

West Berkshire Council
Medium Term Financial Strategy
2015-2018

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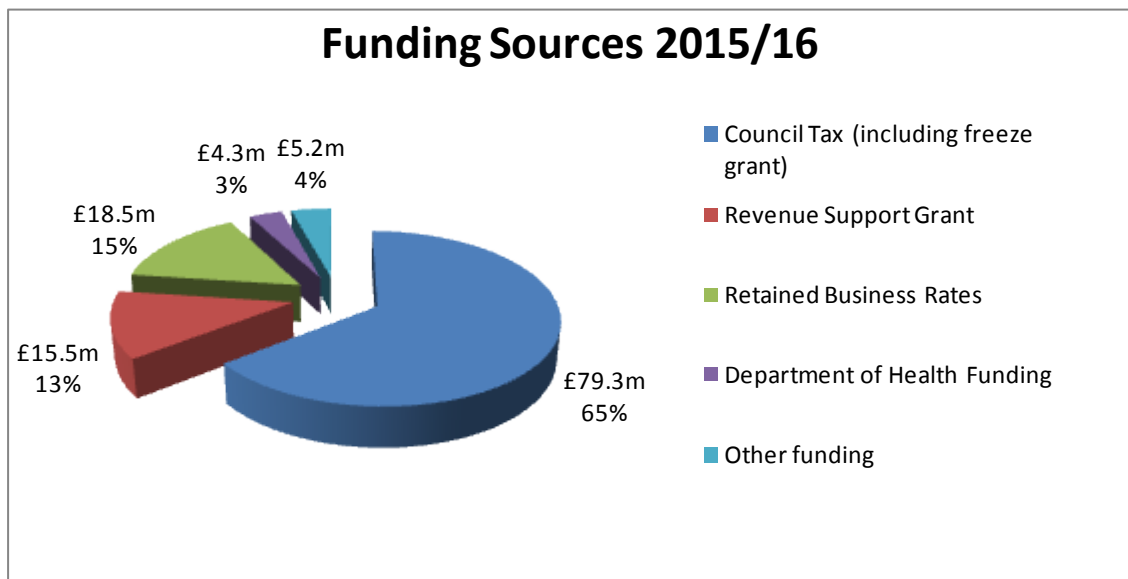
1. Introduction

- 1.1 The Medium Term Financial Strategy (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. This MTFS covers the period 2015 to 2018. It identifies the likely costs and pressures that the Council is expected to face, and matches these against the anticipated resources over the period.
- 1.2 Since 2010 there have been major reductions in the Council's funding from Central Government as part of the Government's deficit reduction programme. West Berkshire Council has taken unprecedented action in response to reduced funding. Since 2010 we have had to make around £31million savings through efficiencies and service transformation. Staff numbers have reduced by nearly 300 full time equivalent representing over 16% of the total workforce. The Council is now faced with making a further £17m savings over the next three years.
- 1.3 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.
- 1.4 Demand continues to increase for services such as Adult Social Care, due to demographic growth and the impact of the Care Act, and in 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.
- 1.5 In Education, Government reforms create more challenges over the Council's future role in influencing the education of the district's children, with funding flows moving away from the LEA and into maintained schools.
- 1.6 There is also significant pressure on the capital programme – in particular to deliver sufficient school places to meet demand and to ensure the Council's ICT systems are maintained and improved in order to enable the continued efficient delivery of services.
- 1.7 The MTFS should be read in conjunction with the Revenue Budget, Capital Strategy and Programme and Investment and Borrowing Strategy reports.

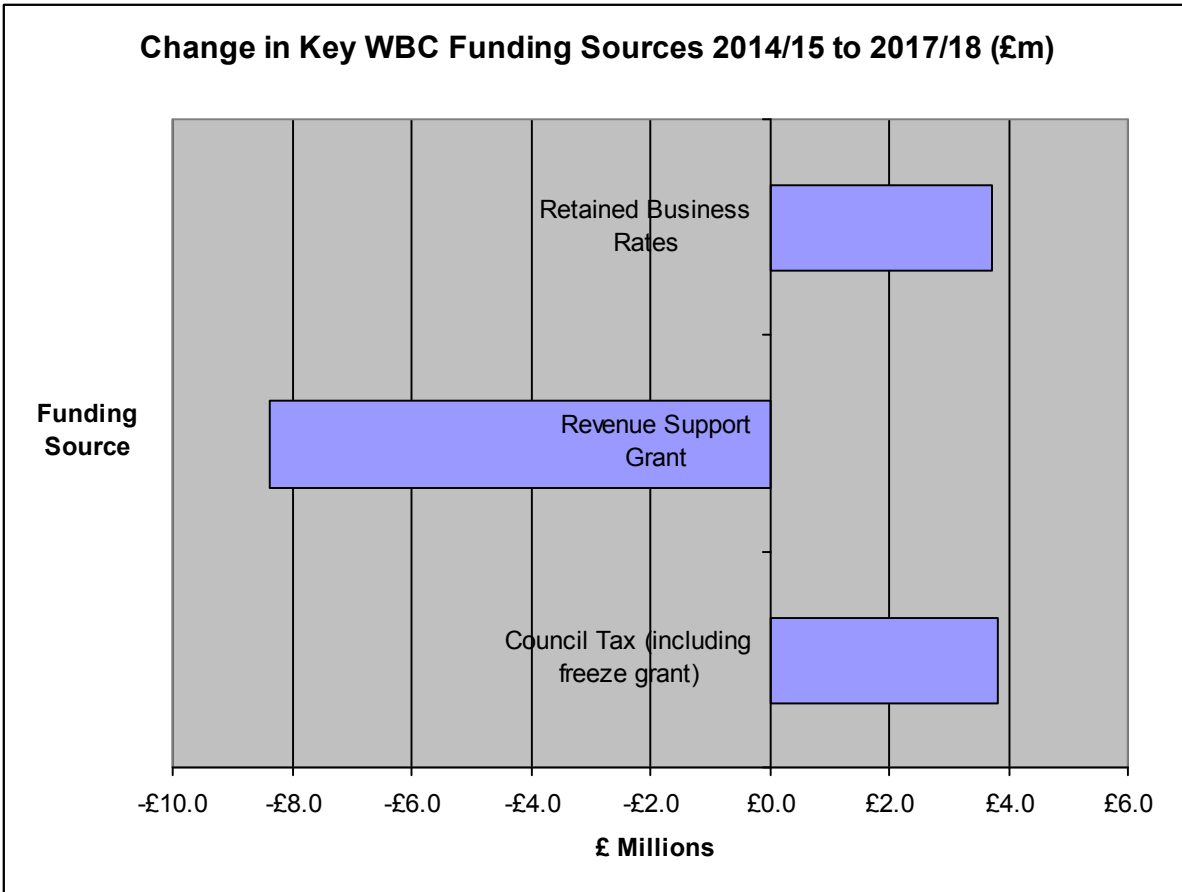
2. The Financial Challenge

Sources of Funding

- 2.1 West Berkshire Council has seen unprecedented reductions to Government grant funding since 2010, and expects further reductions over the coming years. At the same time the cost of providing services has risen and demand has increased. The following chart shows the Council's primary sources of finance in 2015/16:

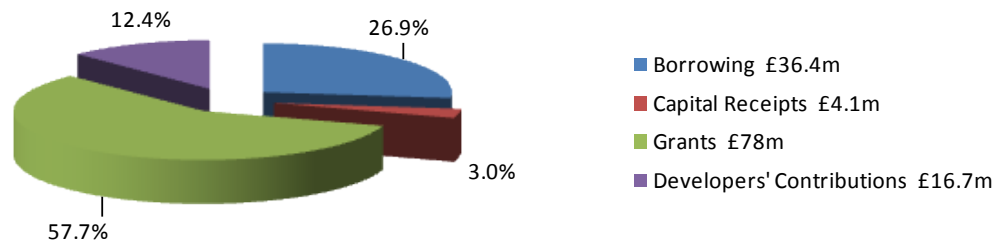


- 2.2 The chart highlights that nearly two thirds of West Berkshire Council's funding comes directly from the local population in the form of Council Tax; therefore decisions around its level, and the increase in properties on which the Council can charge Council Tax (the Taxbase) are extremely important for West Berkshire Council. In recent years the Council has delivered historically low levels of Council Tax changes year on year, including a Council Tax freeze in three of the last four years. Where possible the Council aims to minimise Council Tax increases over the term of this financial strategy.
- 2.3 Business rates represent an opportunity and a risk for West Berkshire Council. From 2013/14, the Council has been exposed to the volatility of our local business rate generation and the Council's business rate income is now dependent on the local economic environment.
- 2.4 Over the period of the MTFs, the Council will become more reliant on Council Tax and Business Rates as sources of income as the Revenue Support Grant continues to reduce, as can be seen in the following chart:



- 2.5 The purpose of the Better Care Fund is to promote greater integration between Health and Social Care. The Health and Wellbeing Board have agreed plans that will see a range of new schemes delivered in 2015/16 with the aim of improving the service user experience and in particular reduce the numbers of non-elective hospital admissions. The financial plans have been agreed between the council and the Clinical Commissioning Groups with total spending contained within the fund level set by the Department of Health.
- 2.6 The first phase of the Care Act 2014 comes into force in April 2015 and introduces the most significant changes to social care legislation for 60 years. The two changes expected to have the most significant financial impact for the council are the introduction of a new national eligibility criteria and the entitlement for Carers. Extensive modelling of the likely impact puts the cost of the new Care Act duties at £5.2m in 2015/16. Despite the government stating they would meet the costs of the Care Act in full, the total additional funding being received is only £2.2m leaving the council to cover a funding gap of £3m.
- 2.7 Capital expenditure is funded mainly from government grants, developers contributions (i.e. residual section 106 contributions and the new Community Infrastructure Levy – CIL), capital receipts from the sale of assets which are no longer needed by the Council for operational or investment purposes and from long term borrowing, mainly from the Public Works and Loans Board (PWLB). A breakdown of the expected sources of funding for the proposed five year capital programme 2015/16 to 2019/20 is shown in the chart below:

Sources of Funding for Total Planned Capital spending from 2015/16 to 2019/20



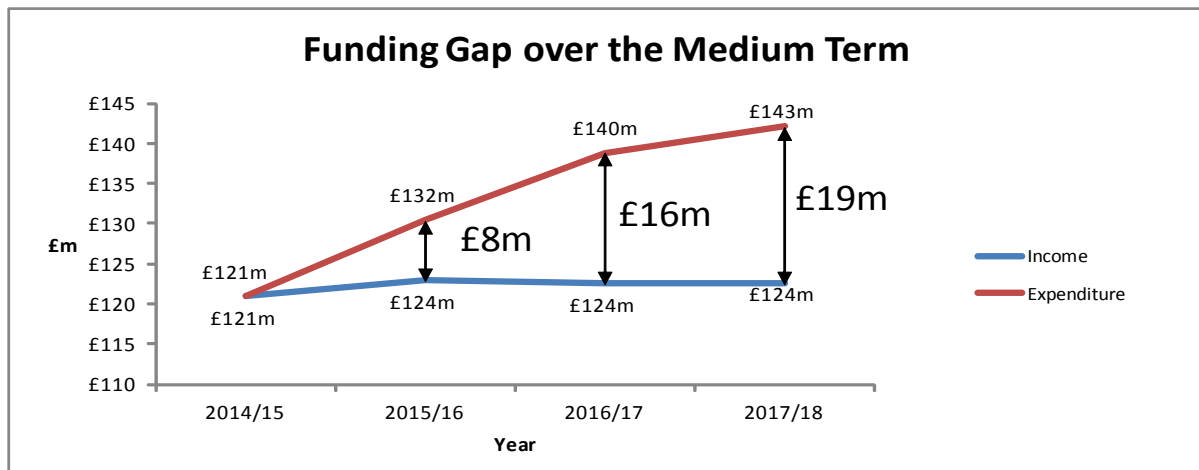
2.8 Capital receipts, grants and developers' contributions are in addition to the revenue grants and contributions shown above. However, annual provision must be made in the revenue budget for the cost of repaying the principal and interest on borrowing of circa £500k pa to fund capital expenditure.

Costs

2.9 The Council's costs rise by around 2% each year for the Council to perform exactly the same functions year on year with no new demands. Therefore, just to 'stand still' the Council must find £7m of savings over the period of this MTFS for pay and contractual increases. This is before adjusting for new cost pressures of £3.6m (e.g. increased demand on children's placements and social worker recruitment programme), pressures relating to the Care Act of £5m and reduced Government funding of £7.1m.

Savings

2.10 After forecast increases in Council Tax and Business Rate income, the resulting savings requirements are circa £17m over the next three years plus use of just over £2m from reserves in 2015/16. The following chart shows the funding gap over the medium term between income and expenditure.



3. The Three Year Financial Plan

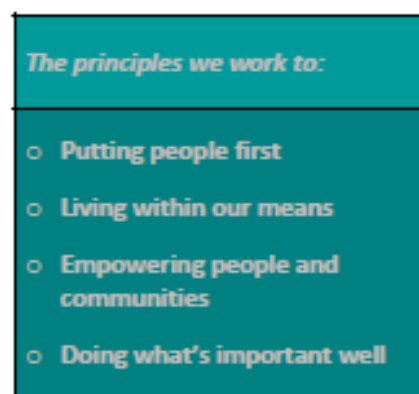
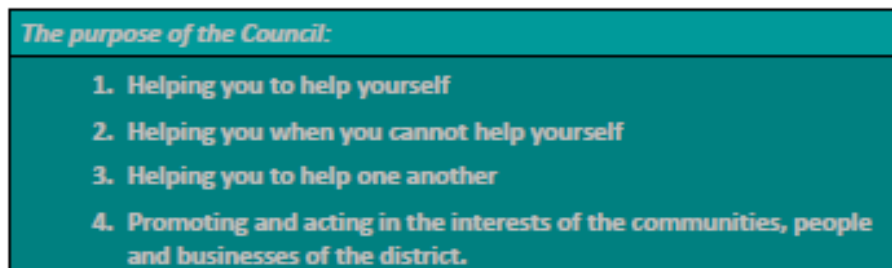
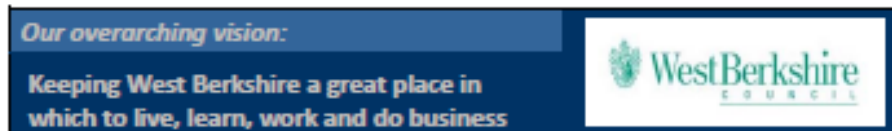
3.1 The Medium Term Financial Plan is summarised below, with further explanation behind each item explained in Appendix B.

2014/15	Line ref	Medium Term Financial Strategy	2015/16	2016/17	2017/18
£m			£m	£m	£m
76.56	1a	Council Tax income	78.44	79.38	80.33
0.82	1b	Council Tax Freeze Grant	0.86	0.87	0.88
19.69	2a	Revenue Support Grant	15.47	12.96	11.32
0.00	2b	Other Non-Ringfenced Grants	0.21	0.18	0.15
16.66	3	Retained Business Rates	18.52	19.60	20.39
2.52	4	Education Services Grant (ESG)	2.03	2.03	2.03
2.21	5	Department of Health Funding	4.34	3.62	3.62
2.26	6	New Homes Bonus	3.06	3.83	3.83
0.16	7	Council Tax Collection Fund deficit (-)/ surplus	-0.07	0.00	0.00
120.88	8	Funds available	122.86	122.47	122.55
115.57	9	Opening Directorate Budget	113.13	116.30	113.38
1.68	10a	Base budget growth	1.14	2.11	1.14
0.00	10b	Base budget growth - Care Act Eligibility	5.15	1.49	-0.23
0.31	11	Contract inflation	0.81	0.91	0.90
1.20	12	Unavoidable service pressures	1.98	0.76	0.87
-5.63	13	Savings requirement	-5.91	-8.19	-3.14
113.13	14	Directorate budget requirement	116.30	113.38	112.91
8.03	15	Levies & capital financing costs	8.64	9.14	9.64
-0.44	16	Use of reserves	-2.18	-0.10	0.00
0.16	17	CTSS support for Parishes	0.11	0.05	0.00
120.88	18	Budget requirement	122.86	122.47	122.55

Nb roundings may apply in table

4. Delivering the Council Strategy

- 4.1 The Council Strategy sets out our vision, our strategic aims and our priorities for improvement for West Berkshire.



- 4.2 The Council has recently released consultation on a new Council Strategy and welcome's feedback before the 16th March closing date. The consultation pages can be found on the Council's website using the following link <http://info.westberks.gov.uk/index.aspx?articleid=30922> .
- 4.3 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. The Council is expecting to continue to see Government funding fall over the life of the strategy, and will need to save a further £17m over the next three years, having already made savings of £31m since 2010. Such a level of savings cannot be found by further trimming of existing services. A more radical reshaping of the Council is now required. This needs to be driven by a review of what the Council has and wishes to do itself and a consideration of what might be best done by others, or possibly not done at all.
- 4.4 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.

- 4.5 It is also important that the Council's Capital and Asset Strategy is driven by the Council Strategy as the guiding document for the Authority's activities. The Capital and Asset Strategy therefore sets out to enable the Council's assets and systems to be maintained and improved, to enable the effective and efficient delivery of the Council's key priorities as set out in the Council Strategy. This is achieved by prioritising available capital funding towards the schemes which help to deliver the Council's strategic priorities.
- 4.6 The financial challenge to the capital programme is to meet the service requirements within the available funding as set out in the Capital Strategy.

5. Reserves

5.1 The Authority's revenue reserves are made up as follows:

Revenue Reserves estimate	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
General Funds:				
General Fund	6,480	6,034	5,934	5,934
Medium Term Financial Volatility Reserve	1,531	481	481	481
Total General Fund	8,011	6,515	6,415	6,415
Earmarked Reserves	12,801	10,554	9,807	9,596
Total Revenue Reserves	20,812	17,069	16,222	16,011

5.2 The main reserve that the Council holds is the General Fund which is comprised of 'General Fund' and the 'Medium Term Financial Volatility Reserve' (MTFVR). Earmarked Reserves are held for future restructuring costs and specific future liabilities.

5.3 To support the 2015/16 budget just over £2m of reserves will be used. This will be funded with £1m from MTFVR and £1m from Earmarked Reserves. The General Funds at 1.4.2015 will total £6.5m, comprising £6m of General Fund and £0.5m of MTFVR.

5.4 Further use of reserves from 2014/15 relate to funding the forecast over spend in the current year and restructuring costs. In future years, use of reserves relates mainly to restructuring costs to meet savings targets identified in paragraph 3.1.

6. Rising to the challenge

- 6.1 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 Service Planning beneath this.
- 6.2 To ensure that the MTFS represents the themes expressed in the Council Strategy, the Council has set Capped Expenditure Levels (CELs) for directorates over the period 2015-2018. 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.
- 6.3 The Council has identified an expenditure reduction programme that will make revenue savings in the region of £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 and efficiency savings. Costs have been reduced across different services whilst ensuring that services remain focussed on the priorities contained within the Council Strategy (2015-19).
- 6.4 As per previous years the Council will focus on making efficiency savings first to ensure the organisation is as effective as possible. During the period of this MTFS, the Council will have to make reductions to some services as the scope for efficiency is diminished.
- 6.5 In 2014/15 we piloted a Zero Based Budgeting (ZBB) approach in the Highways and Transport service. In 2015/16 it is intended to roll out series of Zero Based Reviews that will complement our existing budget mechanisms.
- 6.6 The Capital Programme, in order to avoid placing further pressure on the revenue budget, makes use of government grants, developers' contributions and capital receipts wherever possible. However, so as to fully fund the Council's highest priorities for capital investment (as set out in the Capital Strategy and Programme) it is expected to be necessary to spend approximately £6m capital per year, going forward, which will be funded from new long term borrowing. This level of borrowing will require an increase in the revenue budget of £603,000 in 2015/16 (which allow for exceptional additional investment in highways improvements) and £500,000 per year thereafter, to allow for the annual repayments of principal and interest on debts.
- 6.7 The Council's ability to invest this level of capital from within this level of revenue provision is based on certain assumptions about future interest rates and capital receipts which are set out in the Capital Strategy and Programme Report. This includes the assumption that the Bank of England base rate will increase by around 0.5% per year to a peak of 2.5% in 2019. If interest rates rise more steeply than this, then future years' capital and/or revenue spending plans will need to be revised.
- 6.8 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, sharing services and also to disinvest in services.

7. Conclusions

- 7.1 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 need to make reductions to service delivery whilst remaining in line with the Council Strategy and local priorities.
- 7.2 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.
- 7.3 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.
- 7.4 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.
- 7.5 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.