

Medium Term Financial Strategy: 2014-17

1 Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) sets out the financial planning framework for the Council over the coming three years. The MTFS is a rolling three year strategy which is fundamentally about ensuring the financial resources, both revenue and capital, are available to deliver the Council Strategy.
- 1.2 The document itself outlines the key challenges that the Council faces from 2014 to 2017 and how these are expected to be met at a strategic level.

The remainder of the document is set out as follows:

Section 2: Background

Section 3: The Financial Challenge

Section 4: Delivering the Council Strategy

Section 5: Rising to the Challenge

Section 6: Conclusions

2 Background

- 2.1 Since 2010 there have been unprecedented reductions in the Council's funding from Central Government as part of the Government's deficit reduction programme, amounting to a near 50% reduction from 2010/11 to 2016/17 of circa £15m.
- 2.2 West Berkshire Council has taken unprecedented action in response to reduced funding. Since 2010 we have continued to make efficiency savings and transform services. Staff numbers have reduced by 204 since 2010. 309 posts in total have been reduced representing 15% of the total workforce.

Government announcements affecting the MTFS

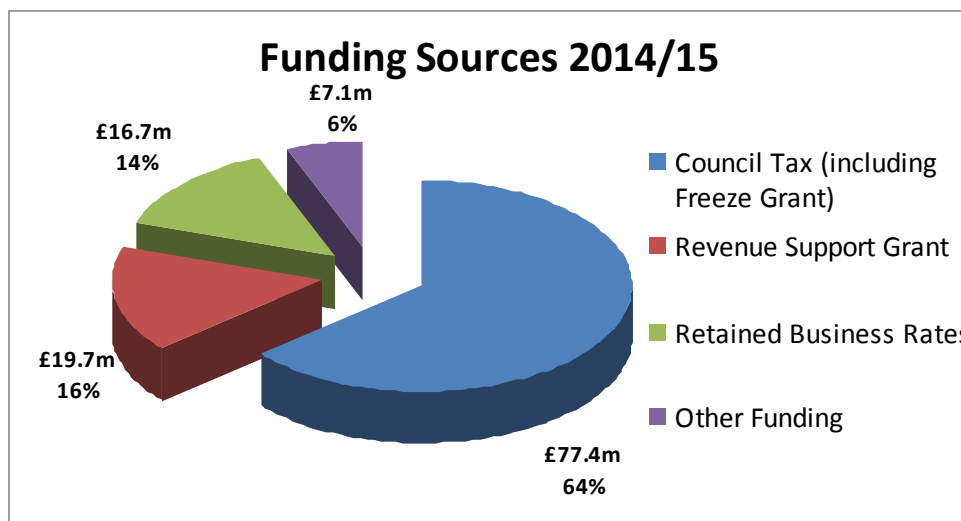
- 2.3 The June 2013 Spending Review, announced pooled funding between the NHS and local authorities for joint commissioning of health and social care. The Better Care Fund will provide funding to achieve closer integration and improve outcomes for patients, services users and carers. A condition of accessing the money is that the CCGs and Councils must jointly agree plans for how the money will be spent. The fund is also intended to meet the costs of meeting the Care Bill. This funding increases the total funding available to the Council in comparison to previous years, but also increases the Council's expenditure by the same amount.
- 2.4 Government has announced that the Council tax freeze grant will be extended over the next two years and will form part of the Revenue Support Grant thereafter. This MTFS assumes that WBC will freeze Council Tax and accept the freeze grant which is equivalent to 1% of Council Tax, although additional savings are still required to meet this freeze objective.
- 2.5 For 2014/15 the small business rates multiplier has been capped at 2%, rather than the September 2013 RPI rate of 3.2%. Local authorities will be compensated for this.

Key issues over the life of the MTFS

- 2.6 The Council's ability to manage within significant financial change and reduced Government grant, is vital to its continuing success in delivering the Council Strategy. Ensuring that businesses thrive and grow within West Berkshire has become an increasing priority for the Council as reliance on this area of funding increases over the life of the MTFS. Due to Government reforms to business rates, the Council is now exposed to the volatility in both the local and national economy.
- 2.7 Demand is expected to increase for services such as Adult Social Care and Children's Services, where additional cost pressures are occurring due to extra child placements. 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 in line with inflation measures.
- 2.8 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 LEA maintained schools.

3 The Financial Challenge

- 3.1 The Council has seen significant reductions to 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.
- 3.2 As the graph below highlights, in 2014-15 the Council's primary financing sources will be from three main areas:

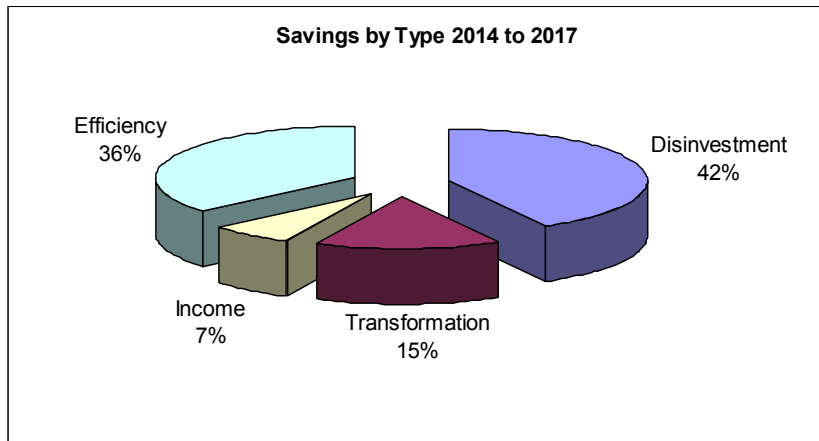


- 3.3 This highlights that nearly two thirds of Council funding comes directly from the local population in the form of Council Tax; therefore decisions around its level, and the increase in properties on which the Council can charge Council Tax (the Taxbase) are extremely important for West Berkshire Council.
- 3.4 For the Council to perform exactly the same functions year on year with no new demands, the Council's costs rise by around 2% each 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. Therefore, just to 'stand still' the Council must find over £6.7m of savings over the period of the MTFS. This is before adjusting for any new cost pressures and reduction in funding levels as can be seen in the following table.

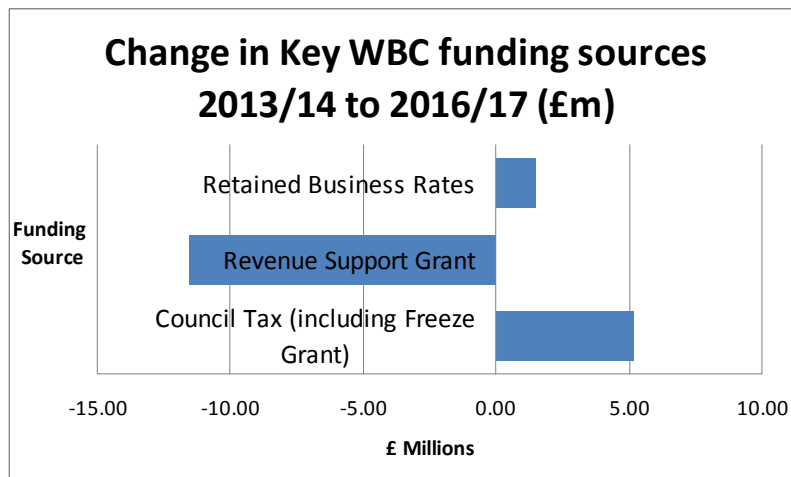
Changes to Revenue Budgets 2014/15 to 2016/17	2014/15	2015/16	2016/17	Total
	£m	£m	£m	£m
Reduced Government funding	3.67	4.82	1.43	9.92
Increase in Council Tax and Business Rate income	-2.19	-2.90	-2.26	-7.35
Pay and contractual increases	2.16	1.85	2.73	6.74
New cost pressures	1.20	0.71	1.41	3.32
Increase in capital financing costs	0.66	0.61	0.50	1.77
Other adjustments and use of reserves	0.13	-0.20	0.91	0.84
Savings Programme	-5.63	-4.89	-4.72	-15.24
Balance	0.00	0.00	0.00	0.00

Note: this table excludes the impact of the Better Care Fund on both income and expenditure.

3.5 The resulting savings requirements are circa £15.2m over the next three years. The chart below shows how these savings are broken down by type.



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



3.7 The Medium Term Financial Plan is summarised below, with further explanation behind each item within the model explained in Appendix 1. In summary, income remains constrained within this model over the next three years.

2013/14	Line ref	Medium Term Financial Strategy	2014/15	2015/16	2016/17
£m			£m	£m	£m
-75.66	1a	Council Tax income	-76.56	-77.48	-78.41
0.00	1b	Council Tax Freeze Grant	-0.82	-1.60	-2.38
-23.97	2	Revenue Support Grant	-19.69	-14.61	-12.42
-17.13	3	Retained Business Rates	-16.66	-18.02	-18.56
-2.67	4	Education Services Grant (ESG)	-2.52	-2.01	-2.01
-1.79	5	Better Care Fund	-2.21	-8.58	-8.58
-1.50	6	New Homes Bonus	-2.26	-3.03	-3.79
0.77	7	Council Tax Collection Fund deficit / surplus (-)	-0.16	0.00	0.00
-121.94	8	Funds available	-120.88	-125.33	-126.16
117.09	9	Opening Directorate Budget	115.57	113.71	117.76
2.09	10	Base budget growth (pay and non-pay)	2.26	7.95	2.54
0.41	11	Super inflation	0.31	0.27	0.19
1.68	12	Unavoidable service pressures	1.20	0.71	1.41
-5.70	13	Savings identified	-5.63	-4.89	-4.72
115.57	14	Directorate budget requirement	113.71	117.76	117.17
6.78	15	Levies & capital financing costs	7.45	8.05	8.55
-0.66	16a	Use of reserves	0.00	0.00	0.00
	16b	Use of Medium Term Financial Volatility Reserve	-0.44	-0.59	0.38
0.25	17	CTSS support for Parishes	0.16	0.11	0.05
121.94	18	Budget requirement	120.88	125.33	126.16

Nb roundings may apply in table

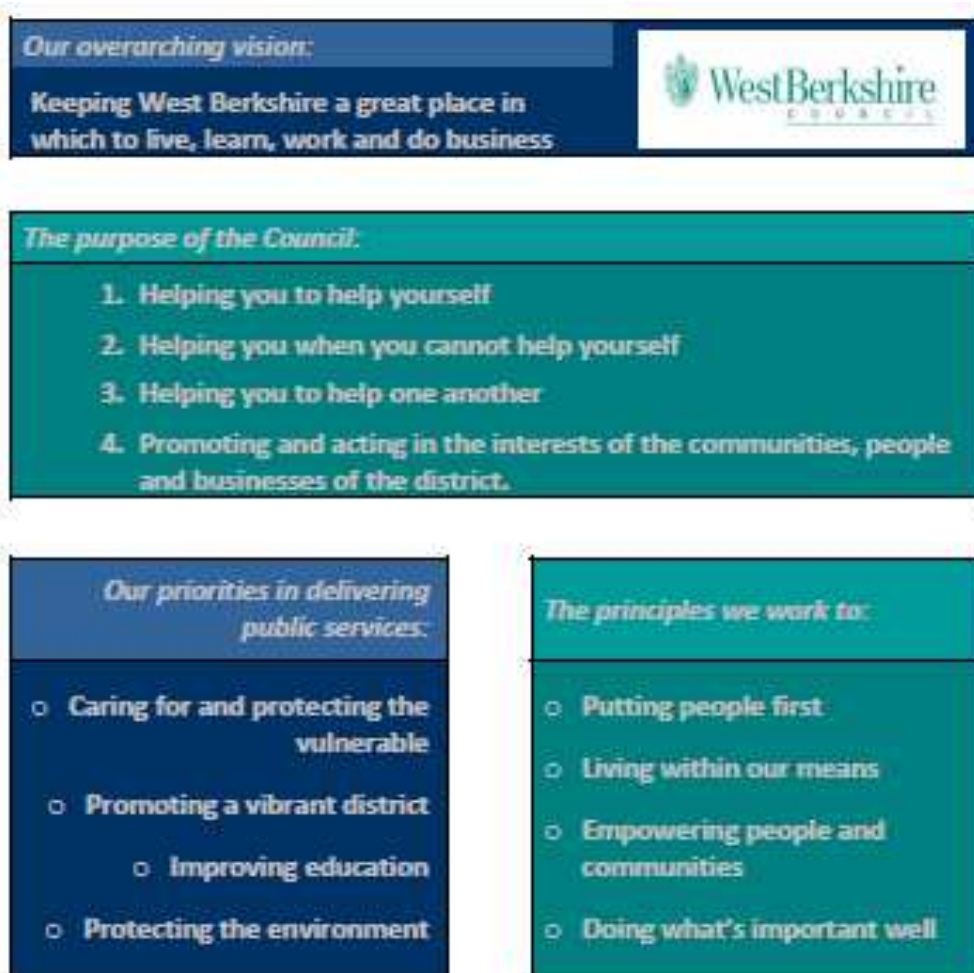
Note: Line 10 increases in 2015/16 due to the extra costs associated with meeting the Health Integration and Transformation agenda along with Care Bill requirements, and funded by additional Better Care Funds shown in Line 5. If these costs and funding were excluded from the MTFs, the budget requirement would be as follows:

2013/14		2014/15	2015/16	2016/17
£m		£m	£m	£m
121.94	Budget requirement	120.46	118.54	119.37

3.8 Excluding the Better Care Fund areas it can be seen that there has been a real terms cut in budget requirement levels over the 3 years of the Strategy.

4 Delivering the Council Strategy

- 4.1 The Council Strategy sets out our priorities and a realistic set of objectives that we will deliver for the people of West Berkshire, whilst living within our means. The Strategy focuses on four key priority areas which are underpinned by a set of principles which will guide how we are responding to changes in the policy, financial and legislative landscape and how we intend to shape future service delivery.



- 4.2 This provides the framework for future decision making; prioritising those areas seen as most important and setting out our overarching approach to dealing with the reduction in our resources, whilst keeping the impact on local communities to a minimum.

- 4.3 The Medium Term Financial Strategy allocates our available resources focussing on those determined as most critical in supporting our priorities and statutory responsibilities. This, in turn, determines the level of service we will realistically be able to provide in different areas.
- 4.4 During 2013/14 a business rate shortfall arose due to valuation changes. The total business rates shortfall is estimated to be in the region of £440k by year end. As a result, the Medium Term Financial Volatility Reserve will be called upon to make up the shortfall in income in 2014/15.

Asset and Capital Strategies

- 4.4 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*.
- 4.5 The financial challenge to the capital programme is to meet the service requirements within the available funding as set out in the Capital Strategy also on this agenda.

5 Rising to the Challenge

- 5.1 The underlying approach to financial management over the medium term remains similar to the previous year; i.e. Council Strategy led, Directorates supporting the provision of the Council Strategy and then Business Planning beneath this.
- 5.2 To ensure that the MTFs represents the themes expressed in the Council Strategy, the Council sets Capped Expenditure Levels (CELs) for directorates over the period 2014-2017. These set out the net change to directorate budgets over the three years based on assumptions such as expected cost pressures, major contracts and savings plans and priorities in the Council Strategy.
- 5.3 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 2012-13, and aims to continue freezing Council Tax over the term of this financial strategy.
- 5.4 The Council has identified an expenditure reduction programme that will save in the region of £15m 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 and efficiency savings. Costs have been reduced across its different services whilst ensuring that services remain focussed on the priorities contained within the refreshed Council Strategy (2014-17).
- 5.5 As per previous years the Council will focus on making efficiency savings first to ensure the organisation is as effective as possible. However, to get more efficient will require us to evolve our budgeting methodology. In 2014/15 we will be piloting a Zero Based Budgeting (ZBB) approach in a major service area. Given the scale of the budget 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.

6 Conclusions

- 6.1 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 service delivery over the coming months in light of the Council Strategy and local priorities.
- 6.2 The local economy is improving which is having a positive impact on our Council taxbase, but we need to monitor this closely as any changes to both the local and national economy will impact our funding.
- 6.3 The Council 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 refreshed Council Strategy.
- 6.4 There 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 expenditure¹) and the Medium Term Financial Volatility Reserve (MTFVR) of just over £1m.
- 6.5 The Council has a track record of strong financial management. Historically budgets have been delivered without significant over or under spends. The Council's ability to manage within significant financial change is vital to its continuing success in delivering the Council Strategy.

¹ This is the level traditionally recommended, though s151 officers must set out the final % used