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# Medium Term Financial Strategy 2017-18 to 2019-20

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| <b>Committee considering report:</b>        | Executive on 16 February 2017<br>Council on 2 March 2017 |
| <b>Portfolio Member:</b>                    | Councillor Anthony Chadley                               |
| <b>Date Portfolio Member agreed report:</b> | 8 February 2017  |
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| <b>Forward Plan Ref:</b>                    | C3119  |

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## 1. Purpose of the Report

- 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 2017-18, 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; and
  - (4) Ensure that the Council has sufficient levels of reserves.

## 2. Recommendation

- 2.1 To recommend the Medium Term Financial Strategy 2017-18 to 2019-20 for approval by Full Council.

## 3. Implications

- 3.1 **Financial:** The MTFS allocates £341 million of Council revenue resources over the next three years and allocates £39.4 million of Council capital resources over the next five years. The revenue funding gap is forecast to reach £23.3m by 2019-20 before any savings plans or increases in income.
- 3.2 **Policy:** The MTFS is aligned directly to the Council Strategy and the Capital Strategy.
- 3.3 **Personnel:** The Council's establishment is funded from the Revenue Budget and Capital Programme. Any reductions in budget could impact on personnel.

- 3.4 **Legal:** None
- 3.5 **Risk Management:** The MTFS is designed to minimise the financial risks to the delivery of the Council Strategy by providing a clear picture of the resources available and allowing the Council to focus on its priorities.
- 3.6 **Property:** The proposed Capital Programme will provide for maintenance and improvements to a number of existing Council buildings. The level of funding available for the proposed programme is partly dependent on final decisions still to be made about the disposal of some Council land and buildings.
- 3.7 **Other:** None

#### 4. Other options considered

- 4.1 None

## 5. Executive Summary

5.1 In October 2016, West Berkshire Council accepted a four year financial settlement offered by Government. Whilst this settlement commits the Council to a continued reduction in Government funding, it provides financial stability from 2016-17 to 2019-20 on which the Council can plan ahead and build other sources of income. The four year funding offer is based on the Government assumption that local authorities will increase their Band D council tax by 1.75% (CPI forecast) each year to 2019-20 and that all eligible local authorities will take up the adult social care precept each year. Revenue Support Grant (RSG) funding has been reduced accordingly. In 2017-18 we will receive 61% less RSG than in 2016-17 and by 2019-20 we will no longer receive any RSG. New Homes Bonus and Education Services Grant are also being cut.

5.2 The Local Government Settlement announced the move to 100% retention of business rates by local authorities by 2019-20 but it is not yet clear how this will benefit local authorities. West Berkshire Council collects £85m in business rates, of which we retain £19m. Business rates collected are forecast to increase by £2m over the next three years, however, our retained business rates will decrease by nearly £1m over the same period as a result of increased tariffs. In effect, our retained business rates will reduce from 22.7% retention to 21.1% over the period.

|   | 2017/18 | 2018/19 | 2019/20 |
|---|---------|---------|---------|
| Business Rates Collected                  | 85.41   | 86.44   | 87.47   |
| Business Rates sent to Central Government | 66.03   | 66.74   | 69.03   |
| Business Rates retained                   | 19.38   | 19.70   | 18.44   |
| Retention Rate                            | 22.7%   | 22.8%   | 21.1%   |

5.3 The Council's costs grow each year as a result of inflation, salary increases, changes to National Insurance and pension contributions, and service pressures arising from increased demand and new responsibilities, particularly in adult social care. The forecast levels of funding available over the medium term, together with provision for budgetary increases, means that West Berkshire Council is facing a funding gap of £23.3m over the next three years. Council Tax will be increased by 1.99% in 2017-18 raising £1.7m, with an additional 3% precept ring-fenced for adult social care raising £2.5m, leaving £4.7m to be met from savings or income generation. If there are no Council Tax increases in 2018-19 and 2019-20, a further £14m of savings or income will need to be generated in those two years. If Council Tax was increased by the maximum allowed and the full adult social care precept applied, it would raise £6m over the two years, reducing the savings target to £8m.

5.4 Capital funding is covered in detail in the Capital Strategy. The annual increase in the Council's revenue budget to accommodate borrowing to fund the Capital Programme is £500k per year.

5.5 The level of usable reserves the Council holds is reviewed as part of the medium term financial planning. Consideration is given to the current financial standing of the Council, the funding outlook into the medium term and the financial risk environment we are operating in. The use of reserves is a one off solution and must be used prudently to ensure it does not undermine longer term budget sustainability. During 2016-17, usable reserves are expected to reduce by £2.75m and the Council is proposing in the 2017-18 budget to put £1.98m back into

reserves, to mitigate against service specific risks and to ensure that the Council has the resources to pursue transformation plans outlined in the MTFS and to invest in strategies that will bring future benefits to the organisation.

5.6 The key financial strategy to close the funding gap over the medium term will focus on innovation around service transformation and income generation. To drive this change, the Council has created a Corporate Programme containing a number of projects which will identify opportunities to transform services and implement changes that will deliver new income streams. Alongside this, Directors are looking at a range of solutions which will be presented to a Budget Board every six weeks. The areas of focus include digitisation, benchmarking, workforce redesign, demand management, exploring a range of alternative models for delivering services and working with partners and communities to deliver services in a different way. We are investing in commercial and residential property to generate new income streams and meet our statutory housing duties in a more cost effective way. Resources and staffing have been allocated in order to move this forward.

5.7 The three year Medium Term Financial Plan (MTFP) is shown in the following table:

| 2016/17       | Line ref  | Medium Term Financial Plan                       | 2017/18       | 2018/19       | 2019/20       |
|---------------|-----------|--|---------------|---------------|---------------|
| £m            |           |  | £m            | £m            | £m            |
|               |           | <b>Council Tax/ASC Precept Increase</b>          | <b>4.99%</b>  | <b>0%</b>     | <b>0%</b>     |
| 82.28         | 1         | Council Tax income                               | 88.40         | 89.46         | 90.53         |
| 9.53          | 2a        | Revenue Support Grant                            | 3.70          | 0.12          | 0.00          |
| 1.39          | 2b        | Transitional Grant Funding                       | 1.37          | 0.00          | 0.00          |
| 0.00          | 2c        | Adult Social Care Support Grant                  | 0.50          | 0.00          | 0.00          |
| 0.07          | 2d        | Other Non-Ringfenced Grants                      | 0.06          | 0.05          | 0.04          |
| 87.41         | 3a        | <i>Business Rates Collected</i>                  | 85.41         | 86.44         | 87.47         |
| -69.76        | 3b        | <i>Business Rates sent to Central Government</i> | -66.03        | -66.74        | -69.03        |
| 17.65         | 3c        | Retained Business Rates                          | 19.38         | 19.69         | 18.44         |
| 1.84          | 4         | Education Services Grant (ESG)                   | 0.51          | 0.00          | 0.00          |
| 3.95          | 5         | New Homes Bonus                                  | 3.63          | 2.88          | 2.78          |
| -1.01         | 6         | Council Tax Collection Fund deficit (-)/ surplus | -0.11         | 0.00          | 0.00          |
| 1.17          | 7         | Use of Capital Receipt                           | 0.00          | 0.00          | 0.00          |
| <b>116.88</b> | <b>8</b>  | <b>Funds available</b>                           | <b>117.44</b> | <b>112.20</b> | <b>111.79</b> |
| 111.96        | 9a        | Opening Directorate Budget                       | 105.78        | 105.23        | 101.85        |
| -0.01         | 9b        | Opening budget adjustments                       | -2.10         | 0.00          | -0.44         |
| 2.30          | 10        | Base budget growth                               | 1.67          | 1.51          | 1.49          |
| 0.38          | 11        | Contract inflation                               | 0.61          | 0.53          | 0.50          |
| 3.89          | 12        | Service pressures                                | 3.70          | 3.48          | 2.44          |
| 1.17          | 13        | Provision for other risks                        | 0.28          | 0.44          | 0.00          |
| -13.90        | 14        | Requirement for savings or other income          | -4.71         | -9.34         | -4.90         |
| 105.78        | 15        | Directorate budget requirement                   | 105.23        | 101.85        | 100.94        |
| 9.16          | 16        | Capital Financing                                | 9.86          | 10.35         | 10.85         |
| 1.39          | 17        | Transitional funding                             | 1.37          | 0.00          | 0.00          |
| 0.50          | 18        | Increase in Service Specific Reserves            | 0.98          | 0.00          | 0.00          |
| 0.05          | 19        | CTSS support for Parishes                        | 0.00          | 0.00          | 0.00          |
| <b>116.88</b> | <b>20</b> | <b>Budget requirement</b>                        | <b>117.44</b> | <b>112.20</b> | <b>111.79</b> |

## 6. Conclusion

6.1 The forecast levels of funding available over the medium term, together with provision for budgetary increases and growing pressures, mean that over the next

three years we are faced with funding gap of £23.3m. We have accepted the offer of a multi year financial settlement to provide financial stability on which the Council can plan ahead. In 2017-18, a 1.99% Council Tax increase generates £1.7m, a 3% adult social care precept generates £2.5m and our savings and income generation plans save £4.7m. For the following two years, the Council will focus on innovation in service transformation and income generation in order to bring financial stability for the future. Capital investment will continue to ensure that core assets are maintained and protected. Reserves have been reviewed to ensure they are sufficient for the Council to deliver services and take appropriate risks in amending service delivery models without impacting on the financial viability of the organisation.

- 6.2 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.

## 7. Appendices

- 7.1 Appendix A - Supporting Information
- 7.2 Appendix B – Equalities Impact Assessment
- 7.3 Appendix C – Medium Term Financial Plan – Assumptions