Appendix A

Medium Term Financial Strategy 2017/18 to 2019/20 – Supporting Information

1. Introduction/Background

1.1 The Medium Term Financial Strategy (MTFS) is a rolling three year strategy which is built to ensure that the financial resources, both revenue and capital, are available to deliver the Council Strategy. The MTFS should be read in conjunction with the Revenue Budget 2016/17, Capital Strategy and Investment and Borrowing Strategy reports.

1.2 The aim of the MTFS is to:

(1) Allocate our available resources focussing on those determined as most critical in supporting our priorities and statutory responsibilities

(2) Determine the level of service we will realistically be able to provide

(3) Ensure that capital investment is affordable

(4) Ensure that the Council has sufficient levels of reserves.

1.3 Over the last seven years, West Berkshire Council has had to find over £50m of revenue savings, which has been achieved through finding efficiencies, staff reductions and transforming services. This level of savings was required as a result of a number of factors:

(1) Since 2010, Council funding from Central Government has significantly reduced as part of the deficit reduction programme.

(2) Since 2013/14, the Council has been exposed to the volatility of our local business rate generation. This represents both an opportunity to benefit from growth, but also a risk. Since the introduction of local business rate retention, growth has stagnated and a number of large appeals have reduced the Council’s income.

(3) The Care Act 2014 came into force in April 2015, introducing the most significant changes to social care legislation for 60 years. Despite the Government stating they would meet the costs of the Care Act in full, the Council has been left to cover an annual funding gap of £3m.

(4) The Council’s costs rise by about 2% each year to perform exactly the same functions with no new demands. There have also been new cost pressures such as increased demands on children’s placements, social worker recruitment, demand for social care and demand for services such as waste management.

(5) Over two thirds of the Council’s income comes from Council Tax, which has seen no increases in four out of the last six years.

2. Spending Review 2015

2.1 The Chancellor delivered the Autumn Statement and Spending Review 2015 on 25 November 2015. This covers the period up to 2019/20, and includes a 53% cut in Government Funding to local authorities from 2016/17 to 2019/20, which will see the local government budget fall from £11.5 billion to £5.4 billion by 2020. However, with more locally generated income from council tax and business rates, Government claims that by 2020 local government will be spending the same in cash terms as it does today.

2.2 The Spending Review included proposals for further major transformation of local government funding, confirming that the Government will move to the retention of 100% of business rates by 2020 and the phasing out of the Revenue Support Grant (RSG). In return, additional responsibilities will be devolved to local authorities.

2.3 Local authorities have been given the opportunity to raise council tax by up to 2% above the existing threshold with funds ring-fenced to pay for adult social care. This could raise £2 billion a year nationally by 2019-20. The Government has restated its commitment to Dilnot reforms with funding in 2019-20 for councils to implement the changes. The cap on reasonable care costs and extension of means tested support will then be introduced and funded from April 2020. The Better Care Fund will continue, rising to an extra £1.5 billion by 2019-20, aiming to achieve full health and social care integration across the country by 2020. A plan will be in place by 2017.

2.4 Public Health investment will be cut but the ring-fence on spending will be maintained in 2016-17 and 2017-18. There will be consultation on funding this from business rates in future.

2.5 The Government aims to help every school become an academy to make local authority schools a thing of the past and save £660m Education Services Grant.

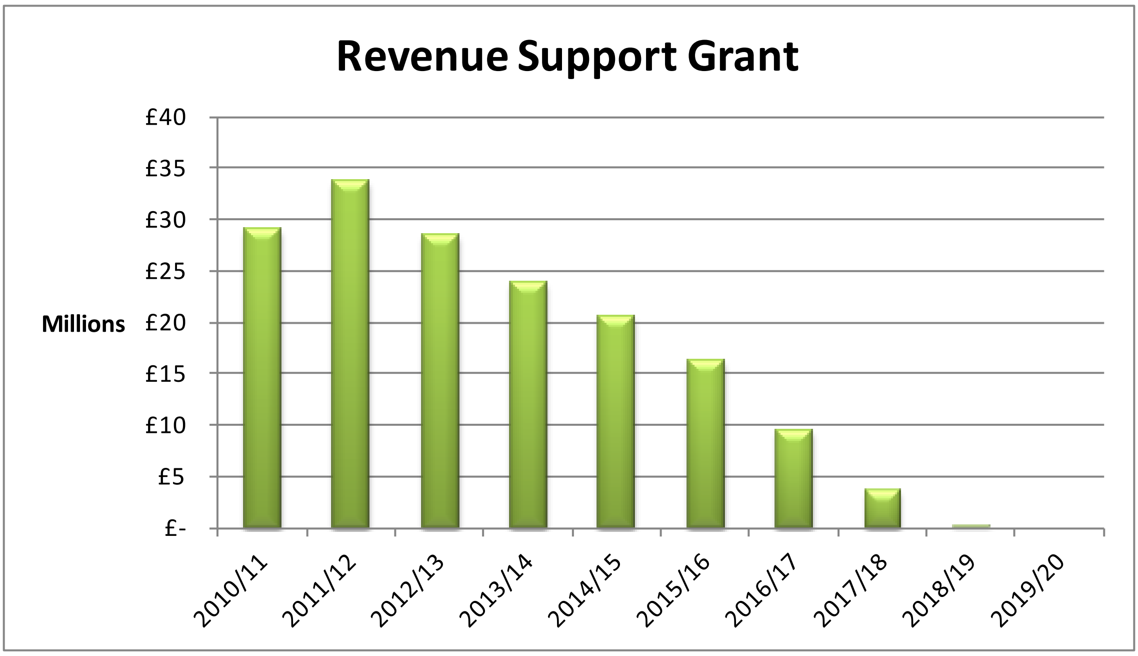
2.6 There will be a consultation on New Homes Bonus reform, including incentivising communities to support additional homes and reducing the length of payments from six years to four. The consultation will include a Government preferred option for savings of at least £800 million, which can be used for social care.

2.7 Councils will be encouraged to draw on reserves to pay for reforms.

3. Local Government Settlement 2016-17 and an offer to councils for future years

3.1 The final settlement figures were issued on 8th February 2016 and the settlement for West Berkshire was much worse than expected. In 2016/17 we will receive 44% less in Revenue Support Grant (RSG) than in 2015/16, equating to a loss of £7.6m. This is the third largest cut to RSG of all Unitary Authorities in England. Although we had planned for RSG to be cut by 25% year on year, the cuts to RSG are being applied much faster than expected.

3.2 By the end of this MTFS in 2019/20 we will no longer receive any RSG, and will also be charged an additional tariff on our business rates in order to meet the overall reductions to local government funding set in the Spending Review. The grant allocations are shown in the following chart.



3.3 The government has introduced without warning, a new formula for distribution of council funding. West Berkshire loses from this formula because it is based on assumptions about our ability to raise Council Tax income. Government has assumed that local authorities will increase their Band D council tax by 1.75% per year (CPI forecast) throughout the period to 2019/20. Government has also assumed that all eligible local authorities will take up the adult social care 2% precept in each year to 2019/20. Government has therefore assumed that our income from council tax will rise by 3.75% each year, and has reduced our RSG grant funding accordingly.

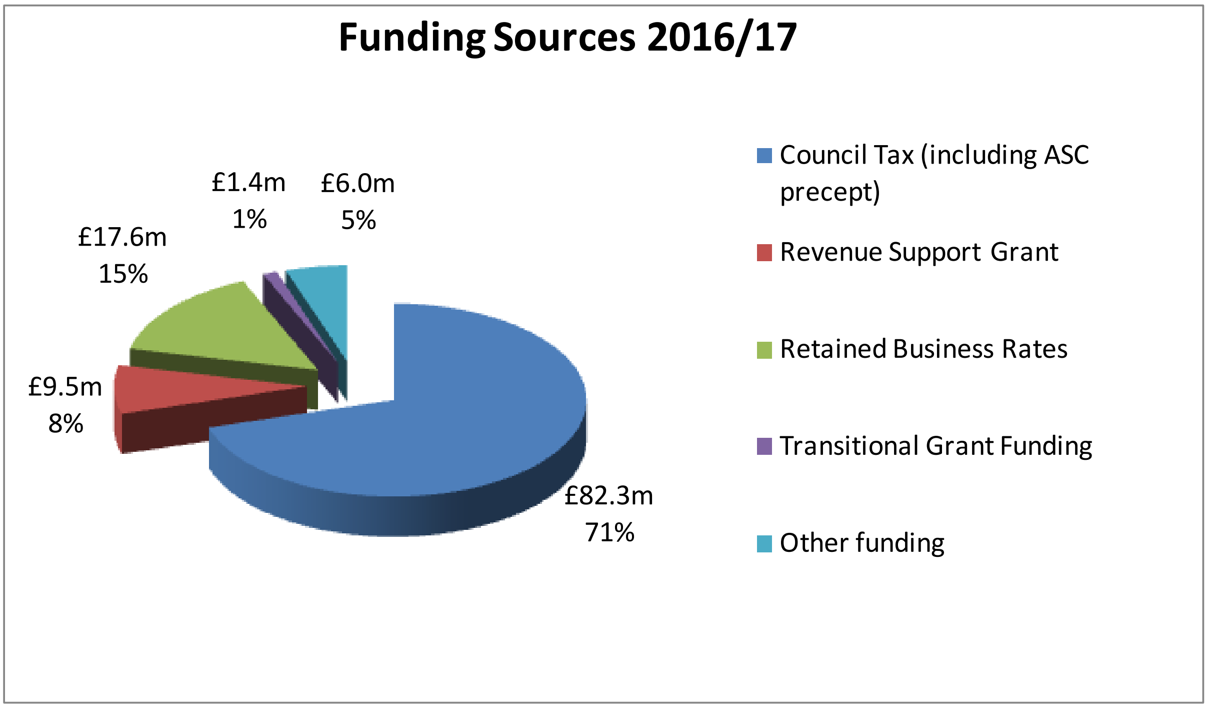
3.4 Our Education Services Grant (ESG) has been cut as a result of the General Funding Rate for schools being reduced from £87 to £77 per pupil. This has cost us £180k in 2016/17. The Government is consulting on including the ESG as part of the Dedicated Schools Grant from 2017/18 which would see us lose this funding stream with schools choosing either to buy back the services from the local authority or to buy from private providers. By 2022 every school is expected to become an Academy.

3.5 The New Homes Bonus funding is below our previous expectations as a result of proposed reforms, and this is forecast to fall by £1.5m in 2018/19 and a further £100k in 2019/20.

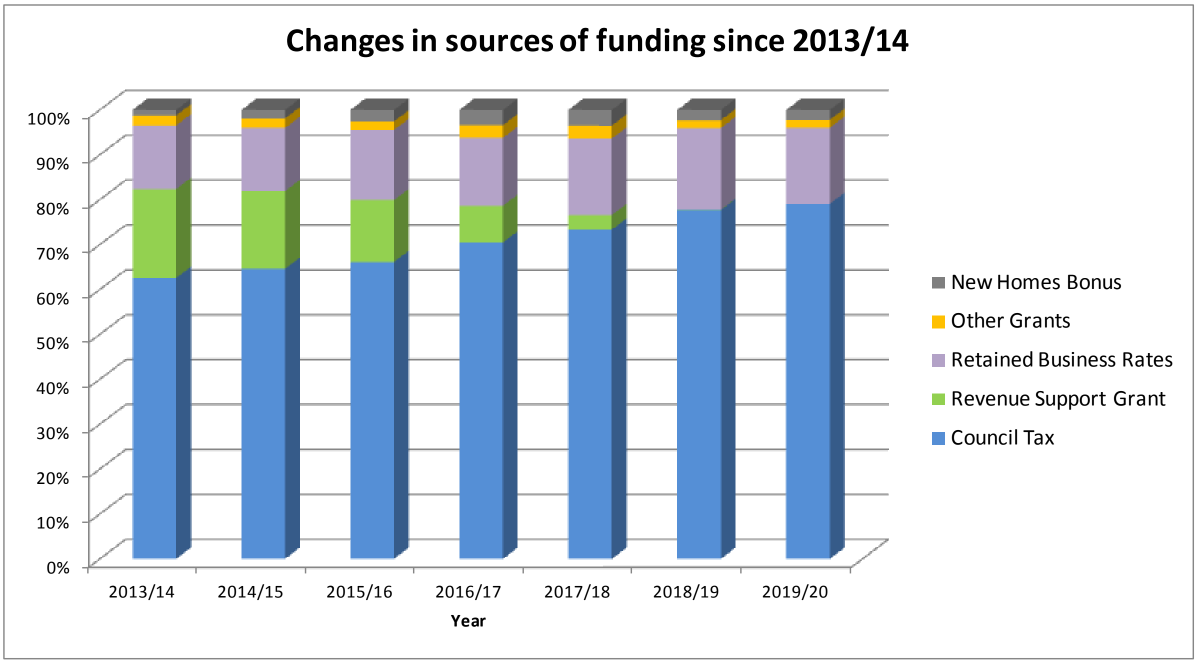
3.6 As part of finalising the settlement, Government announced that a transitional grant will be made available to be paid in each of the first two years of the settlement. West Berkshire will receive additional transitional grant funding from central government of £1.39m in 2016/17 and £1.37m in 2017/18. It has been agreed that the transitional funding should be used in order to respond to the concerns of the residents of West Berkshire and that any funding allocated should be on the basis of that service transitioning to a new model of operation over the course of the next two years.

4. Revenue Funding

4.1 The 2016/17 Revenue Budget is funded from a number of sources as shown in the following chart:



4.2 The following chart shows the changes in the Council's funding between 2013/14 and our expected funding in 2019/20.



4.3 The green block is Revenue Support Grant which will be zero by 2019/20. This funding stream will have to be replaced by a combination of Council Tax and Retained Business Rates.

4.4 This MTFS is based on an assumption of no increases in Council Tax for the next three years. Income from Council Tax is expected to increase over the period as a result of growth in the tax base. This increase is forecast to be 0.9% in 2016/17 and then 1.2% each year, or approximately 750 new Band D equivalent properties. The collection rate is based on our historic collection of 99.7%. Council Tax is our largest source of funding at 71% amounting to £82.3m in 2016/17.

4.5 The RSG will fall to zero over the period of this MTFS as per the four year settlement figures shown in the following table.

West Berkshire Council Revenue Support Grant	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
RSG	17.11	9.53	3.70	0.12	0
Percentage reduction		44%	61%	97%	100%

4.6 Retained Business Rates represents our share of the actual business rate collected in West Berkshire. The introduction of business rate retention meant that from April 2013 a significant part of our budget became dependent on the amount of business rates collected in West Berkshire. The business rate retention reform created a need for councils to receive new, previously uncollected, information to enable sufficiently robust financial planning, such as data about upcoming appeal decisions, the value of business rate income and the impact of business rate avoidance. Most of this information had previously been collected by the Valuation Office (VO) and provided to Central Government, as councils had no direct stake in business rate collection.

4.7 Currently councils have limited ability to counteract risk in relation to appeals and avoidance, and this is especially the case for councils dependent on a small number of large businesses. Whilst councils did not previously bear any risk from successful appeals, they are now liable for half of the cost, including any backdating liability, which in some cases may go back to 2005 or earlier. Appeals have had a significant impact on West Berkshire which has resulted in a loss of nearly £3m from back dated appeals and an ongoing loss of circa £850k per year.

4.8 The risks outlined above created a challenge to medium term financial planning with regards to growth forecasts and levels of appeals. The total Business Rates collection in West Berkshire for 2016/17 is forecast to be £87m, of which we retain £43m, after payments to Central Government known as the ‘central share’ (50%) and the Royal Berkshire Fire Authority (1%). Out of this £43m we pay a tariff to Central Government of £23m and after levies and recovery of any deficit, West Berkshire Council is expected to retain £17.6m. The central share is used by Government to fund the needs-based Revenue Support Grant.

4.9 The Local Government Settlement announced the move to 100% retention of business rates by local authorities by 2019/20 but details are still unknown. It is expected that any increase in the proportion we retain will come with additional responsibilities.

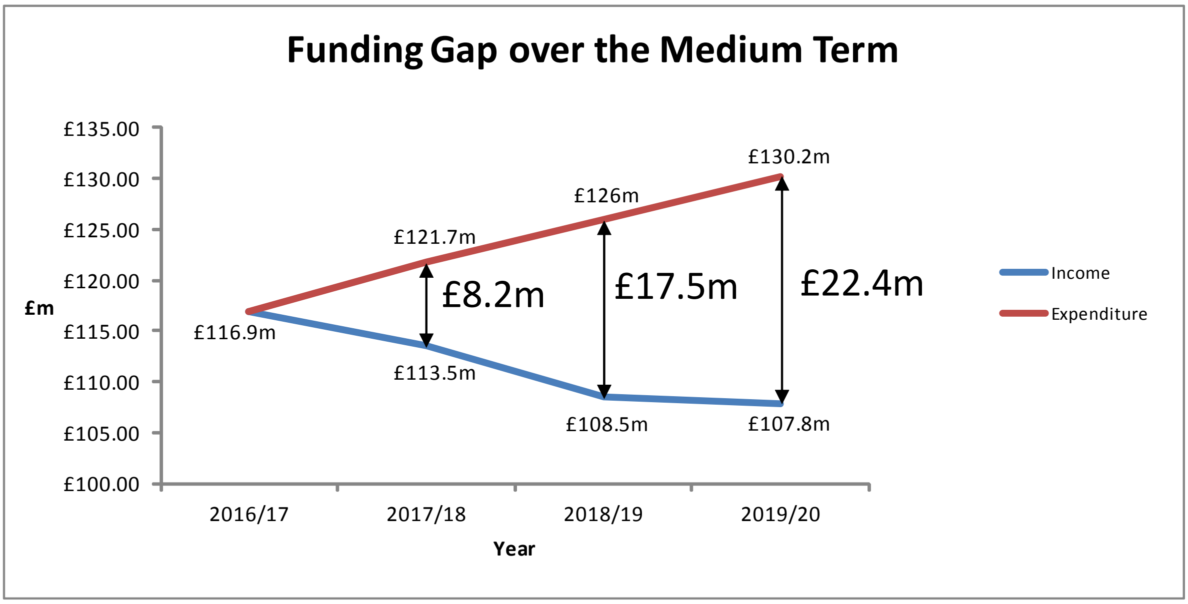
4.10 Other non-ringfenced funding consists of New Homes Bonus grant, Education Services grant and other grants. These funding streams are forecast to fall from £5.9m in 2016/17 to £4.3m in 2019/20.

4.11 Department of Health funding via the Better Care Fund is to be spent locally on health and care with the aim of achieving closer integration and improve outcomes for patients and service users and carers. In 2016/17 the fund will be allocated to local areas where it will be put into pooled budgets under Section 75 joint governance arrangements between CCGs and councils. A condition of accessing the money is that the CCGs and councils must jointly agree plans for how the money will be spent, and these plans must meet certain requirements. In addition to this the Department of Health is providing grants to meet some of the new burdens arising from the Care Act but this does not include the additional eligibility cost of £3m the Council is currently having to accommodate despite previous reassurances from the Department of Health that these additional costs would be funded and discussions on this matter are still continuing.

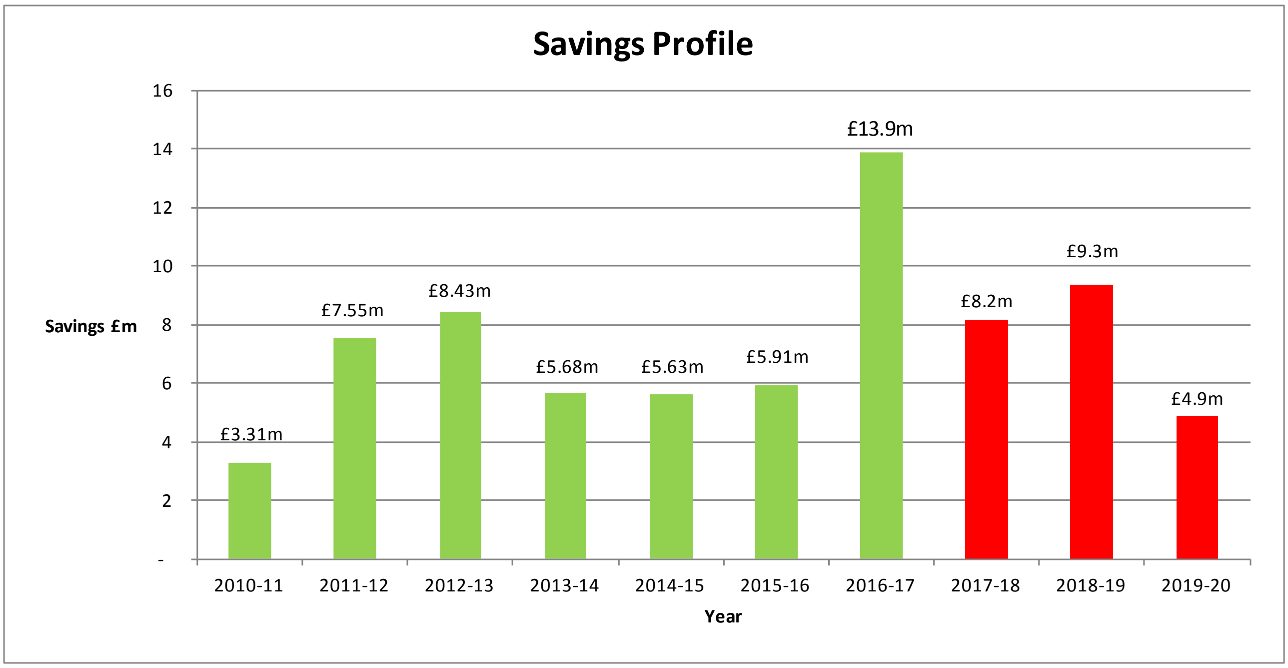
4.12 The Government has announced savings in public health spending averaging annual real terms savings of 3.9% over the next five years and that the grant is to remain ring-fenced for a further two years in 2016/17 and 2017/18.

5. Funding Gap

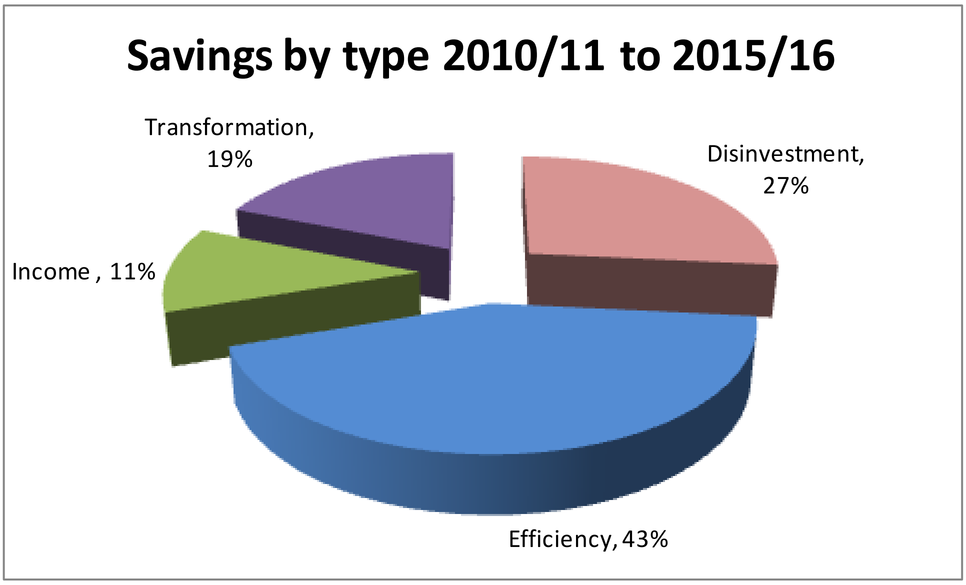
5.1 The forecast levels of funding available over the period of the MTFS, together with provision for any required budgetary increases means that the forecast funding gap is £22.4m between 2017/18 and 2019/20, excluding any transitional funding. The following chart shows how the funding gap would grow over the medium term if savings or other income were not identified.



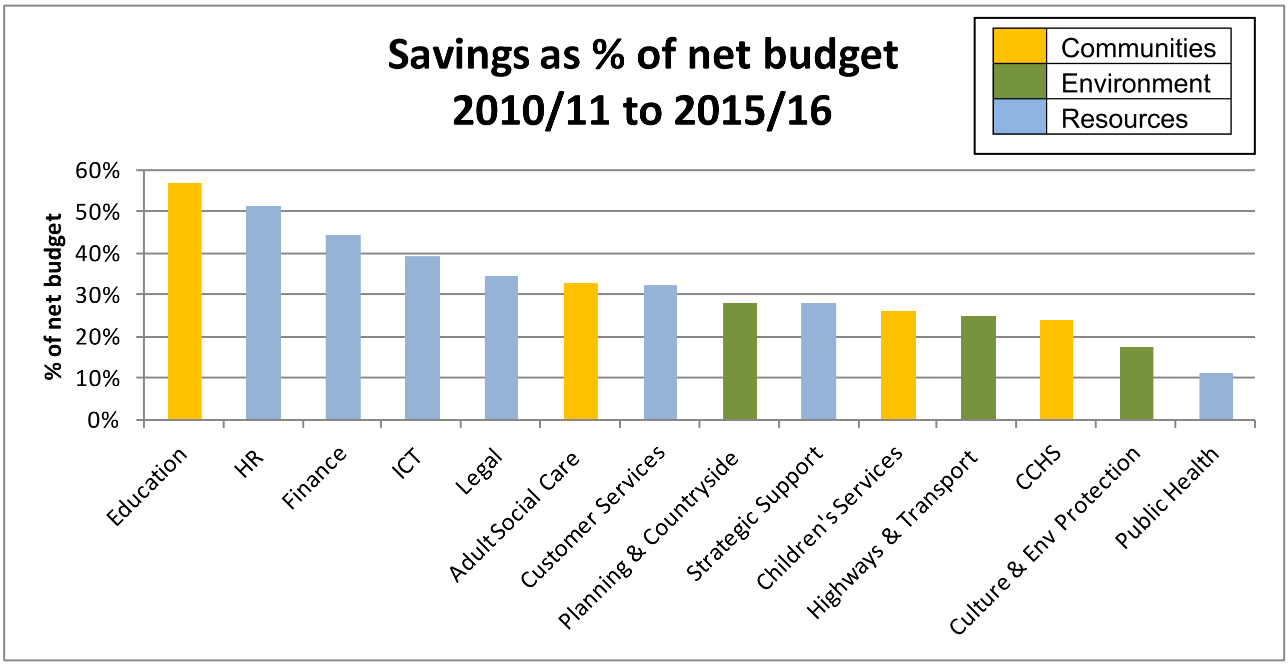
5.2 A savings programme is being developed that addresses the forecast funding gap over the medium term. The savings profile over the previous seven years and for the next three years is shown in the following chart:



5.3 Over the past few years, the savings programmes have focussed largely on becoming more efficient at what we do and reducing the Council's administrative functions. The following graph shows the savings by type over the last six years.



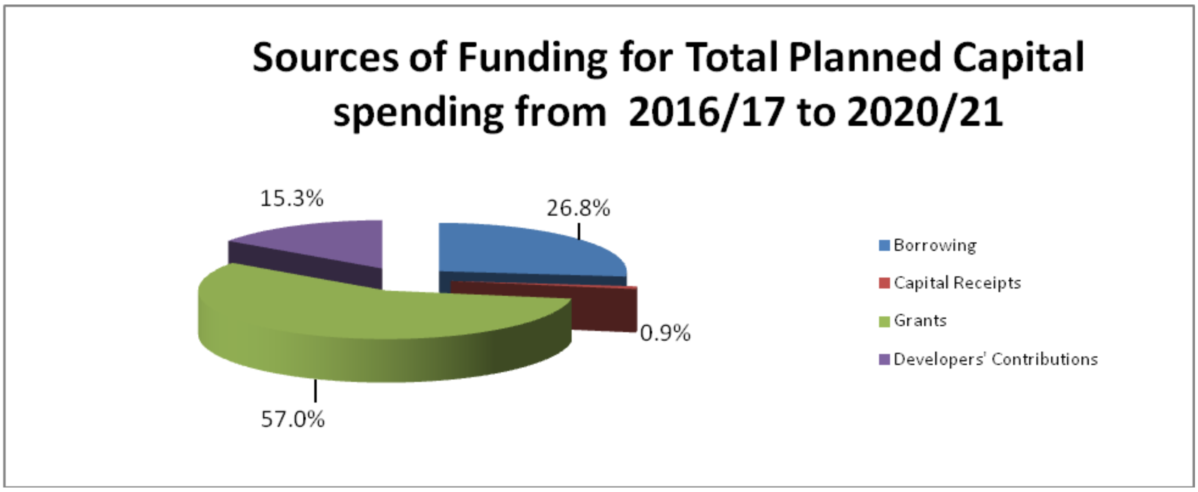
5.4 The services that this has impacted are shown in the chart below, as the percentage of savings made by service as compared to their net budget.



5.5 It is becoming increasingly difficult to continue to provide the wide range of Council services at the same level. The savings programme for 2016/17 is guided by the Council Strategy and priorities and the Manifesto commitments, and the Council has aimed to protect those priority areas where it can. Whilst efficiencies are still a priority, they are not enough to cover the savings requirements. The Council is therefore looking at new ways of delivering services, working in partnerships, increasing our income, value for money using benchmarking, a more commercial approach, better contracts and procurement and seeking contributions from other organisations, in order to help preserve service provision.

6. Capital Programme

6.1 Capital funding is covered in detail in the Capital Strategy 2016 to 2021. The size of the Capital Programme is determined by the amount which the Council can afford to borrow together with other sources of capital funding including capital receipts, government grants and developers' contributions. A breakdown of the expected sources of funding for the Capital Programme 2016/17 to 2020/21 is shown in the following chart:



6.2 An increase of £450k has been built into the Council's revenue budget for 2016/17 to accommodate borrowing to fund the Capital Programme. Annual increases of £500k per year will be required from 2017/18 onwards. The estimated cost of borrowing is based on the assumption that the Bank of England base rate will increase by 0.5% each year from 2016/17 to 2019/20.

6.3 The level of the Council funded programme is planned to average £10m in 2016/17 and 2017/18 to support investment in Superfast Broadband, Council ICT and to help meet the pressure on primary school pupil numbers. From 2018/19 onwards the ongoing level of new Council funded capital is expected to continue at approximately £6m per year.

7. Reserves

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

7.2 As part of the budget setting process, the General Fund and Earmarked Reserves are reviewed in detail. The General Fund is at a low level as a result of supporting the revenue budget in 2015/16. As such there is minimal planned use of reserves over the MTFS period. However, due to the financial pressures the Council is under, there are also no resources available to replenish the reserves to a more prudent level. The use of reserves is a one off solution and must be used prudently to ensure it does not undermine longer term budget sustainability. Estimated usable reserves are shown in the following table:

	2014/15	**2015/16**	**2016/17**
Usable Reserves estimate at year end	**£'000**	**£'000**	**£'000**
General Funds:			
General Fund	6,438	5,470	5,470
Medium Term Financial Volatility Reserve	1,530	1,031	1,031
Total General Fund	**7,968**	**6,501**	**6,501**
Earmarked Reserves	12,036	10,149	8,428
Total Revenue Reserves	**20,004**	**16,650**	**14,929**

8. Medium Term Financial Strategy

8.1 The Council's three year MTFS aims to ensure that our available resources are aligned with the vision, aims and priorities identified in the Council Strategy 2016 to 2020. The Council Strategy acknowledges that the reduction in government funding means that 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.

8.2 It is important that the Council maximises the generation of income. The main income source is Council Tax, at over two thirds of our income. Our grant funding is now based on our ability to raise Council Tax and on the Government assumption that we raise by CPI (currently 1.75%) each year. Any reduction in income raised, will have a direct affect on the savings required and ultimately on the services the Council provides. With our assumptions around not raising Council Tax over the period of this MTFS, a further £22.4m of savings or other income will need to be generated between 2017/18 and 2019/20.

8.3 The Council will undertake to maximise all efficiencies from across its service areas. This work has been ongoing over the last seven years contributing almost half of the £50m savings taken out of our budgets so far. Services will continue to look for efficiencies and in order to do this, it is important that all comparative costs are understood. We will compare ourselves to other local authorities and look to learn from those who have a lower cost base. Income generating sources and fees and charges will be reviewed as part of our benchmarking work, comparing ourselves nationally and with similar authorities.

8.4 The Council will continue to review what it does and look at statutory provision. The Council has had to disinvest from many areas over the last few years and this will continue to be reviewed. Where disinvestment is the only option, the Council will aim to work with partners and other providers to minimise the impact.

8.5 Transformation programmes are in place across the Council and will continue to focus on identifying savings through continuing to deliver services differently. In line with the Care Act (2014) the Council's Adult Social Care service is completing a major programme of change that will allow a greater a focus on prevention and early intervention. By working with people earlier we know that we can enable them to live independently for longer, delivering more innovative, person centred outcomes and reduce reliance on long term services.

9. Supporting Information

9.1 The three year Medium Term Financial Plan (MTFP) is shown in the following table, with further explanation behind each item in Appendix C.

2016/17	Line ref	Medium Term Financial Plan	2017/18	2018/19	2019/20
£m			£m	£m	£m
82.28	1	Council Tax income	83.27	84.27	85.28
9.53	2a	Revenue Support Grant	3.70	0.12	0.00
1.39	2b	Transitional Grant Funding	1.37	0.00	0.00
0.07	2c	Other Non-Ringfenced Grants	0.06	0.05	0.04
87.41	3a	*Business Rates Collected*	*89.16*	*90.94*	*92.76*
-69.76	3b	*Business Rates sent to Central Government*	*-69.82*	*-71.25*	*-74.48*
17.65	3c	Retained Business Rates	19.34	19.69	18.28
1.84	4	Education Services Grant (ESG)	1.84	1.84	1.84
3.95	5	New Homes Bonus	3.95	2.50	2.40
-1.01	6	Council Tax Collection Fund deficit (-)/ surplus	0.00	0.00	0.00
1.17	7	Use of Capital Receipt	0.00	0.00	0.00
116.88	8	**Funds available**	**113.54**	**108.47**	**107.84**
111.93	9a	Opening Directorate Budget	107.72	103.93	98.36
0.00	9b	Opening budget adjustments	-0.76	0.00	0.00
2.30	10	Base budget growth	1.37	1.37	1.37
0.38	11	Contract inflation	0.90	0.90	0.90
3.89	12	Unavoidable service pressures	1.50	1.50	1.50
1.74	13	Other risks	0.00	0.00	0.00
-13.90	14	Requirement for savings or other income	-8.17	-9.34	-4.90
1.39	15	Transitional funding	1.37	0.00	0.00
107.72	16	Directorate budget requirement	103.93	98.36	97.23
9.10	17	Levies & capital financing costs	9.60	10.10	10.60
0.00	18	Use of reserves	0.00	0.00	0.00
0.05	19	CTSS support for Parishes	0.00	0.00	0.00
116.88	20	**Budget requirement**	**113.54**	**108.47**	**107.84**

10. Proposals

10.1 To approve the MTFS, subject to final changes.

11. Conclusion

11.1 Local Government has been one of the areas of the public sector that has seen the highest reductions in government spending, and it is clear this will continue for at least the next three years. In light of the ongoing funding reductions, the Council will continue to make changes to service delivery whilst remaining in line with the Council Strategy and local priorities.

11.2 The Council has ensured that despite the funding cuts it has a robust financial structure on which to base its long term decisions and to prioritise available resources. Budgets have been reviewed to ensure each service has the appropriate level of budget to deliver the service expected, and budgets will continue to be reviewed as part of the financial process. Capital investment will continue to ensure that core assets are maintained and protected. Reserves have been reviewed to ensure there are sufficient 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.

11.3 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 challenge is vital to its continuing success in delivering the Council Strategy. The Council is in a very difficult place financially and is facing a further savings or other income requirement over the medium term of £22.4m. This is being addressed by looking at a range of strategies including new ways of delivering services, working in partnerships, increasing our income and continuing to drive efficiencies, in order to help preserve service provision.

12. Consultation and Engagement

12.1 Consultation will take place where appropriate on the individual savings proposals for future years.

Background Papers:

Capital Strategy 2016-2021, Council Strategy 2015-2019, Investment and Borrowing Strategy, Revenue Budget 2016/17.

Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval ☒

Delays in implementation could have serious financial implications for the Council ☒

Delays in implementation could compromise the Council's position ☒

Wards affected:

All

Strategic Aims and Priorities Supported:

The proposals will help achieve the following Council Strategy aim:

☒ **MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priorities:

☒ **SLE2 – Deliver or enable key infrastructure improvements in relation to roads, rail, flood prevention, regeneration and the digital economy**

☒ **MEC1 – Become an even more effective Council**

Officer details:

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Job Title: Head of Finance
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Appendix B

Equality Impact Assessment - Stage One

We need to ensure that our strategies, polices, functions and services, current and proposed have given due regard to equality and diversity.

Please complete the following questions to determine whether a Stage Two, Equality Impact Assessment is required.

Name of policy, strategy or function:	Medium Term Financial Strategy 2017/18 to 2019/20
Version and release date of item (if applicable):	13.11.15
Owner of item being assessed:	Andy Walker
Name of assessor:	Andy Walker
Date of assessment:	12.11.15

Is this a:		**Is this:**	
Policy	**No**	**New or proposed**	**Yes**
Strategy	**Yes**	**Already exists and is being reviewed**	**No**
Function	**No**	**Is changing**	**No**
Service	**No**		

1. What are the main aims, objectives and intended outcomes of the policy, strategy function or service and who is likely to benefit from it?	
Aims:	To ensure the Council has a financial strategy for the next three years
Objectives:	
Outcomes:	
Benefits:	

2. Note which groups may be affected by the policy, strategy, function or service. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine this. (Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)		
Group	**What might be the effect?**	**Information to support this**

Affected		
Further Comments relating to the item:		

3. Result	
Are there any aspects of the policy, strategy, function or service, including how it is delivered or accessed, that could contribute to inequality?	**No**
Please provide an explanation for your answer:	
Will the policy, strategy, function or service have an adverse impact upon the lives of people, including employees and service users?	**No**
Please provide an explanation for your answer:	

If your answers to question 2 have identified potential adverse impacts and you have answered 'yes' to either of the sections at question 3, then you should carry out a Stage Two Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the Equality Impact Assessment guidance and Stage Two template.

4. Identify next steps as appropriate:	
Stage Two required	
Owner of Stage Two assessment:	
Timescale for Stage Two assessment:	
Stage Two not required:	Not required

Name: Andy Walker **Date:12.11.15**

Please now forward this completed form to Rachel Craggs, the Principal Policy Officer (Equality and Diversity) for publication on the WBC website.

Appendix C

Medium Term Financial Plan – Assumptions

1) Council Tax

The MTFS assumes a Council Tax freeze for each year of the three year period. Taxbase growth assumptions are 0.9% in 2016/17 and 1.2% per annum for the remaining years of the MTFS.

2) a) Revenue Support Grant (RSG) figures have been received for a four year settlement.

   b) Transitional grant funding has been awarded in 2016/17 and 2017/18.

   c) Other Non-Ringfenced Grants are expected to be received during the financial year and will be used to support the Council budget.

3) Retained Business Rates

The performance of the national and local economy in maintaining and growing the number and size of businesses in the local area will be important. For 2017/18 onwards, any increases have been assumed to be in line with Consumer Price Index (CPI).

4) Education Services Grant (ESG)

This figure represents a Government Grant in respect of Local Education Authority (LEA) support service functions to schools.

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) Council Tax 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. Any variation compared to the expected Council Tax collected is pass-ported into the next financial year.

7) Use of Capital Receipt

As part of the Local Government Spending Review, the Government has provided councils with the flexibility to use capital receipts to fund transformation and restructuring of services in order to achieve efficiencies and revenue cost savings.

8) Funds Available

The total non-ringfenced funds available for setting the Council's budget.

9) Opening Directorate Budget

This is the opening budget before new costs are built in and savings taken out.

10) Base Budget Growth

This is the adjustments to the Council's core costs; primarily pay inflation 1% and incremental pay awards (approx £510k pa). Pension provision is assumed to increase by 0.7% per annum from 2017/18 in order to fund the actuarial valuation.

11) Contract Inflation

This line represents all inflation on Council contracts that are inflation linked.

12) Unavoidable service pressures

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

13) Other Risks

The Council is facing a number of risk items that will arise but cannot yet be quantified including introduction of the National Living Wage (2016/17), part year impact of delays to implementing savings, recruitment delay of permanent social workers and increased demand for services.

14) Requirement for savings or other income

This is the total savings or additional income that will have to be found in order to ensure a balanced budget.

15) Transitional funding

This has been made available by Government as part of the Local Government Settlement. It is available for 2016/17 and 2017/18.

16) Directorate Budget Requirement

The closing base budget for the Directorates.

17) 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 to fund the Council's Capital Programme.

18) Use of reserves

This is any planned use of reserves to support the revenue budget.

19) CTSS support for Parishes

This is reducing transitional funding to assist Parish Councils in dealing with the impact of the Council Tax Support Scheme (CTSS) on their local precepts.

20) Budget requirement

The total budget for the year.