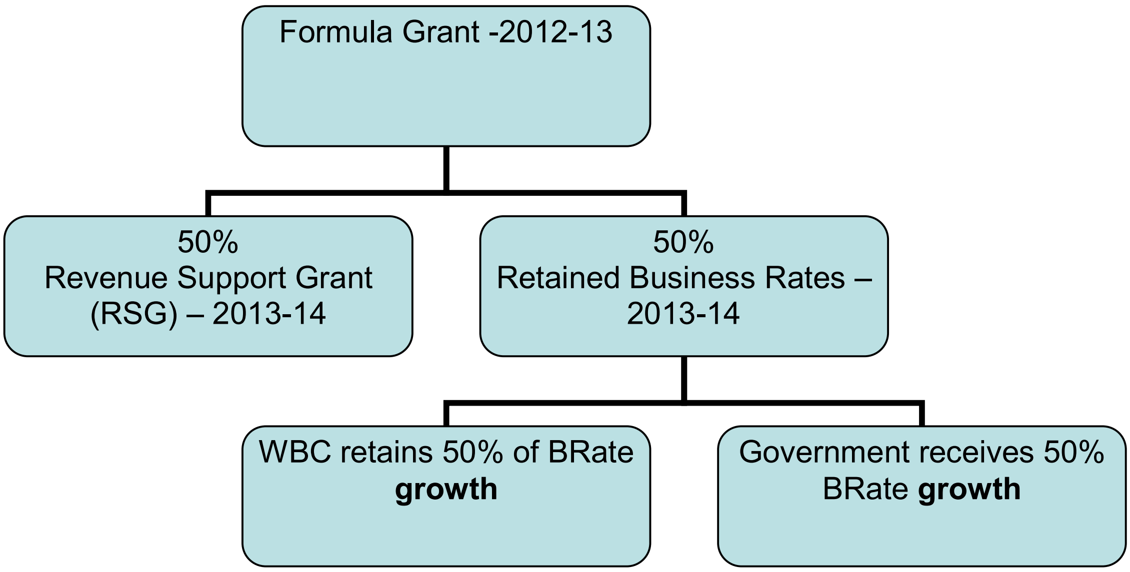
The net change (taking into account base movements, inflation, additional cost pressures, investments and savings) is a reduction of circa £6m over the course of the MTFS.

3. Government's reforms to Local Government finance

From 2013/14, the Government are implementing fundamental reforms to Local Government finances. The main change is the ability for Councils to retain some of the Business Rates they collect.

The current scheme is based on the Council collecting Business Rates from businesses in West Berkshire (about £80m) and then returning these to Government. Following a complex financial formula, the Council receives about £40m back from Government.

The new scheme will split the above in half. 50% of the Government's financing of Councils will remain as above. The other 50% will allow the Council to retain some business rates. Government works out the past two years average business rates and if the Business Rates in 2013-14 are above this average[1] the Council retains this amount, subject to a levy imposed by Government. For West Berkshire Council this will mean a levy of 50p in the pound on Business Rate growth; i.e. WBC keeps 50p and 50p is returned to the Government[2].



[1] The Council does not benefit from any inflation uplift

[2] If Brates fall then WBC is liable for the first £3m+ of loss until Government provide a 'safety net' payment

The Government is also making changes to capital borrowing. At present, the Council borrows money from the Public Works Loans Board (PWLB), a subsidiary of HM Treasury. The rates obtained are favourable compared to private sector financing rates. From November 2012, Government allowed Councils to borrow at 20 base points lower from PWLB if they provide additional information on future capital spending programme, which the Council has done. In 2013-14, Government are likely to introduce a 'scrutiny' rate which is potentially lower still if Councils borrow for schemes that the Government believes are in line with national objectives and offer value for money. Details on this scheme are yet to be announced, though the Chancellor's Autumn Statement seems to imply that this borrowing could be used to support economic development via Local Economic Partnerships. Note: The Council is a member of the Thames Valley Berkshire LEP

4. Delivering the Council Strategy

To ensure that the MTFS represents the themes expressed in the Council Strategy (2012-16), the Council set Capped Expenditure Levels (CELs) to directorates over the period 2013-16. These indicative CELs set out the net change to directorate budgets over the three years based on assumptions such as expected cost pressures, major contracts and any existing savings plans and priorities in the Council Strategy .

The Council Strategy focuses on four key priority areas.

- Caring for and Protecting the vulnerable
- Promoting a vibrant district. With special emphasis on Infrastructure (Highways & Rural Broadband)
- Improving Education
- Protecting the Environment

These are underpinned by a set of principles outlining how we are approaching and responding to changes in the policy, financial and legislative landscape and how we intend to shape future service delivery. This provides the framework around which our ambitions and aspirations will be achieved - articulated through a Council Delivery plan: setting out the key activities we are undertaking over the next few years; the outcomes and targets we are seeking to attain, whilst ensuring that we continue to live within our means.

WEST BERKSHIRE COUNCIL STRATEGIC FRAMEWORK 2012-16

Our overarching vision:

Keeping West Berkshire a great place in which to live, learn, work and do business

West Berkshire COUNCIL

The purpose of the Council:

1. **Helping you to help yourself**
2. **Helping you when you cannot help yourself**
3. **Helping you to help one another**
4. **Promoting and acting in the interests of the communities, people and businesses of the district.**

Our priorities in delivering public services:

- **Caring for and protecting the vulnerable**
- **Promoting a vibrant district**
- **Improving education**
- **Protecting the environment**

The principles we work to:

- **Putting people first**
- **Living within our means**
- **Empowering people and communities**
- **Transforming our services to remain affordable and effective**
- **Doing what's important well**

These strategic objectives and principles form the basis for our future service delivery and financial planning.

Establishing a medium term *strategic and financial planning cycle*

Against the background of financial contraction and uncertainty, it is important to provide a level of assuredness and stability as far as possible in our strategic and financial planning. As such, we have refined a broad, medium term strategic and financial planning cycle within the authority.

The starting point for this are the objectives and supporting performance targets we have set out in the Council Strategy and this delivery plan over the 4 years 2012 -16. Each of the Council's service units produces a service delivery plan to support the key strategic documents which in turn is used to shape the key measures and activities which track progress through the Council's performance management framework. Each strategic objective is embedded within individual service delivery plans and a set of key outcomes / output measures and four year targets (where appropriate) have been developed against each of them.

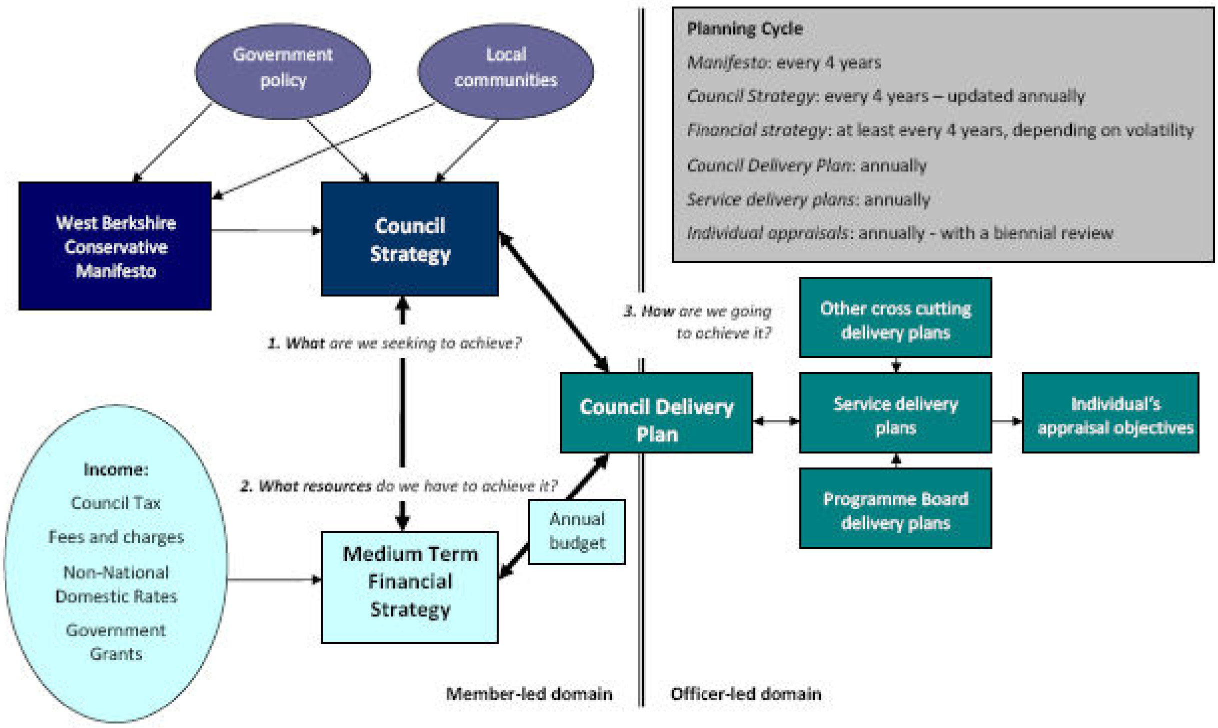
The MTFS then prioritises the allocation of our resources to those determined as most critical in supporting the strategic objectives within the strategy and our statutory responsibilities over the same period. This is reflected in the Capped Expenditure Levels (CELs) agreed for each directorate over the period 2013-16.

These indicative CELs set out the net change to directorate budgets over the three years based on where the priorities in the Council Strategy lie, along with a number of assumptions based on expected cost pressures, major contract and any existing savings plans.

This ensures that the MTFS reflects the priorities expressed through the Council Strategy and that through the service delivery plans, managers are able to ensure a clear delivery plan against key objectives over the coming years and view of available resources.

The diagram below highlights the planning framework and the linkages that exist between the various elements. At the centre of this framework lies the Council Delivery Plan, the primary purpose of which is to provide an effective link between the Council Strategy and the Medium Term Financial Strategy and individual service delivery plans.

Fig 1 - West Berkshire Council strategic planning framework



Capped Expenditure Levels

Over the period 2013-16, Adult Social Care is expected to make a net reduction in its budget in line with the ASC Efficiency Programme which commenced in 2012. The Environment directorate sees a relatively flat CEL: this is due to there being more contractual cost pressures than other directorates (due to the waste, highways and public transport contracts) and its prominence in the Council Strategy through *Promoting a Vibrant District* (including infrastructure) and *Protecting the Environment*.

Due to the Autumn Statement and Government's reforms to finance (see later chapters) the CELs will need to be revised over the course of this MTFS to ensure an ongoing balanced budget for the Council.

Asset and Capital Strategies

It is also important that the Council's asset and capital strategies follow the Council Strategy as the guiding document for the Authority's activities. To ensure that the Council Strategy is imbued across all capital-related activities, the Asset Management Strategy (part of the Capital Strategy that accompanies this document) has been more closely aligned to the Council Strategy. This is to ensure that over the life of this MTFS the Council's tangible assets reflect the services currently provided, these assets are efficient as possible, and assets that do not align with the Council Strategy are disposed of. Within the Capital Strategy itself, funding decisions over the lifespan of the document are considered in light of the Council Strategy and fit to achieve these objectives. Key spend areas within the strategy encompass *Promoting a Vibrant District* and *Improving Education*.

Outcome Based Reviews

In tandem with our approach to maximising efficiency and income and annual financial planning cycle, a programme of Outcome-Based Reviews will look at the delivery services from an outcome perspective. Different to more traditional evaluative and budgeting exercises, this approach uses the intended outcome(s) - or impact(s) - as the starting point, and then looking to see how most effectively and efficiently that outcome(s) can be delivered.

Starting from the 'end point' of the intended impact allows us to take a fresh look – without reliance on how historically services have been provided – at what resources and activities are needed in order to achieve a desirable outcome.

Outcome Based Reviews are focused on the effectiveness of delivering the intended outcome(s). In effect this asks the questions, 'what is the intended goal(s) and is there a more effective way of realising these? The point is to say, irrespective of how an outcome was achieved in the past, if we were to start from scratch, how would we deliver a service to achieve the outcome most effectively and what resource is needed to support this?

We recognise that not all functions will be suited to an outcome based review process. A number of pilots are being trialled over the course of 2012/13 with a fuller programme developed for the next few years.

5. The Financial Model

The Medium Term Financial Plan is summarised below, with further explanation behind each item within the model. In summary, income remains constrained within this model over the next three years, and to compensate for this the CELs will see larger than anticipated net reductions over the MTFS.

Line ref	MTFS	2013/14	2014/15	2015/16
		£m	*£m*	*£m*
	Council Tax increase (%)	***2.0%***	***0.0%***	***0.0%***
1	Council Tax income	*-75.66*	*-76.80*	*-77.57*
2	Revenue Support Grant	*-23.97*	*-19.89*	*-16.18*
3	Retained Business Rates	*-17.13*	*-17.82*	*-17.97*
4	Education Support Grant (ESG)	*-2.67*	*-2.54*	*-2.54*
5	NHS monies to support Social Care	*-1.79*	*-1.83*	*-1.83*
6	New Homes Bonus funding	*-1.50*	*-2.15*	*-2.72*
7	Collection Fund deficit / surplus (-)	*0.77*		
8	**Funds available**	***-121.94***	***-121.02***	***-118.80***
9	Budget build growth (pay and non-pay)	*2.09*	*1.71*	*1.74*
10	Contractual inflation	*0.41*	*0.58*	*0.60*
11	Unavoidable pressures	*1.68*	*1.00*	*0.97*
12a	Possible Savings identified	*-5.70*	*-3.34*	*-3.60*
12b	*Further savings required*		*-2.08*	*-2.45*
13	Other adjustments	*-0.41*	*0.25*	*0.25*
14	Directorate budget requirement	*115.57*	*113.52*	*110.78*
15	Levies & capital financing costs	*6.78*	*7.25*	*7.76*
16	**Budget requirement**	***121.94***	***121.02***	***118.80***

(1) Council Tax

Council Tax change assumption shown; current taxbase growth assumptions are 0.25%, then 0.5% and 1% to reflect new developments from 2014-15.

(2) Revenue Support Grant (RSG)

This figure is based on outcome of the Local Government Finance Settlement (December 2012). Figures from 2015-16 and beyond are unknown at present, but assumptions have been put in place for reductions over 15%. A new spending review is being undertaken in the first half of 2013 by the Government; this could have an impact on the 2014-15 figures.

(3) Retained Business Rates

This is the anticipated element of retained Business Rate growth retained. This is based on growth assumptions of 0.25% per annum. In the recent years the Business Rate take (once RPI inflation has been excluded) fluctuates up and down by up to 10%. Nationally the figure has risen by approximately 0.6% p.a. Analysis of the first year of how this scheme functions will help inform future predictions of this figure. Also important is the performance of the national and local economy in maintaining and growing the number (and size) of businesses in the local area.

(4) Education Services Grant (ESG)

This figure represents a Government Grant in respect of Local Education Authority (LEA) support service functions to schools. This was previously included within the 'formula grant' but from 2013-14 is separated. The assumption in the MTFS is that there is a 5% reduction in children in maintained schools in 2014-15 with no further schools converting to Academy status beyond then. For every pupil that is in an Academy school, the financial loss via this grant will be circa £116 per pupil.

(5) New Homes Bonus

This is monies received from central Government (equivalent to the Council Tax received on a band D property) for every net new additional property in the district. The Government created this scheme to incentivise planning authorities to help promote new properties being built.

(6) NHS monies to support Social Care

Non ring-fenced funding from the NHS to support Social Care services that link with the health service

(7) Collection Fund

This is the surplus or deficit from the previous year's Collection Fund. The Collection Fund is a ring-fenced account for Council Tax collected, and the variation compared to the expected Council Tax collected is pass-ported into the next financial year.

(8) Funds Available

Summary of the total non-ringfenced funds available for setting the Council's budget

(9) Base Budget

Adjustments to the Council's core costs; primarily non-pay inflation up to 1.5% on contracts, pay inflation and incremental pay awards

(10) Contractual Inflation

The amounts over 1.5% for Council inflation linked contracts

(11) Additional cost pressures

Any additional investments required for new costs; for example due to additional demand in social care

(12) Savings

The totals of savings requirements to ensure a balanced budget

(13) Other Adjustments

Summary value of adjustments due to Government funding changes (in 2013-14 this includes de-ringfencing a grant and funding parish Councils for changes due to Government's reform of Council Tax Support) or transfers from or to reserves.

(14) Directorate budget requirement

Summarises the value of the changes above on Council's directorate budget

(15) Levies and capital financing costs

Budget for payments to the Environment Agency, Magistrates courts, interest paid and received on Treasury Management (Investment) activity and, primarily, the revenue costs of paying for long term capital borrowing.

(16) Budget requirement

Total budget required

2013/14	£121.94m
2014/15	£121.02m
2015/16	£118.80m

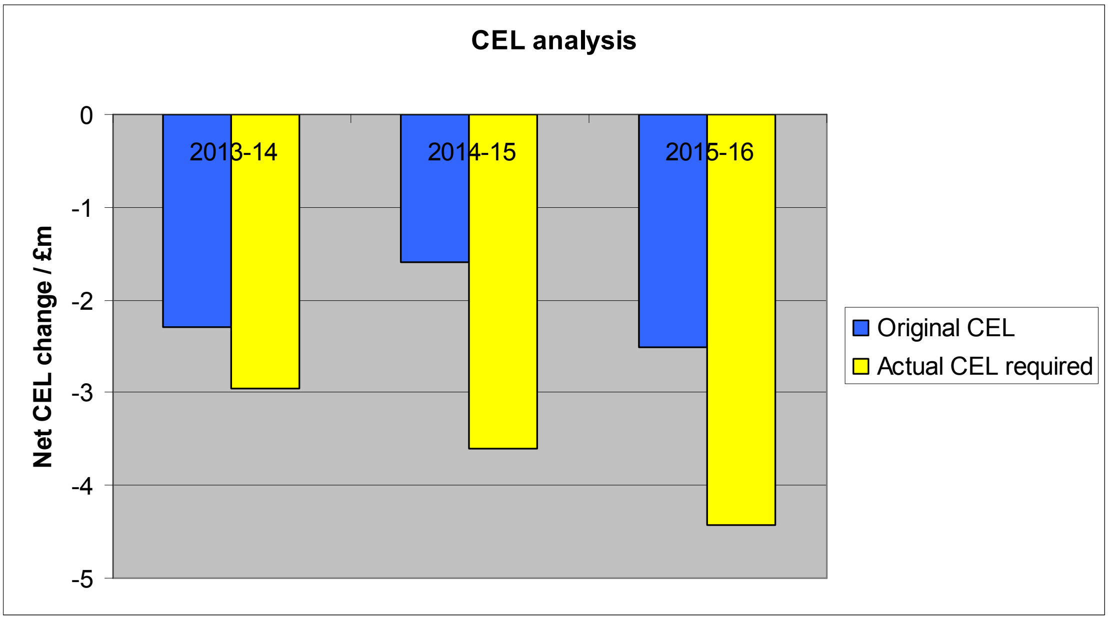
Note: the 2012/13 requirement was £123.34m

6. Rising to the Challenge

The previous chapters have explained the overall financial situation which the Council faces has deteriorated due to the Autumn Statement and some of the reforms to Local Government finance. The 2014 and beyond position could deteriorate further with the new Spending Review planned by Government that is due to be released in the first half of 2013.

The underlying approach to financial management over the medium term remains similar to the previous year; i.e. Council Strategy led, CELs supporting the provision of the Council Strategy and then Business Planning beneath this. The scale of the reductions to Government funding and the challenge that this presents means a further strategic policy review is required.

Below is a graph summarised the existing CELs and the additional savings required:



As per previous years the Council will focus on making efficiency savings first to ensure the organisation is as effective as possible. Given the scale of the CEL reductions, and the level of savings already identified, further reductions beyond efficiency will be required. The Council will therefore need to look more at income generation, which it has been successful in doing in the past, though opportunities to raise fees significantly remain constrained. This leaves the Council to pursue further options to transform services and also to disinvest in services. This direction, and the policy review framework required to adjust CELs and influence this process, will be developed during early 2013 to guide directorates and services over the medium term.

7. Beyond the Medium Term

The Government's strategy to reduce the national financial deficit is likely to continue through to 2018 at the very earliest. Local Government has been one of the areas of the public sector that has seen the highest reductions in Government spend, and this is likely to continue to be the case.

In light of the ongoing funding reductions and constraint with any new Council Tax rises, the Council will be considering its core models of serviced delivery over the coming months in light of the refreshed Council Strategy and local priorities.

The Council also needs to ensure that it has a robust financial structure on which to base its long term decisions. Continued capital investment (albeit at lower levels than in recent years) continues to ensure that the Council Balance Sheet and core assets are maintained and protected. The Council will also review its asset base to ensure that it is in line with the direction articulated within the Council Strategy.

There also needs to be sufficient levels of reserves for the Council to deliver services and take appropriate risks in amending service delivery models without impacting on the financial viability of the organisation. The main reserves that the Council holds in light of the MTFS are the 'General Reserves' of just over £6m (or just over 5% of net revenue expenditure[3]) and the Medium Term Financial Volatility Reserve (MTFVR) of £1.5m.

[3] This is the level traditionally recommended, though s151 officers must set out the final % used