West Berkshire Council

Interim Medium Term Financial Strategy 2011-15

Foreword

Contents

1. Introduction

1.1 The Council's new Medium Term Financial Strategy (MTFS) has been prepared at a time of unprecedented financial constraint within the public sector. The new Coalition Government has announced a raft of spending reductions and welfare benefit reforms that will have a major impact both on the Authority and the wider local community. These changes coincide with continued economic uncertainty both nationally and globally. West Berkshire has not been immune from these economic challenges and whilst it has recovered strongly from the recent recession, unemployment particularly amongst young people, remains historically high and the housing market depressed.

1.2 It is during such a period of challenge and uncertainty that the need for a clear and effective MTFS is arguably at its most acute. The Council has prepared such a document since 2005, often with a three year time horizon. The new MTFS seeks to cover a four year period to align with the Government's 2010 Comprehensive Spending Review (CSR) which was announced in October 2010. It also incorporates the implications of the two year Local Government Financial Settlement which was published in December 2010.

1.3 The scale of the financial challenge that lies ahead requires a new approach not only to how savings are realised, but more fundamentally in rethinking what the Council does, and how. This new approach will be articulated more fully within the newly emerging Council Plan. It is anticipated that the new four year Plan will be considered by the Council during the early summer of 2011. The MTFS will support this new Plan and the Sustainable Community Strategy which it is anticipated will be reviewed early in 2011.

1.4 The timing of the new Council Plan has created a problem in that this MTFS predates its publication. It was felt necessary to move forward with a new MTFS at this stage given the scale of the challenge that lies ahead. The result is that this MTFS has adopted a '2 x 2 year' approach. In effect this means that a more detailed strategy has been put in place for the first two years of the Plan period. An outline approach is set out for the final two years recognising that a more fundamental change will be required during this period which will need to be driven by the new Council Plan.

1.5 Despite the more challenging financial environment that now exists the primary aims of the MTFS remain unchanged from previous years, and can be summarised as;

(1) explaining the financial context within which the Council is set to work over the medium term and to provide a sound system of financial control and risk management;

(2) providing a sound and stable financial framework within which the Council can both plan and operate;

(3) providing robust financial targets on which the Council's transformation and savings programmes can be built.

1.6 The MTFS also needs to ensure a sound system of financial control exists whereby budgets are robustly prepared and then monitored throughout the year. The Council also has to ensure that its level of reserves are prudent and appropriate to the size of the Council's budget and the risks that it is carrying.

1.7 The remainder of this document is broadly divided into five chapters:

(1) The Changing Financial Context - provides a background to the Coalition Government's plans for local government including the implications of 2010 Comprehensive Spending Review and Local Government Financial Settlement. It also outlines the other key financial challenges facing the Authority over the coming four years many of which emanate from the local community:

(2) The Numbers – clarifies how the Council is funded and where the money is spent.

(3) Future Finances - This chapter sets out the financial modelling that has been used to quantify the financial challenge that faces the Council over the coming years:

(4) The Strategy – This chapter highlights the financial strategy that will be put in place to help deliver the new Council Plan and more broadly the financial challenge that lies ahead:

(5) Resilience – To ensure that the Council's financial management processes are both robust and secure and that effective risk management is in place.

1.8 As in previous years the intention remains to refresh the MTFS on an annual basis alongside the refresh of the Council Plan.

2. The Changing Financial Context

2.1 There would appear to be three external influences that are set to have a major impact on the Medium Term Financial Strategy (MTFS) over the coming four years. They are:

(1) The policies of the new Coalition Government:

(2) How quickly the national and local economies recover from the 2009-10 recession, and the scale of that recovery:

(3) The impact of continued demographic changes on the local population and thereby the future demand for Council services.

The potential scale and impact of all three are now reviewed in turn.

The policies of the new Coalition Government

2.2 The new Coalition Government was elected in May 2010 and whilst it has consistently stated that reducing the national deficit is its main priority it has also embarked on a radical programme of public sector reform. The role of the public sector in helping to address the national deficit was outlined in the 2010 Comprehensive Spending Review (CSR) and its specific impact on the Council set out in the Local Government Financial Settlement (LGFS) which was published in December 2010.

2.3 Turning first to the broad reform agenda of the Coalition Government, whilst Local Government Reorganisation does not form part of the proposals, there are a wide range of proposed changes set out in the Programme for Government which will have an impact on the Council. The most notable of these include;

(a) a clear emphasis on promoting localism which includes a number of proposals in relation to planning, housing, the greater involvement of the voluntary and community sector, the abolition of most regional governance and the creation of Local Enterprise Partnerships. It also includes an overhaul of the current regulatory framework along with the abolition of the Audit Commission;

(b) the establishment of Police and Crime Commissioners and new licensing powers for local authorities;

(c) a major review of the benefits system including the establishment of a universal credit;

(d) the abolition of Strategic Health Authorities and Primary Care Trusts, the transfer of public health functions to local authorities in 2013 and the creation of local authority led Health and Wellbeing Boards;

(e) significant school reform including the creation of Free Schools and the encouragement of more schools to become Academies and thereby leave local authority control.

2.4 The 2010 CSR has significantly changed the financial landscape for local government. Over the four year term of the CSR (the same as this MTFS) the Government has announced a real term reduction in Formula Grant of 27%. A freeze in Council Tax and an accompanying grant equivalent to a 2.5% Council Tax rise to assist Councils achieve this freeze if they choose to do so, has also been announced for 2011/12, and possibly beyond.

2.5 The Government has also reduced the number of specific grants given to local authorities, and in many cases has removed the ring fence placed around them. Area Based Grant has been abolished as part of the LGFS and has in part been replaced by a new Early Intervention Grant.

2.6 Other significant changes to be announced as part of the LGFS have included:

(a) The creation of the 'Homes Bonus' grant. This scheme has been devised to encourage councils to build more homes. Additional grant is provided for new social housing. Over the period of the MTFS the Council anticipates building around 2000 new homes which could generate a further £3m of revenue for the Council between 2011-15.

(b) The ability of councils to charge for some planning services. This could potentially generate income of £0.5m per annum once fully established.

(c) New funding streams to support Adult Social Care. The longevity of these funding streams is far from clear however, for 2011/12 they total £1.3m.

(d) A significant increase in Government Capital grants, mainly for highways expenditure, contrasting sharply with the reductions, of circa 11%, in revenue funding received from central government.

2.7 The impact of the CSR on anticipated income streams over the coming two years is highlighted in Tables A and B.

Table A: Predicted income before the Comprehensive Spending Review

Income	2011-12/£m	2012-13/£m
Total anticipated receipts pre CSR[1] - non ringfenced	121.68	124.67
Total ringfenced grants[2]	14.2	14.4
Total receipts	135.88	139.07

Table B: Predicted income after the comprehensive Spending Review[3]

Income	2011-12/£m	2012-13/£m
Council Tax	79.33	79.72
Formula Grant	32.44	28.64
Non ring fenced grants	9.82	10.19
Council Tax freeze grant	1.98	3.53
New Homes Bonus	0.48	1.13
Ring fenced grants	1.06	1.06
Total anticipated receipts post CSR	125.11	124.27

A comparable figure for the above analysis for 2010-11 is £128.24m[4]

The National and Local Economy

2.8 West Berkshire has not been immune from the global and national recessions of 2009-10. Local GDP/GVA figures are not available but the number of people claiming Job Seekers Allowance (JSA) in West Berkshire increased to 2,500 over the summer of 2009, a rise of over 164% compared with the preceding 12 months. Since this time unemployment has begun to fall and now stands at 1,761 – a 28% fall in the numbers claiming JSA at December 2010. A recent Experian report has highlighted that the District has been the third most successful in District creating post recession growth nationally

2.9 Nevertheless, the housing market remains depressed and new housing completions are still short of what was seen prior to the recession. This in turn constrains growth in the Taxbase. Other sources of Council income linked to the housing market also remain depressed e.g. land charges, along with other income related to economic activity, notably car parking.

2.10 The pace at which historic Council income levels will return is as yet unclear but it remains an important consideration in the context of the MTFS, although it is difficult to model accurately.

[1] Assuming central government grant increased by 1.5% per annum
[2] Assumed remained at 1st April 2010-11 level plus 1.5% annual inflation
[3] Figures in blue are currently best estimates
7 FG of 29.23m, ABG of £12.034m, specific grants of £14.2m

Demographic Changes

2.11 The latest (2009) population estimates put the population of the district at 153,000 – an increase of just under 8,500 (or 5.9%) since 2001. West Berkshire's population will continue to grow and the Government's latest sub-national predictions (2008) suggest that it is set to rise to around 160,000 by 2015.

2.12 The nature of this population growth continues to place significant financial demands on the Council, notably in adult social care. Table C shows the projected changes in different age groups against the 2010 projected estimate using the Government's latest projections. Within the 4% growth in the overall population, the numbers of residents aged between 65-79 which is projected to rise by around 20% over the five years. The anticipated growth in the 85 and over population, the group most dependent on social care, is forecast to be around 25%

Table C.

Projected sub-national population growth in West Berkshire against the 2010 estimate.		
	2010	**2015**
0-19	39.9	1%
20-24	6.7	-1%
25-64	84.2	2%
65-79	16.9	20%
85+	3.0	23%
All	154.0	4%

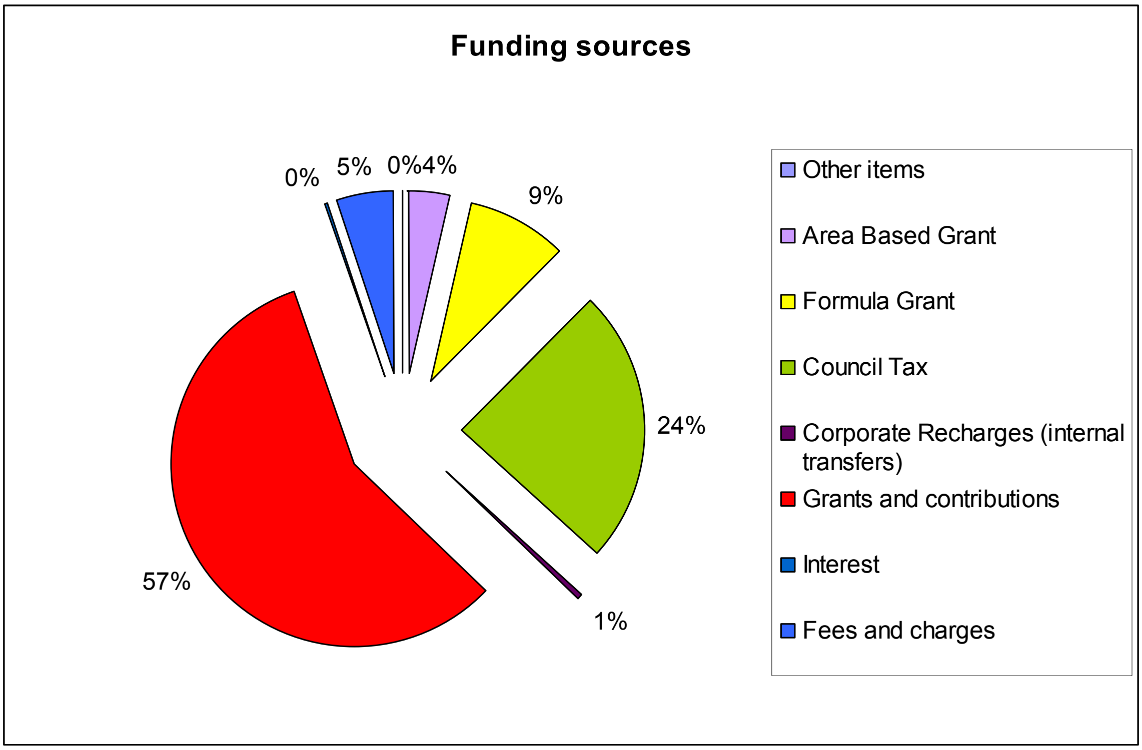
3. The Numbers

This section sets out how the Council was funded as of the 1st April 2010. This has changed significantly over the past 12 months, but gives a useful starting point for how the Council is resourced, and where it spends its money.

3.2 The Council is funded from a variety of sources. Each of these sources of income will be subject to different pressures over the period of the MTFS, some local, some national. All funding sources are anticipated to total around £326m for the financial year 2010-11.

3.3 Graph 1.1 sets out a summary of the distribution of funding sources the Council budgeted to receive as at the 1st April 2010.

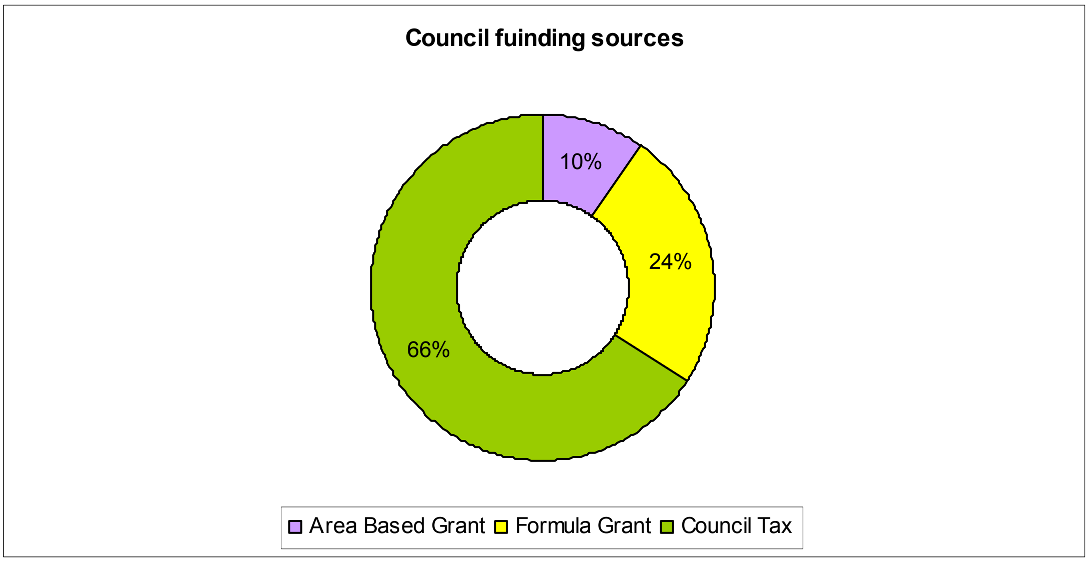
<u>Graph 1.1: Council funding sources – April 2010</u>



3.4 The graph shows that the Council receives over half of its income from grants and contributions, primarily from Central Government departments. £120m of this funding is transferred to schools as part of the Dedicated Schools Grant or other associated schools funding streams. The gross expenditure on Council services, excluding the amount spent directly by schools, is circa £200m.

3.5 When the Council sets its annual budget, it does so on a net basis. This establishes the level of funding that is required from local taxpayers as part of the Council Tax setting regime. This means that the Council sets the budget net of specific grant income and contributions, Area Based Grant, and money raised from fees and charges. The Council's net budget for 2010-11 of £107.4m (for Council Tax setting purposes) was made up from three specific sources as set out in Graph 1.2.

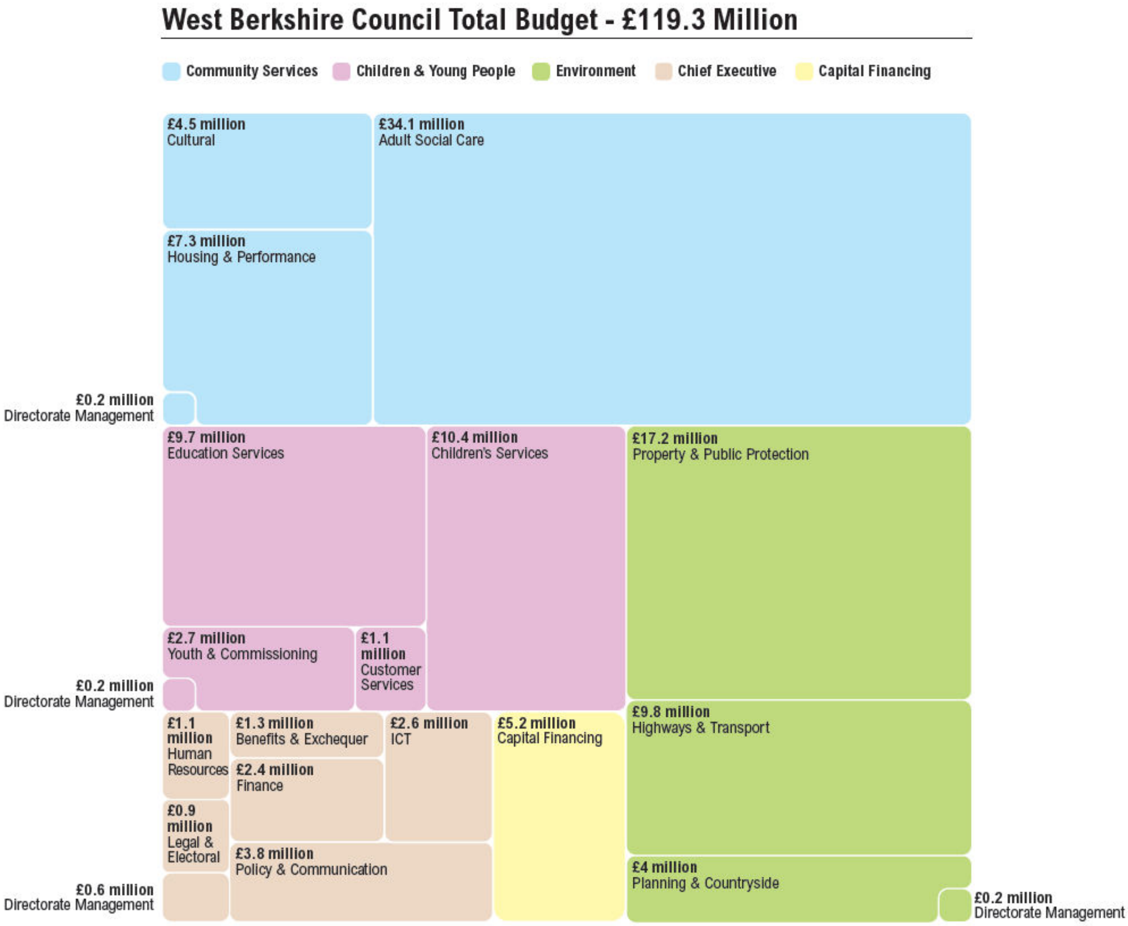
Graph 1.2: Council funding sources; net budget 2010-11



3.6 As at the 1st April 2010, the Council net budget stood at £119.23m (£107.4m for Council Tax setting purposes). For 2011-12, the Council's net budget is £123.74m (£111.45m for Council Tax setting purposes). The changes to Local Government finance announced during late 2010 have meant the abolition of the Area Based Grant, and a large reduction to the number of non ringfenced grants

3.7 The Council's expenditure is distributed across four Council directorates in accordance with local priorities and the statutory functions that the Council must provide. This distribution is set out in Graph 1.3.

Graph 1.3 - How the Council's money is spent by Directorate – April 2010



3.8 As can be seen from Graph 1.3, the services with the largest net expenditure are Adult Social Care and Property and Public Protection, (this includes waste management). Together these two services account for 43% of the Council's expenditure financed by local taxpayers and un-ringfenced Central Government Grant.

Capital expenditure

3.10 The Council also spends money on investing in the District's infrastructure, such as roads and school buildings. This capital expenditure is financed, in part, by local taxpayers, and Central Government un-ringfenced grant. This area of cost represents about 5% of the Council's net expenditure. This expenditure is the revenue cost of borrowing money for future capital projects as well as covering the interest and principal costs of previous borrowings for capital projects. Overall the Council's total capital expenditure in 2010-11 is anticipated to be £67m. This is funded by specific government grants as well as the amount included above.

3.11 For 2011-12 the capital expenditure is expected to fall to £36m. This is primarily due to the completion of the new St. Bartholomew's school and an overall fall in the Council funded capital programme. The overall expenditure on capital for the period 2011-15 is anticipated to be just under £110m as per the Capital Strategy and Programme (separate document).

3.12 A summary copy of the Council budget book can be found on:

http://www.westberks.gov.uk/index.aspx?articleid=852

3.13 **Reserves**

3.14 The Council also has a variety of reserves. These amounts are one-off in their nature. The General Reserve currently stands at £7.1m. This is held for any unforeseen items or increasing financial pressures that emerge during the financial year that cannot be mitigated by the Council under-spending in other service areas. For example, if there was a particularly bad winter that required a much higher than budget number of gritting runs, and the Council spent £2m on additional operations to combat this whilst other services were unable to deliver any underspend, then the Council would overspend against its budget by £2m. It would then use the General Reserve to fund this expenditure.

3.15 The Section 151 officer (the most senior financial officer in the Council) has determined that the current minimum level of general reserve should be 5% of the Council’s net revenue budget plus £1m. Previous guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) indicated a minimum level of at least 5% of net revenue expenditure. The S151 Officer at the Council has assessed our reserve requirement as £1m higher due to the volatility in the Adult Social Care budget, and to a lesser extent Children’s social care budgets, the impact of further cuts on Council wide expenditure, the loss of income as result of the wider economy, and a variety of other risks that are detailed further in the 2011-12 Revenue Budget papers.

4 Future Finances:

4.1 An effective MTFS has to be based on sound financial modelling. Table C sets out the anticipated position of the Council's finances over the coming two years. Four year modelling has not been possible due to the short term nature of the Local Government Financial Settlement (LGFS) announced in December 2010.

Table D: The Financial Model underpinning the Council's MTFS – 2011-13

Line ref	MTFS	2011/12	2012/13
		£m	*£m*
1	Council Tax income	-79.32	-79.72
2	Council Tax 'refund' for 0% CTX in 2011-12	-1.98	-3.53
3	Government Grant (including social care and health benefit funding)	-33.74	-29.90
4	New Homes funding	-0.48	-1.13
5	Early Intervention Grant	-5.43	-5.77
6	Learning Disability and Health Reform Grant	-3.09	-3.16
7	Collection Fund deficit	0.31	
8	**Funds available**	**-123.73**	**-123.20**
9	*Economic downturn provision*	*0.00*	*-0.20*
10	*Contractual inflation*	*0.59*	*0.62*
11	*Unavoidable pressures*	*4.92*	*3.09*
12	*Ongoing 2010-11ABG savings*	*-0.50*	*0.00*
13	*Savings proposals*	*-7.70*	*-7.30*
14	***Sub-total: Annual savings***	*-8.19*	*-7.30*
15	Other adjustments	-0.75	-0.01
16	Directorate budget requirement	118.47	116.34
17	Levies & capital financing costs	6.00	6.87
18	**Budget requirement**	**123.73**	**123.20**

4.2 The MTFS is constructed using a variety of planning assumptions and estimates. Below is a summary of these assumptions, which are reflected in each line of the Financial Model shown in Table D. These assumptions are important. Even a relatively small change to a financial planning assumption in Year 2 (e.g. the Council taxbase rises by 0.5% more than expected) will put over £1m extra into the financial model over the next three years.

4.3 The assumptions are based on the latest knowledge available to the Council and also draw upon interested knowledgeable organisations' opinions, such as the Institute of Fiscal Studies or CIPFA (Chartered Institute of Public Finance and Accountancy). Where appropriate, the sources to these assumptions have been explained in the text or footnotes.

(1) **Council Tax income**

This is based on a Council Taxbase rise of 1% in 2011-12 and 0.5% in 2012-13. The assumed Council Tax rise for both years is 0% (please see below.)

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(2) **Council Tax 'refund' for a Council Tax freeze in 2011-12**

The financial model assumes that the Council will receive a Council Tax freeze grant for both 2011-12 and 2012-13 to enable the Council to achieve a 0% Council Tax rise for residents. This is per the Government's intention to work with local authorities to deliver low Council Tax.

(3) **Government Grants**

This amount has been reduced in real terms by 14.3%. The basis for this calculation has been the final settlement from the DCLG as supplied[5]

(4) **New homes**

This is a new stream of funding for councils announced by the Government. This represents the additional income the Government will give the Council for granting planning permissions for new homes. The funds the Council will receive are based on new properties built, and the Council receiving the additional Taxbase for these properties (national average of £1,439 per band D property).

(5) **Early Intervention Grant**

The Early Intervention Grant (EIG) is a new grant, but consists of funds the Council previously received via a variety of sources including some aspects of ABG, SureStart funding and various other specific ring fenced grants. The EIG is a non ringfenced grant, but the Government expects local authorities to maintain certain statutory duties concerning activities for children and young people.

(6) **Learning Disability and Health Reform Grant**

This Grant relates to obligations to fund activities that were previously performed by the PCT. This Grant broadly matches the cost of those responsibilities.

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[5] http://www.local.communities.gov.uk/finance/1112/grant.htm

(8) **Funds available**

This is the total income that the Council anticipates receiving from non-ringfenced sources (i.e. excluding fees, charges and specific grant funding) for each financial year of the MTFS.

(9) **Economic downturn provision**

During the 2009-10 budget setting process, an additional £680k of funding was invested into services due to the adverse economic impact created by the recession. The two main areas were car parking and Home to School Transport. It is anticipated in 2012-13 that money will be removed from these budgets as the economy emerges from the recession.

(10) **Contractual inflation**

This line represents the inflation paid on contracts above 1.5%. Some of the Council's contracts or obligations to pay are based on inflation figures at different points of the year e.g. the waste contract uses RPIx in January, and business rates are uplifted by the September RPI figure.

For the years after 2011-12, the model uses the Treasury's RPI forecasts as the basis for the increase.

(11) **Unavoidable pressures**

These are items where the Council invests in services where there is an unavoidable obligation to do so. For example increasing budgets where there is a new statutory obligation on the Council. This also includes investment for increasing demographic growth and demand for Adult Social Care services.

(13) **Savings Proposals**

Full details of the 2011-12 savings are presented in the 2011-12 budget papers and are outlined later in this report. The savings for 2012/13 are likely to be adjusted and reviewed prior to that financial year to reflect any changes in the financial assumptions within the model.

Given the reductions to Government grants, and the maintained investment in Adult Social Care, the annual level of savings are much higher than in recent years, and their delivery represents a significant challenge for the Council.

(15) **Other adjustments**

These are technical accounting adjustments, generally where the Council is funding services from non-recurrent sources of income; for example from section 106 funds or from a specific earmarked reserve.

(16) **Directorate budget totals**

This line includes all of the savings, contractual inflation and pressures described above. These figures also include the impact of 'base budget' changes e.g. the cost of contract rising by up to 1.5%, any increases to pay inflation and incremental rises. The model currently assumes that the Council funds contractual inflation up to 1.5% where it exists, and that pay inflation is 0% for the years 2011-13.

(17) **Levies and capital financing costs**

These are the costs associated with financing capital expenditure, i.e. borrowing charges, for the Council's current and previous capital programmes. The Council takes out new borrowings for new assets based on the life of the relevant asset. The Council does have some older loans which were taken out on a maturity basis.

This line also includes the cost of levies to the Environment Agency and the Magistrate Courts, and includes a small amount of income for the return the Council makes on its short term investments during the year.

(18) **Budget requirement**

This is the total expenditure for the year that the Council anticipates spending.

6. The Strategy

Overview

6.1 The financial challenges posed by the Comprehensive Spending Review require a new approach to that adopted in the previous MTFS. As with the CSR the new MTFS covers a four year period 2011-2015 however the Local Government Financial Settlement published in December 2010 only covers the first two years of the CSR hence making financial modelling for the latter two years more problematic.

Mention has already been made of the challenges posed by the timing of this document. It has been prepared prior to the preparation of the new Council Plan and in the midst of an extensive emerging legislative programme from the Coalition Government. This MTFS therefore needs to be seen as an interim document with the strategy having been based on a 'two plus two' approach with years one and two of the MTFS focusing on the themes of resilience, efficiency, stability and prioritorisation. Years three and four will focus more on transformational change reflecting on the results of a Strategic Review aimed at reviewing both what the Council does and perhaps more importantly, how it does it.

Core Principles

The changing context to the way in which the Council is having to operate means that it is timely to review the core principles on which the MTFS is based. Some of the previous principles remain equally relevant to this new MTFS but others need to be reviewed given reducing resources. The proposed core principles for the next four years have therefore been designed to;

- continue to show the Council's expenditure and income to be in balance for each year of the Strategy;
- ensure that resources are aligned to the priorities and programmes outlined in the Council Plan, and Sustainable Community Strategy;
- reduce the Council's funded Capital Programme to an average of just under £5.4m per annum over the life of the Medium Term Financial Strategy;
- keep future Council Tax increases as low as possible;
- retain the current policy regarding the level of General Fund reserves.

2011-2013

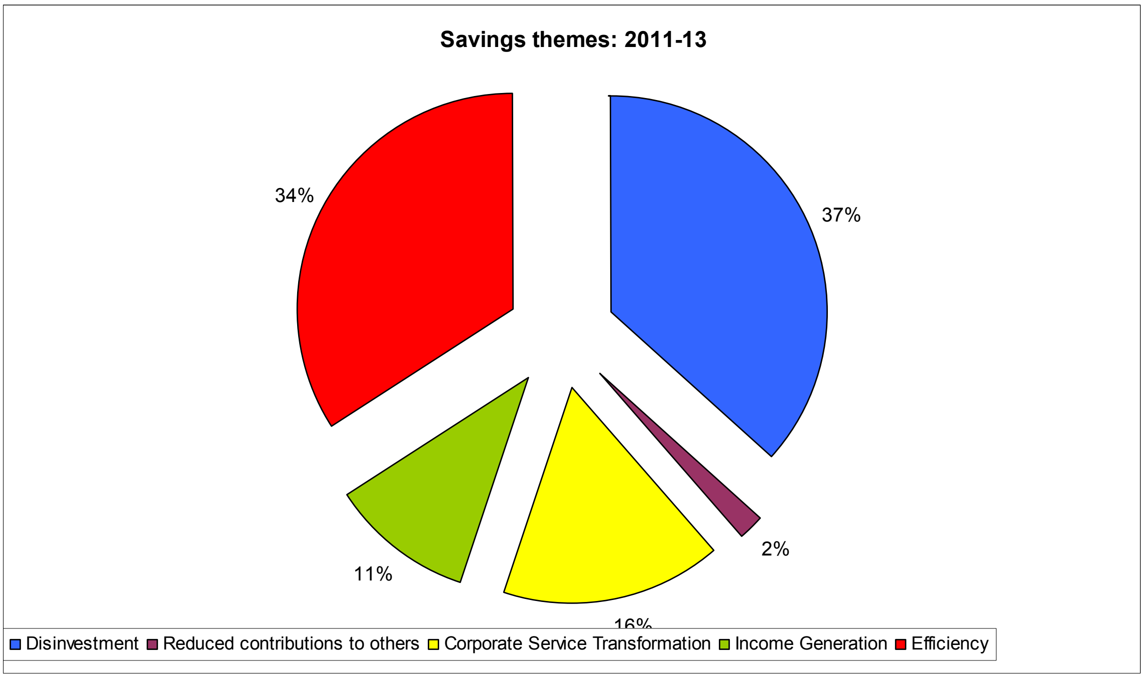
6.4 Given the financial constraints that will exist over the life of the new MTFS it is inevitable that opportunities for new investment will be greatly reduced. The strategy that will be put in place for the first two years of the MTFS will retain key elements of the previous approach, the most important strands being;

- delivering further efficiency savings, including shared service provision where appropriate;
- seeking further opportunities for income recovery, generation and cost recovery;
- disinvesting from lower priority functions and services;
- providing services in a different way, with a greater focus on commissioning rather than providing, and a stronger emphasis on communities and individuals helping themselves wherever possible.

6.5 In respect of efficiency savings, the Council has in place a corporate efficiency programme which requires each service to identify a 1% per annum efficiency saving over the life of the MTFS. This should deliver a minimum of around £1m of efficiency savings each year. Heads of Service are given the discretion to decide how these efficiency savings are realised. In the recent past, this has included the introduction of new shared service arrangements such as CCTV and Trading Standards, as well as staff restructuring proposals and business process re-engineering projects. There remains an expectation that the delivery of efficiency savings (in whatever form) will remain a key element of the MTFS over the coming two years and this will be driven both corporately and through individual services.

Chart 1.5 below highlights how savings are likely to be generated over the first two years of the MTFS.

Graph 1.5: Savings Themes –



6.6 Income generation opportunities are reviewed on a regular basis. The recent recession had a significant impact on income in areas such as car parking and land charges and much of this has yet to return to pre-recession levels. The scope to increase income also needs to be considered in the context of what those being charged are prepared to pay and in some cases, what can be achieved in a competitive market place.

6.7 Inevitably disinvestment has become more significant in 2011/12 given the financial pressures now facing the Authority. The Council's response to this has been to place a greater focus on prioritising what it does. A Member prioritisation exercise was undertaken in 2010/11 to assist in the formulation of the new MTFS and this was followed in the same year by a budget consultation exercise in which the local community took part.

6.8 This analysis has been used to help shape disinvestment proposals for 2011/12 and for 2012/13 although it needs to be borne in mind that a range of factors e.g. legal requirements etc, need to be taken into account when deciding where savings need to be made. Prioritorisation will continue to play an important role in shaping the Council's approach to disinvestment in particular during the first two years of the MTFS.

6.9 The previous MTFS highlighted the importance of various transformation programmes in helping to deliver the Council's savings requirements. The most notable of these was the Putting People First Programme in Adult Social Care which will deliver savings over the course of 2010-13 of circa £2m.. Further savings are also anticipated from this Programme in the early years of this new MTFS through this and other transformation programmes.

6.10 The Government's 'Programme for Government' highlights the scale of the changes that are now affecting much of the public sector as well as local government. Many of these changes are now becoming enshrined in legislation and some will have a significant financial impact, not only on what the Council will be doing over the life of the MTFS, but also increasingly on how some of the Council activities will be carried out. These changes will have a significant impact on the Council's MTFS in so far as some activities currently undertaken by the Council are likely to be transferred to others to do. This in turn will raise structural and organisational issues within the Authority which it is anticipated will form an important element of the MTFS towards the end of the plan period.

6.11 Table E provides a summary of the savings proposals that have currently been identified for the first 2 years of the MTFS. They are highlighted by theme.

Table E: Savings proposals by theme 2011-13

Theme	Savings / £m	Percentage / %
Corporate Service Transformation and shared services	2.45	16
Income generation	1.64	11
Reduced contributions	0.32	2
Efficiency	5.10	34
Disinvestment	5.49	37
Total	15.00	100

2013-2015

6.12 There is considerable uncertainty regarding the financial impact on the Council of the latter two years of the CSR and MTFS. The LGFS published in December 2010 provided only a 2 year settlement for local authorities so it is difficult to undertake financial modelling for Years 3 and 4 of the MTFS. It is for this reason that detailed financial modelling cannot yet be set out in this paper. If the headline reduction for local government set out in the CSR is combined with the stated policy of 'front loading' the grant reductions to the earlier years of the CSR, then it could be that grant reductions in Years 3 and 4 will be significantly less pronounced than in the first two years of the new MTFS. This however is conjecture.

6.13 Further work is required to develop a robust strategy for this latter period of the MTFS. Themes such as efficiency and income maximisation will remain important but they are unlikely to meet the scale of the financial challenge that lies ahead. It is therefore proposed to undertake a strategic review of the Council's future strategy, approach to service delivery and capacity over the coming 12 months with a view to creating a new organisational footprint and resource base. Some of the key expectations coming from that strategic review would include;

- clarity as to the future role and responsibilities of the Council given current and anticipated changes in Government policy – and in particular the Council's role and relationship with both new and existing public sector partners;

- completing the prioritorisation work that has been undertaken during 2010/11 so that there is a clear understanding of where the Council will potentially disinvest from;

- clarity on how existing services will be provided in the future. In some service areas it is clear that the Council's role will be one of commissioner with the provision of some services being moved to the private, and voluntary/community sectors;

- further developing the theme of Big Society by clarifying how the Council intends to empower communities to do more for themselves, promoting the principle of self help where it is appropriate;

- reshaping the Authority's budget and staffing around these new roles to create a new, smaller footprint, but one which is tailored to what the Council will need to achieve over the coming four years and which is more resilient to the turbulent financial environment that lies ahead.

Other Strategies

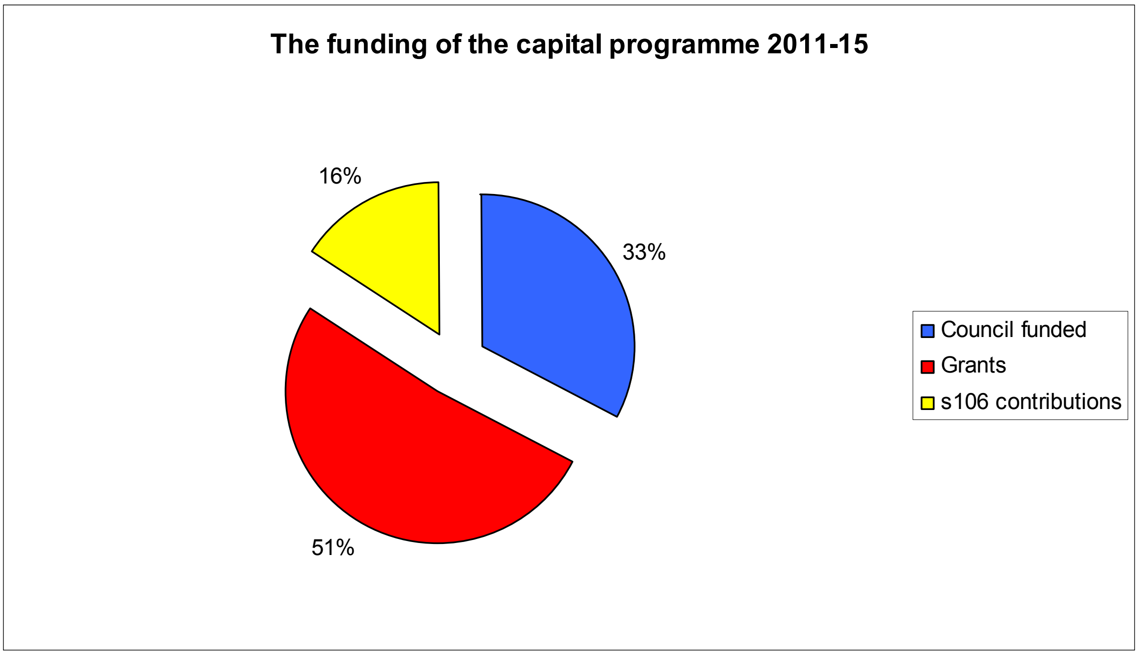
6.14 Other Council strategies will have an important bearing on the MTFS and some of the most significant are set out in the remainder of this chapter.

Capital and Asset Strategy

6.15 The Capital Strategy utilises the affordable financing element from the MTFS to ensure that the Council has a level of capital infrastructure and capital maintenance to deliver the outcomes in the Council Plan.

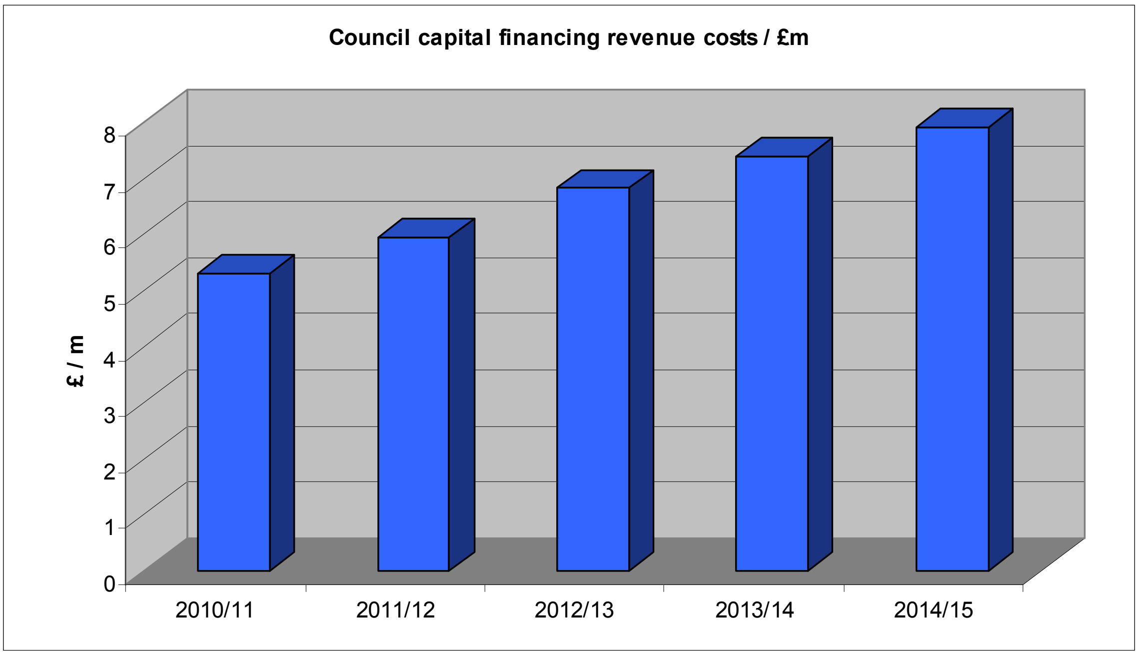
6.16 The Capital Strategy is based on a certain level of internally funded prudential borrowing to fund Council infrastructure, as well as utilising other sources of funding such as government grants, developers contributions and capital receipts. The apportionment between these different funding sources is set out in Graph 1.6.

Graph 1.6: Funding of the capital programme 2011-15



6.17 The Capital Strategy has a significant impact on the Council's revenue budgets for future years as well. Graph 1.7 sets out a summary of the budget for the capital financing element in the revenue budgets, i.e. the revenue costs of paying for past and future borrowing. The proposed average level of new Council funded capital spending for the next five years over the period of the capital strategy is approximately £5.4 million per year (excluding capitalised highways maintenance), as compared with over £18 million per year on average over the last four years. This is in response to the increase in central government capital grants and to reflect the reduced revenue resources that the Council will receive from central government over the period of the MTFS:

Graph 1.7: The annual revenue cost of financing the capital programme – 2010/11 – 2014/15

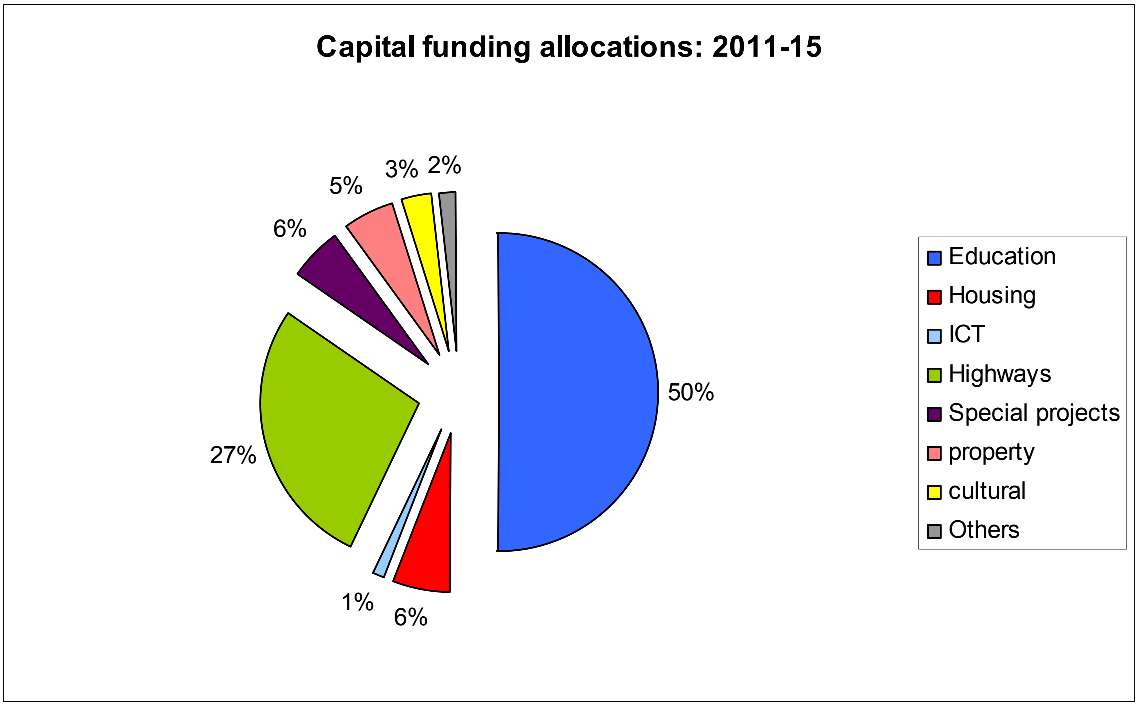


6.18 Though clearly a substantial cost to the Council, the Capital Strategy does seek to offset future revenue costs as well provide a good standard of infrastructure for the district. For example, ensuring that the state of the Council's highways infrastructure is of a good level, reduces the need for revenue spending on repairing potholes and emergency short term repairs[6]. Similarly, in Adult Social Care, using the Disabled Facilities Grant and improving clients' ability to remain at home, can offset the potential cost of the same clients going into more expensive residential settings.

6.19 The Council's Capital Strategy is heavily weighted towards funding highways and education projects, but there is funding for corporate ICT projects, which assist the ICT service to deliver the ICT strategy. Graph 1.8 shows how it is intended to allocate the Council's capital expenditure over the life of the MTFS.

[6] http://www.westberks.gov.uk/index.aspx?articleid=1027

Graph 1.8: Capital funding allocations by service 2011-15



Workforce Strategy

6.20 The Council's Workforce Strategy (Building Capacity[7]) is developed using a combination of 'top down' priorities taken from the national workforce strategy for local government and the Council Plan, and from 'bottom up' service level analyses using the Strategic Workforce Planning Toolkit developed by the Council. This has required individual service units to consider issues under five themes; Organisational Development; Leadership and Management Development; Skills Development; Recruitment and Retention; and Pay and Reward. Services gave scores of 1-3 depending on the urgency and size of the problem and this has been used to help shape the published workforce strategy for the Authority.

ICT Strategy

6.21 West Berkshire Council is a complex and diverse organisation in which information and communications technology;

- provides a platform for the day-to-day service delivery of the Council;
- provides the Council's main communication channel for providing information;

[7] http://www.westberks.gov.uk/index.aspx?articleid=11813

- supports the planning, scheduling and allocation of resources to front-line services;

- acts as an enabler for effective and efficient service delivery.

6.22 Given the changing customer demands and ongoing financial constraints a key element of the current ICT strategy is to provide as much information and as many processes as possible to our customers on a self-service basis, via our web site. This provides 24 hour access to Council information and services at the lowest possible cost.

6.23 The implementation of technology to allow mobile and flexible working as part of the Timelord Programme has allowed the Council to rationalise and reduce it office accommodation requirements in Newbury and is set to show demonstrable gains in staff efficiency and reduction in staff travel time and absence. These efficiency gains have been built into the MTFS.

6.24 Although ICT helps the Council to run efficiently it also represents a significant element of the Council's budget. Accordingly the ICT Service constantly strives to minimise its costs through renegotiating supply contracts with its service providers and through competitive procurement for goods and services. The Service costs are benchmarked against other similar organisation and these comparisons have shown WBC's ICT costs to be low to average.

Customer Service Strategy

6.25 Customer Services has a key role in enabling this Council realise its vision of 'Putting Customer First'. From small beginnings the Service now provides the first point of contact for all enquiries relating to Council Tax, Business Rates, Housing Benefits, Planning, Streetcare, Environmental Health, Concessionary Travel, Children and Adult Services and Property the underlying principle behind the Council's approach is to address as many customer queries at the first point of contact (viz. through the Contact Centre) thereby improving customer satisfaction and minimising cost.

7. **Resilience: Ensuring strong financial management**

7.1 The Council has a strong record of good financial management and demonstrating financial resilience in difficult financial circumstances.

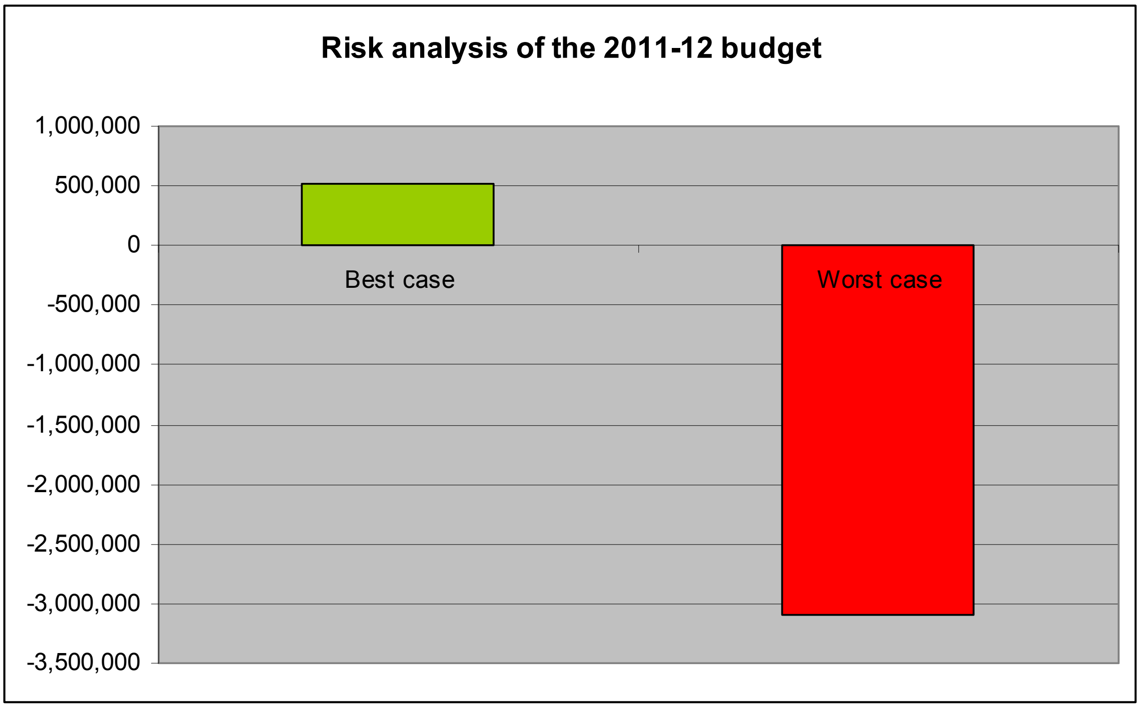
7.2 The period covered by the MTFS clearly poses a number of risks to the Council's system of financial management. The Council maintains a Strategic Risk Register that summarises the key risks to the Council, and these are supported by a number of service risk registers.

7.3 Vital to ensuring strong resilience over a period of significant organisational change and reducing finances, is an appropriate level of reserves. The current level of reserves has been alluded to in earlier chapters and stands at £7.1m as at the end of the 2010/11 Financial Year. As mentioned earlier the S151 officer recommends a minimum of 5% of net revenue expenditure plus £1m for additional risks. Utilising this reserve to below the recommended level will only occur if the Council is experiencing significant in year financial difficulties.

7.4 The MTFS has its own risk register which is attached in Appendix iii. There are a number of specific risks, and some of these are detailed in Table F.

7.5 Graph 1.9 highlights a sensitivity analysis looking at most volatile budgets from across the Council. This analysis demonstrates some of the costs or benefits if there are changes in the macro and micro economy that will impact on the 2011-12 budget. This analysis also includes some corporate risks as well, such as Council Tax income, which will potentially impact on the 2011-12
budget and beyond.

Graph 1.9: Risk analysis for 2011-12



7.6 The different scenarios highlighted below focus on the Council's most significant risks. These are monitored throughout the year using a variety of mechanisms. For example, key income streams, such as Council Tax, are monitored regularly via the level of monthly collection rate. Individual fees and charges are monitoring using the monthly corporate budget monitoring process. The savings in the 2011-12 budget are monitored by Heads of Service to ensure that they are being delivered. The Council also holds a detailed risk register for the MTFS, which is attached at appendix iii).

Table F: Detailed key risks and impacts

Directorate			Percentages				Financial	
	Item	2011/12 Budget	Best case	Reasons	Worst case	Reasons	Best case	Worst case
		£	%		%		£	£
CORP	Increase to taxbase	780,000	0%	New build completions are low in West Berkshire compared to historic levels.	25%	Decrease in new properties being occupied once they have been built; pressure therefore on the Collection Fund.	0	-195,000
CORP	Achievement of the 2011-12 savings programme	7,500,000	0%	Fully achieved savings programme	10%	Delays in achieving savings due to risks identified within each proposal	0	-750,000
CYP	Residential Care	1,172,290	9%	Two potential leavers in year (one transferring to adults (potential saving of one quarters costs £20.5k) and one transfer into a foster placement (assume mid year, saving £75k). Balance of placements continue (average cost based on 2010/11 of £112k per child), plus a factor of one additional placement.	36%	Two additional unknown joiners received in year at an average cost of £112k per placement based on 10/11 average placement costs. Current demand levels are rolled over into 11/12 with no leavers.	105,506	-422,024

CYP	West Locality Team	813,770	0%	There are no unknown new joiners in 11/12 and only three anticipated joiners are received in year (£137k anticipated joiners). Seven current recipients of care are expected to move to adult services within 11/12 (saving £193k)	17%	Three additional unknown joiners are received in year at a cost of £240k based on 10/11 average placement costs	0	-138,341
CYP	Residential Disability	929,130	-20%	Reduction in demand and lowering of agency demand resulting in budget being on line.	5%	Current agency demand to continue into 11/12 with key social worker posts being covered by agency staff and ad hoc utilisation of two further agency workers.	185,826	-46,457
ENV	Car Parking income	-2,390,070	6%	6 months of SLI money received from Oct 2011 to March 2012	-10%	SLI money not received, Parkway delay	150,001	-239,007
ENV	Development control income	-996,430	0%	£150k income pressure already in here	-25%	£150k income pressure already in here which could be worse	0	-249,108
ENV	Building control income	-672,140	0%	Pressures already exist to meet target	-22%	Based on 2009/10 pressure on outturn of £107k	0	-150,223
ENV	Building maintenance	357,070	0%	£50k TEB saving in here for 2011/12	42%	Major works that cannot be capitalised	0	-150,326
ENV	CRC	204,000	0%		0%		0	0
ENV	Winter maintenance	612,460	-8%	Most costs are fixed so not much opportunity to save, salt already purchased	34%	Based on 2009/10 pressure on outturn of £208k	50,222	-208,236
ENV	Padworth	capital						

	claim							
ENV	LDF – EIP	0				unbudgeted pressure	0	- 100,000
CEX	MVF due to reducing turnover	-345,900	0%	Target fully achieved through staff turnover	- 100%	No one leaves	0	-345,900
CEX	Legal disbursements with increasing legal work	134,240	15%	Provided number of referrals to Counsel and o/s legal advisers are kept to a minimum it was predicted that a £20k saving could be achieved in year	-50%	If the number of ET's and JR's plus the current level of prosecutions continues including referrals to Crown Court then due to the volatility of this budget area which is demand -led there is a risk of an overspend of over 50%	20,136	-67,120
CEX	Land charges	-181,050	0%	Subject to improving housing market and taking into account loss of personal search income the budget could break even	-20%	If there is no market recovery and LA's are required to repay search income to PS Co's over a period (and subject to the number of claims received a 20% + loss in year is likely	0	-36,210
						Variances	511,691	- 3,097,952

Appendices

i. The Capital Programme 2011-16 (separate report yet to be approved)

ii Value for Money Statement

iii Risk Register

iv The impact on the Council's Financial Statements

Appendix i

The Capital Programme 2011-16 – separate report awaiting approval

Appendix ii) Value for Money statement

1. The Council reviews its comparative Value for Money (VfM) position on an annual basis. Using the latest benchmarking information available from the Audit Commission[8] and specific CIPFA benchmarking clubs, the Council reviews how high or low its comparative costs are, and then seeks to understand the reason behind these results.

2. The Audit Commission information excludes support service cost comparisons (the cost of much of the CEX directorate has been allocated to front line services where appropriate). To ensure that as much of the CEX directorate is benchmarked as possible, the Council has joined specific benchmarking clubs for areas such as exchequer services, finance, and HR.

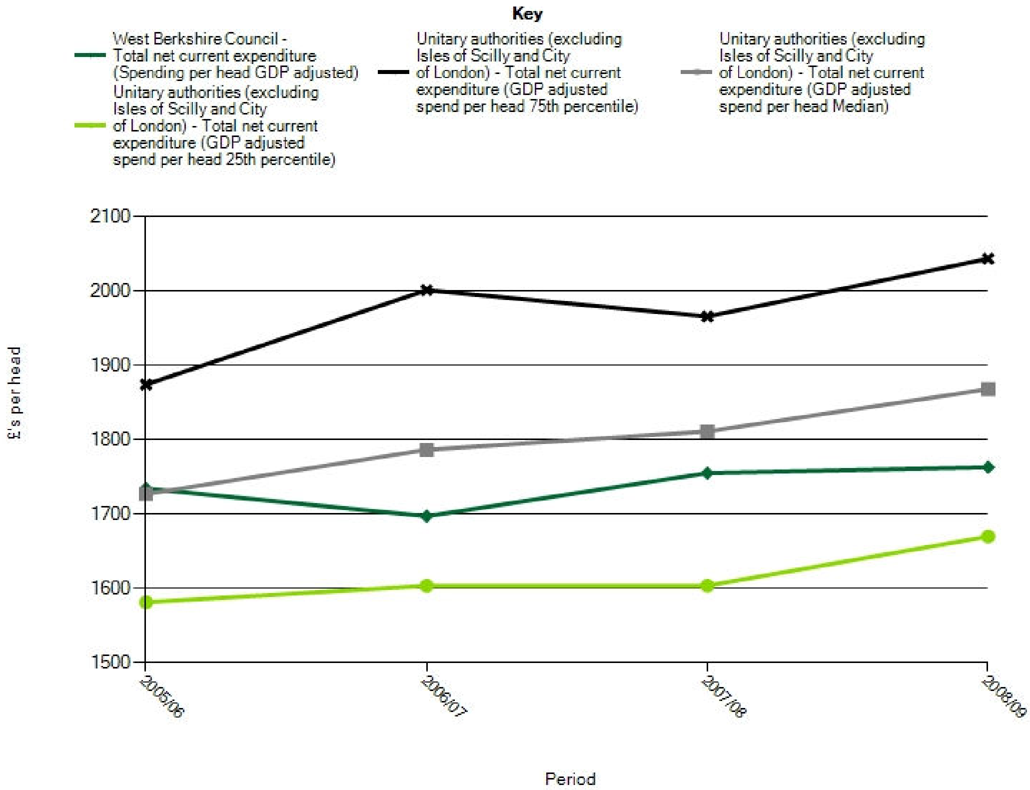
3. The Council has a corporate VfM group which undertakes a number of VfM reviews into those services where costs are above the national average (for all unitary Councils). Over the past 18 months the group has reviewed a range of services including libraries, car parking and waste management.

4. Below is a summary of the Council's VfM position. The information from the Audit Commission uses the actual expenditure from the 2008-09[9] financial year. The information from CIPFA uses the actual outturn from 2009-10:

[8] http://vfm.audit-commission.gov.uk/RenderReport.aspx?Gkey=282VqIaaVSLhf8izWEP0TAWQVWtk4RJPeIlaZ5eraF7VNpn0xPhUMQ%3d%3d

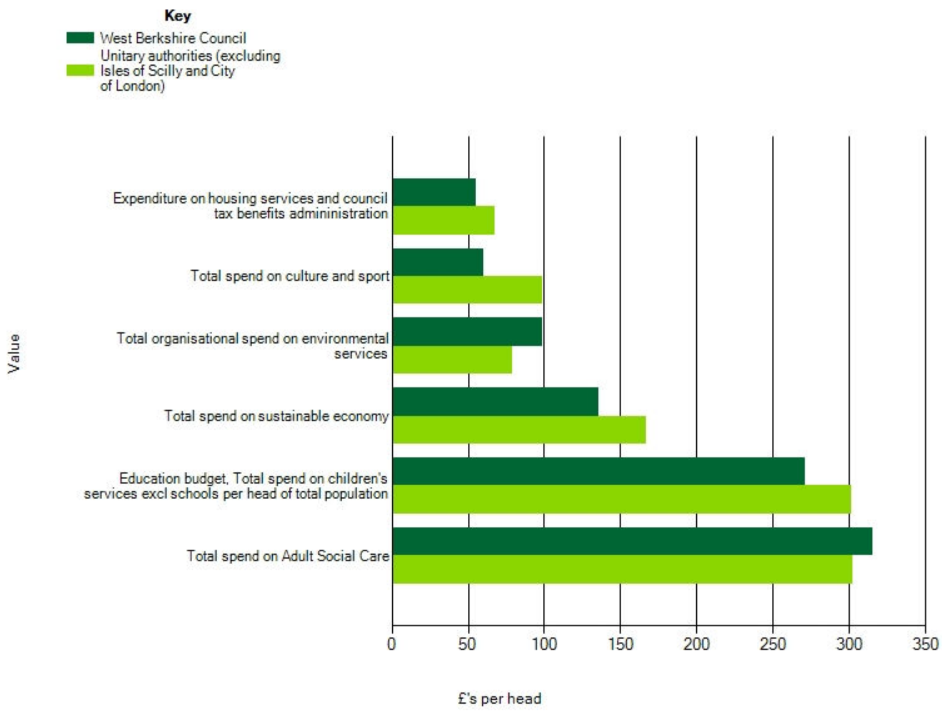
[9] The 2009-10 information is released during December 2010, but is not interpreted by the commission until March 2011.

Graph 1a: Summary expenditure



The graph above shows that over the past four financial years, the Council's expenditure has gone from close to the average to below average compared to other similar authorities.

Graph 1b: Spend per service grouping

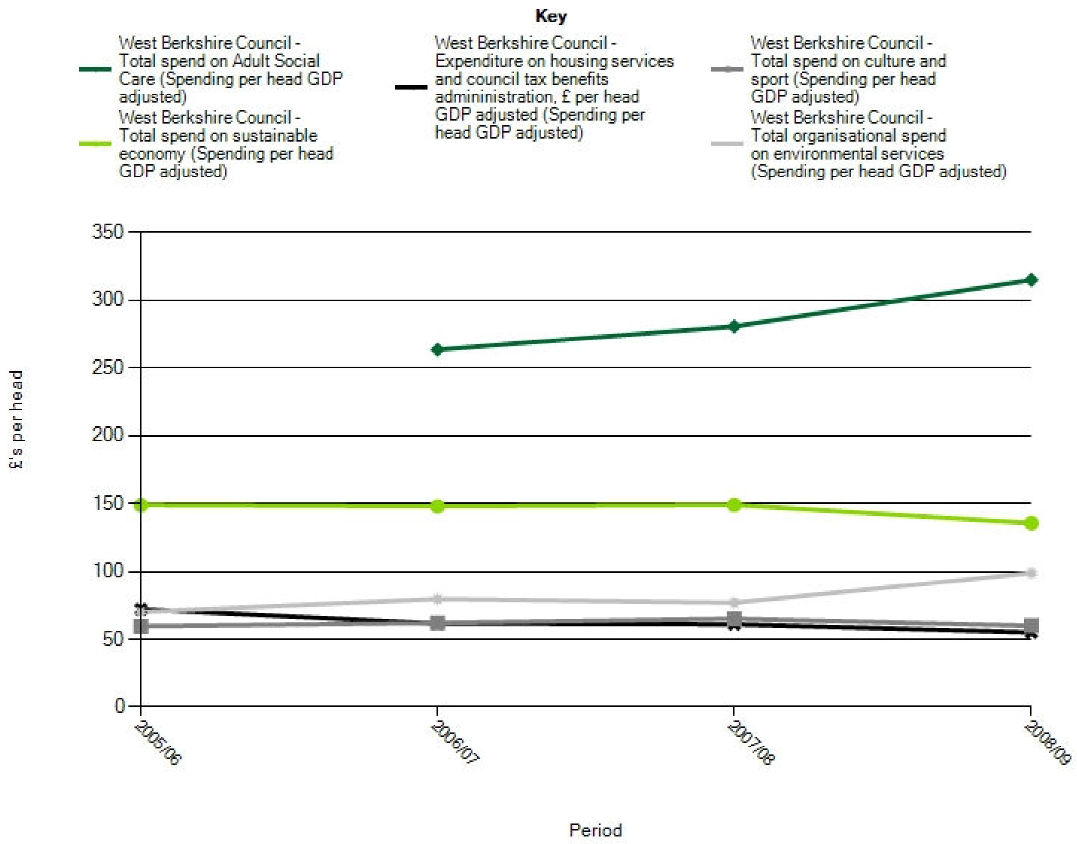


5. The graph above shows that the majority of the Council's service grouping's costs are significantly below average, except from environmental services (waste collection and disposal for this analysis) and Adult Social Care.

6. Waste services have seen long term investment over the recent period and the Council has signed a long term agreement with Veolia environmental services to collect and dispose of waste. The Waste Service had been subject to a recent review by the council's VfM Group.

7. Adult Social Care budgets have seen significant investment over the past three years (and as per the MTFS will continue to do so) to match the demand for the service. Already the largest service in the Council, this area is highly likely to be one of only a few services to increase in size over the medium term. This trend is highlighted in the graph below. A number of actions are in place including the development of a detailed financial model, membership of the CIPFA Benchmarking Club for ASC and detailed benchmarking against the other Berkshire Councils.

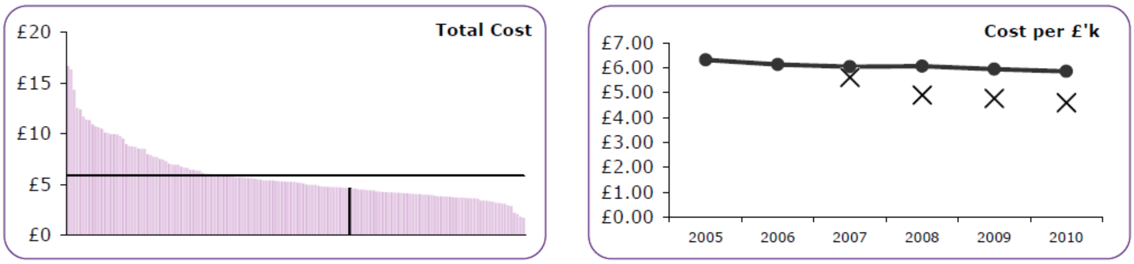
Graph 1c: Comparative spend over time



Corporate services comparisons

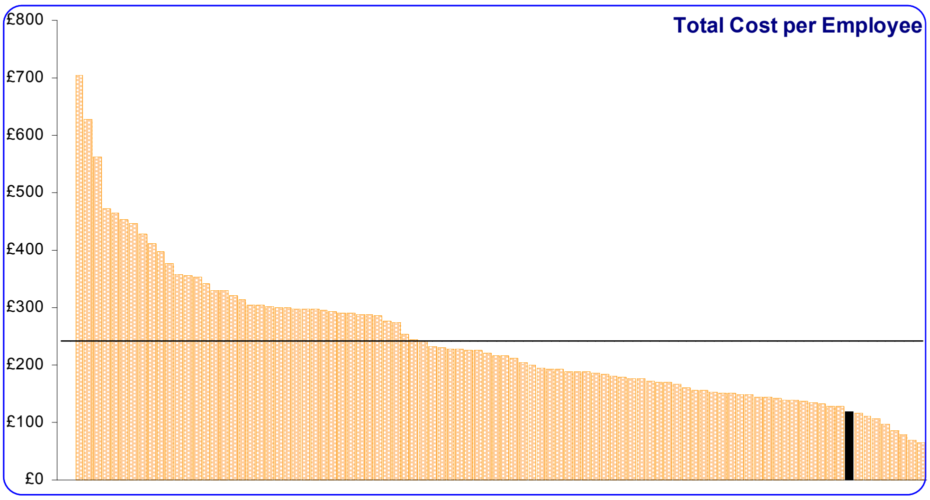
Below are a number of graphs highlighting the comparative costs of some of the Council's support services. This data comes from CIPFA benchmarking clubs, and this is a well established and independent source of benchmarking information. A large number of Councils belong to these clubs, and the analysis below compares the Council against all members of the club. The results are irrespective of geography, type of Council or how they deliver their services (in-house, in partnership, outsourced).

Graph 1d: Accountancy



Cost of accountancy function per '000s of gross revenue turnover

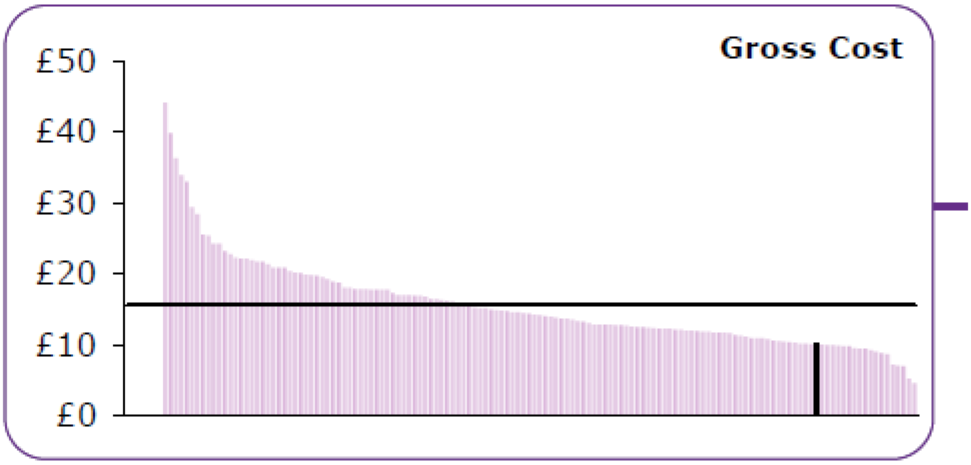
Graph 1e: Human Resources



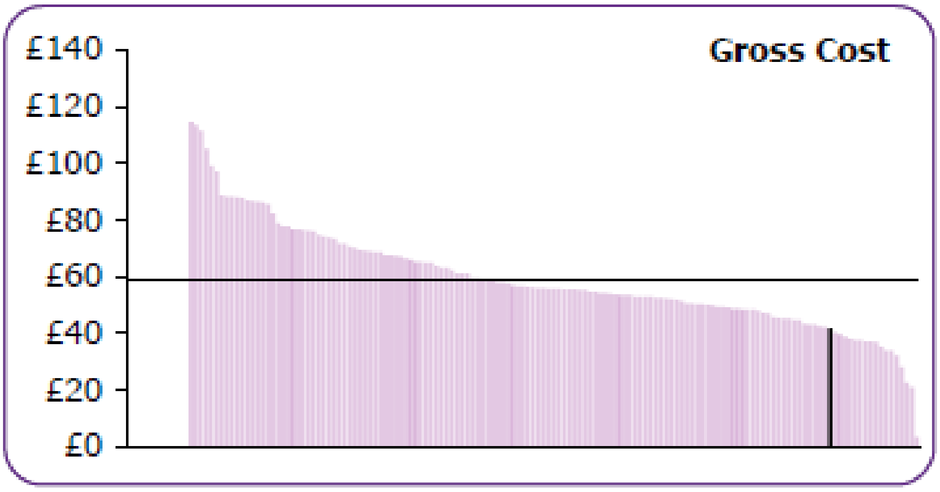
The above is the total HR service cost per employee of the respective organisations. This compares against many other local authorities.

Graph 1f: Benefits & Exchequer

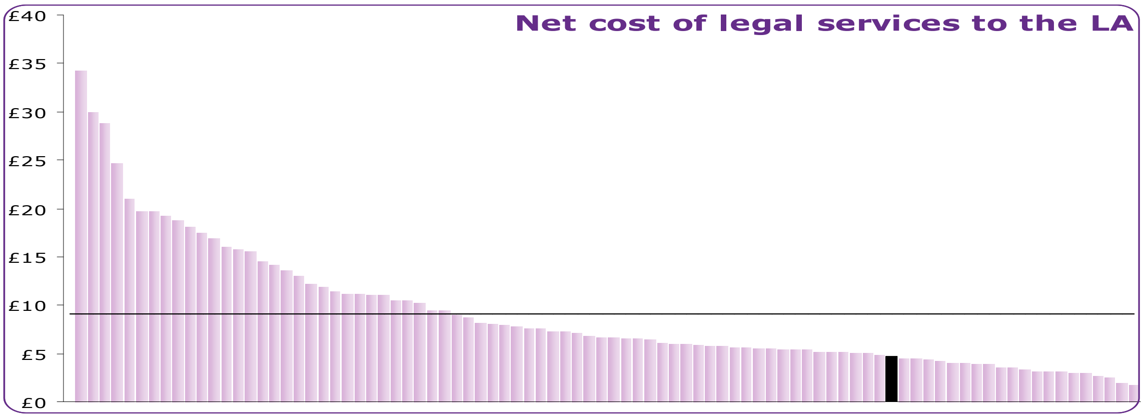
Cost of collecting Council Tax per dwelling:



Costs of benefits administration per weighted caseload

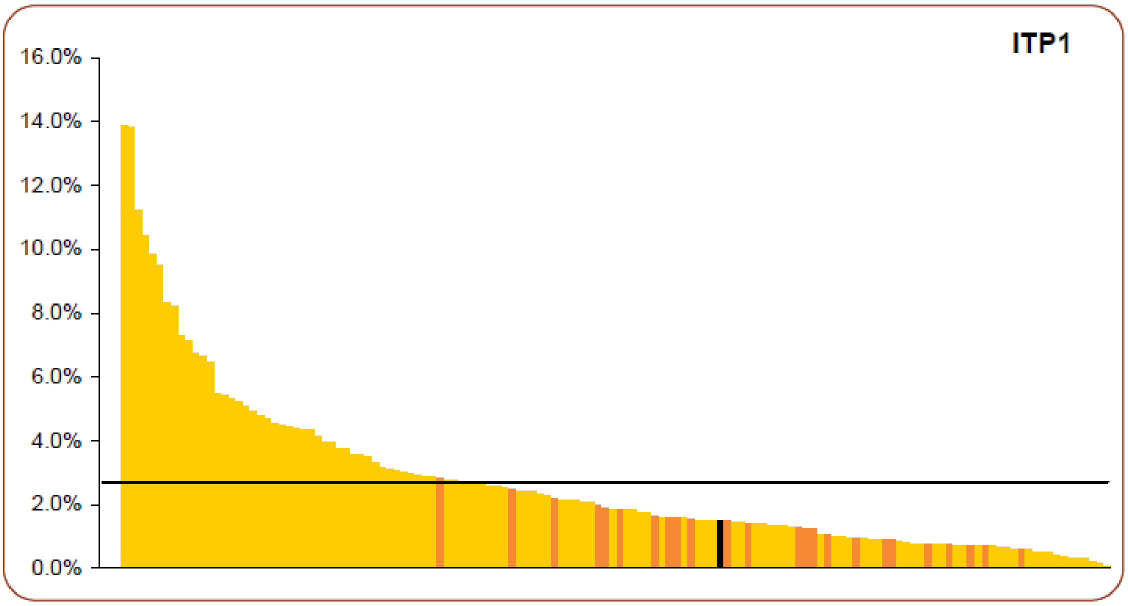


Graph 1g: Legal



This graph shows the cost of the Legal service per head of population compared to other local authorities in the benchmarking club.

Graph 1h: ICT



This graph shows the cost of ICT compared to a large number of other public sector bodies. This information is from a CIPFA / KPMG benchmarking club and relates to the 2008/09 financial year.

Appendix iii) Risk register

Medium Term Financial Strategy 2011 – 2015 Risk Register				Gross Rating				Net Rating			
No	Risk Area / Objective	Risk Trigger	Consequence	Likely-hood	Impact	Score	Existing Controls	Likely -hood	Impact	Score	Owner
1	Social Care savings programme	That the savings programme does not deliver the level of anticipated budget reductions	Increases budget pressure on the MTFS, and need to re-profile the MTFS to reflect different savings levels	3	3	9	1. Ensure regular monitoring of the savings plan to ensure that it is on track 2. Flexibility to re-profile savings with other directorates	2	3	6	Corporate Director (Community Services) Corporate & Management Boards
2	Tax Base	The tax base is significantly different to forecast.	This has a knock on effect on grant calculation and changes the Council Tax yield. An increase in the tax base that is 0.5% below assumptions puts a £400k pressure into the MTFS	3	2	6	1. Ensure the budget process is flexible enough to deal with changes when actual figures are known. 2. Set a prudent but realistic projection 3. Undertake sensitivity analysis 4. Regular monitoring of the number of new homes built	2	2	4	S151 Officer, Head of Benefits & Exchequer & Cllr Keith Chopping

3	Council Tax	That a lower level of Council Tax than assumed is set. Or the level of increase is capped by the Government	Reduced income available to the Council requiring further savings, or other means of generating income	3	3	9	1. The level of Council Tax is a Member decision. The implications of various levels of Council Tax are demonstrated to Members. 2 CTX referendum is a possibility from 2012 3. Undertaking sensitivity analysis	2	3	6	S151 Officer & Cllr Keith Chopping
4	Changes to Formula Grant from next Government	That the Government changes the amount of government grant the Council's receives.	Decreased income to the Council; further pressures on making new savings / disinvestment	3	4	12	1. Regular review of Central Government announcements 2. Strong record of delivering savings 3. Latest LG finance settlement is for 4 yearsl 4. 2010 CSR should provide some certainty.	2	3	6	S151 Officer & Cllr Keith Chopping
5	Interest Rates / double dip recession	Interest rates may be higher than forecast; economic downturn will drive down revenue raised from fees & charges	Debt charges will be higher than forecast and this will cause a budget pressure. Budget pressure due to lower income levels.	3	2	6	1. Regular review of MPC decisions by Treasury Management Group 2. Borrowings spread to reduce impact of	2	2	4	S151 Officer & Cllr Keith Chopping

			Also greater demand on Council services				short term changes 3. MTFS line to soften impact on Council				
6	Inflation	Inflation may rise beyond anticipated rates	Actual pay rises may exceed estimate and cause a budget pressure Contractual increases put under further pressure, especially in relation to the waste PFI scheme	3	3	9	1. Multi year pay settlements help reduces the uncertainty. Assumption of 0% in 2011-13 2. Prudent rate of increase is used in forecasting 3. Sensitivity analysis used	2	2	4	S151 Officer & Cllr Keith Chopping
7	Waste strategy	Inflationary costs and increase consultancy costs in PFI contract	Budget pressure	3	3	9	1. Regular monitoring of the waste contract financial model 2. Line on MTFS to adsorb pressures 3. Sensitivity analysis to review potential impact to management early	3	2	6	S151 Officer, Corporate Director (Environment) & Cllr Keith Chopping

8	Changes to schools' funding system / more schools becoming academies	Schools funding becomes highly centralised Number of schools become academies	Budget pressure on 'buy back' services Reduced contribution from Schools to Council expenditure. Budget pressures	3 4	3 3	9 12	1.Strong relationship with schools and early warning of those going to Academy status 2.Schools funding changes trailed by central government	3 3	2 3	6 9	Corporate Director (Children & Young People), s151 officer & Cllr Chopping and Alexander

Appendix iv) The Impact on the Council's Financial Statements

Overview

The MTFS will clearly impact on our annual financial statements. The financial statements contain a summary of the Council key financial information, such as balance sheet, income and expenditure account and movements in reserves. The Council produces financial statements annually, with a year end of 31st March. At present, the financial statements are approved by members by the end of June, and then the Council's external auditors provide an opinion on these by the end of September.

The latest financial statements can be found on the Council's webpage at:

http://www.westberks.gov.uk/index.aspx?articleid=852

The Council has received unqualified opinions for its financial statements in recent years, and has a history of good financial management with very little adverse comment or recommendations from external auditors. The Council has been assessed as on-track by its external auditors to implement the introduction of accounting in accordance with International Financial Reporting Standards (IFRS) from the accounting year 2010-11.

Expected impact

Item in the MTFS	Potential impact on the financial statements
Investment in capital expenditure	- Increase to the Council's asset base (more Property Plant and Equipment in the Consolidated Balance Sheet) - Increased required on-going maintenance of Council owned assets - Increased revenue set aside to pay for additional capital expenditure (MRP in the I&E account) - Increased long term borrowing (consolidated balance sheet)
Savings and investments	- Year on year changes to expenditure headings with the accounts (I&E account and associated notes). Higher proportion of spend in environment and Community Services areas - Changes to specific notes e.g. audit fees reducing
Central government reductions	- shift in funding streams; Council Tax and fees and charges representing a higher proportion of total council income (income and expenditure account)
Abolition of the Comprehensive Area Assessment	- Reduced audit fee in the notes to the financial statements