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# Medium Term Financial Strategy 2018/19 to 2020/21 – Supporting Information

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## 1. Introduction/Background

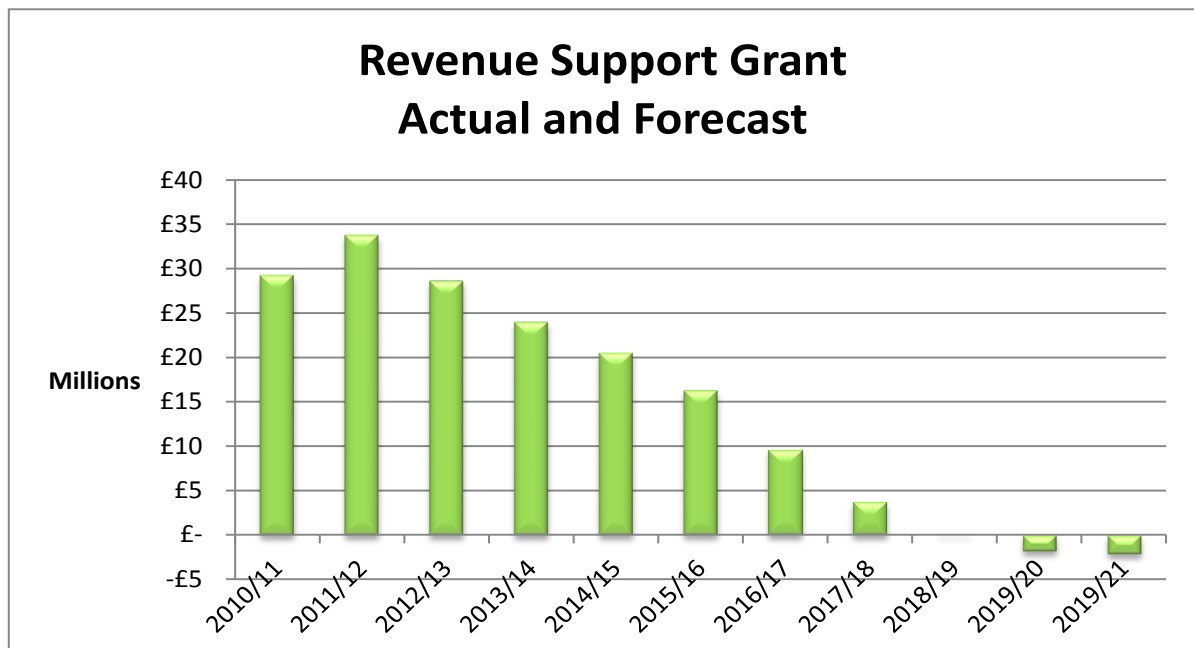
- 1.1 The Medium Term Financial Strategy (MTFS) is a rolling three year strategy which is built to ensure that the financial resources, both revenue and capital, are available to deliver the Council Strategy. The MTFS should be read in conjunction with the Revenue Budget 2018/19, Capital Strategy and 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) Ensure that capital investment is affordable; and
  - (3) Ensure that the Council has sufficient levels of reserves.
- 1.3 Over the previous eight years, West Berkshire Council has had to find over £55m of revenue savings, which has been achieved through finding efficiencies, making staff reductions, transforming services and generating income.
- 1.4 The 2016/17 Local Government Settlement included proposals for major transformation of local government funding, announcing the move to the retention of 100% of business rates by 2020 (now revised to 75%) and the phasing out of the Revenue Support Grant (RSG). In return, additional responsibilities would be devolved to local authorities.
- 1.5 Local authorities have been given the opportunity to raise Council Tax above the existing threshold with funds ring-fenced to pay for adult social care. West Berkshire Council applied a 2% precept in 2016/17, and a 3% precept in 2017/18, raising additional funds to support adult social care needs in the district.
- 1.6 In October 2016, West Berkshire Council accepted the Government's offer of a four year funding settlement from 2016/17 to 2019/20. The Government made a clear commitment to provide minimum allocations for each year of the Spending Review period. Whilst this settlement commits the Council to a continued reduction in the Revenue Support Grant (RSG), it provides some financial certainty on which the Council can plan ahead and build other sources of income.

## 2. The Provisional 2018/19 Local Government Finance Settlement

- 2.1 The provisional settlement figures were issued on 19 December 2017 with the final settlement announced on 6 February 2018. The Secretary of State for local government has approved a bid submitted collectively by the six unitary authorities in Berkshire to inform the development of a new funding system for local government. Along with nine other proposals from groups of authorities across

England, the creation of a business rates pilot across Berkshire in 2018/19 will help the Government develop its detailed proposals to devolve business rate income to local authorities, replacing the current grant funding arrangements.

- 2.2 During the pilot year, it is estimated that an additional £35m of business rates income collected in Berkshire will be retained within the county, rather than being returned to Whitehall as at present. This sum represents growth in the overall level of business rates income achieved since the current system of funding was introduced in 2013 and is an incentive designed to encourage local councils to invest in their local economies. Respecting this, the Berkshire authorities have committed to set aside 70% of the additional funding to make improvements to transport infrastructure in the Reading – Wokingham and Slough – Heathrow corridors. The works will be taken forward by the Thames Valley Berkshire Local Enterprise Partnership (LEP), an organisation with both private and public sector representation that has helped inform the Berkshire proposal.
- 2.3 The remaining 30% of additional funding will be distributed to the individual local authorities in Berkshire, in proportion to their respective contribution to the overall growth. Detailed arrangements for all of the approved pilot areas will be agreed with the Department for Local Government and Communities over the coming months to ensure the business rates pools are established in time for the new financial year in April. For West Berkshire, of the £86m we expect to raise locally in 2018/19, we expect to retain £22m (26%). In 2017/18 we collected £85m and retained £19m (22%). The pilot has been agreed for one year only.
- 2.4 As part of the pilot, the Revenue Support Grant (RSG) will become part of our baseline funding. For West Berkshire the RSG for 2018/19 is £120k which is 97% less than in 2017/18, equating to a loss of £3.6m. The grant allocations are shown in the following chart.



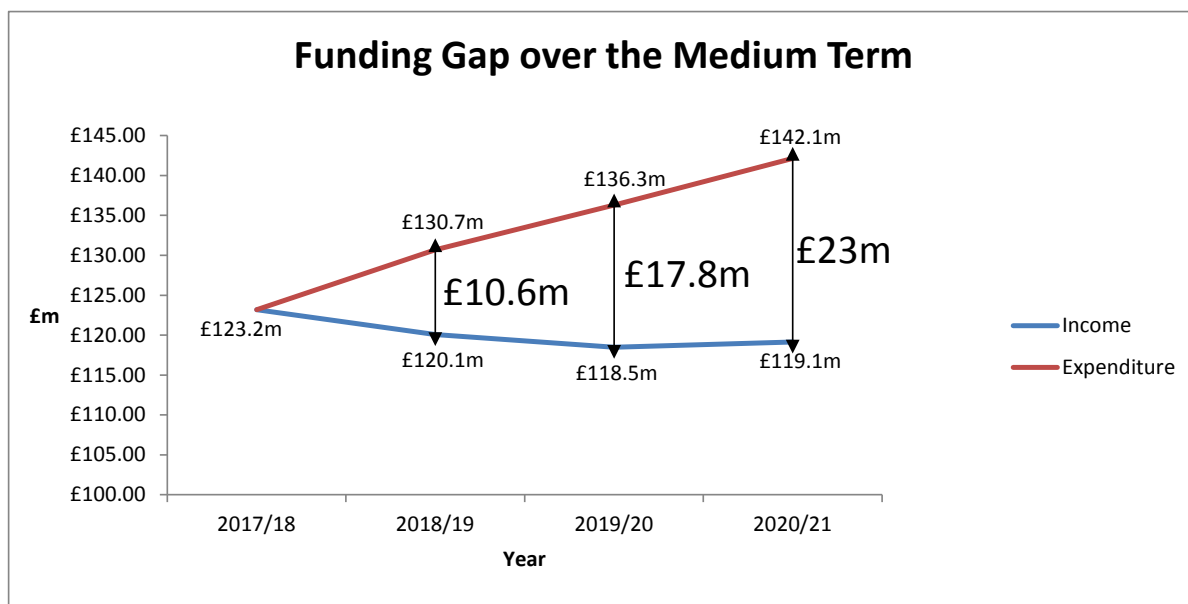
Note: RSG commenced in 2013/14, prior to this it was Formula Grant

- 2.5 From 2019/20 we will be charged an additional tariff on our business as a 'negative RSG'. The additional tariff amounts to £3.5m in 2019/20, which under the 50%

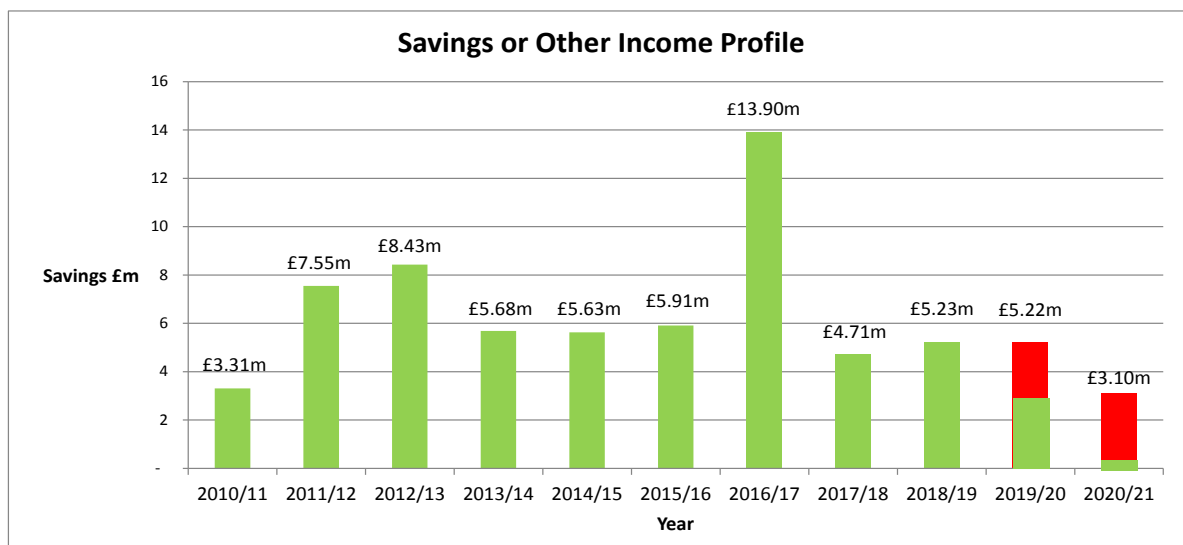
retention scheme would be an impact of £1.75m for West Berkshire. Government is expected to address negative RSG, but it is not yet clear if it will be removed.

### 3. Funding Gap

- 3.1 The forecast levels of funding over the period of the MTFs, together with provision for budgetary increases, means that West Berkshire Council would be facing a funding gap of £23m by 2020/21, before considering Council Tax increases or savings plans. The following chart shows how the funding gap would grow if savings or other income were not identified to bring the budget back in balance.

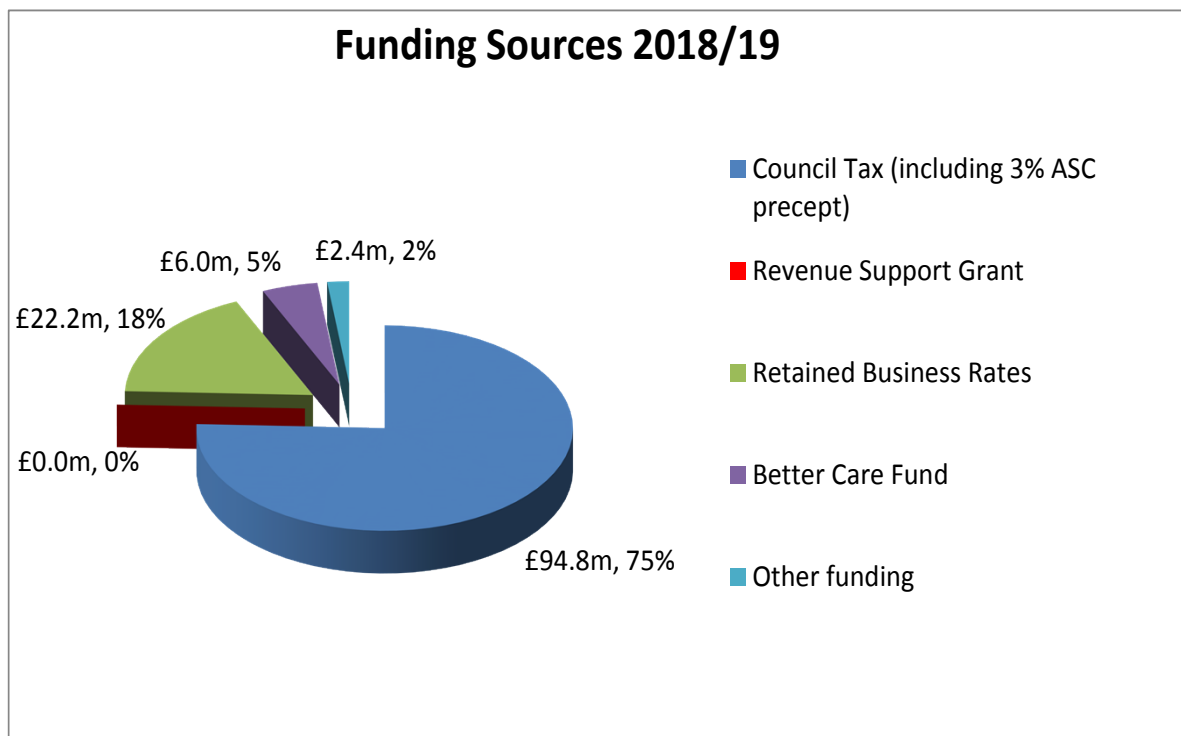


- 3.2 In order to close the 2018/19 gap of £10.6m, it is proposed that Council Tax will be increased by 2.99% raising £2.7m, with a 3% precept ring-fenced for adult social care raising a further £2.7m. Savings or income generation will generate £5.2m.
- 3.3 For 2019/20 and 2020/21, the assumption in the Medium Term Financial Strategy is that Council Tax increases will be at 2% per year, which leads to savings requirements as shown in the following chart. For 2019/20, £2.8m has already been identified and in 2020/21, £240k has been identified.

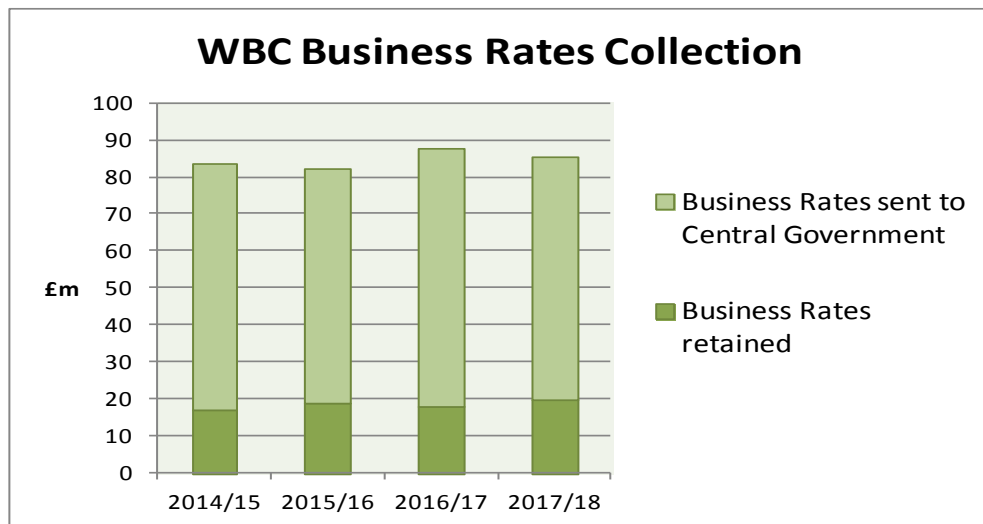


## 4. Revenue Funding

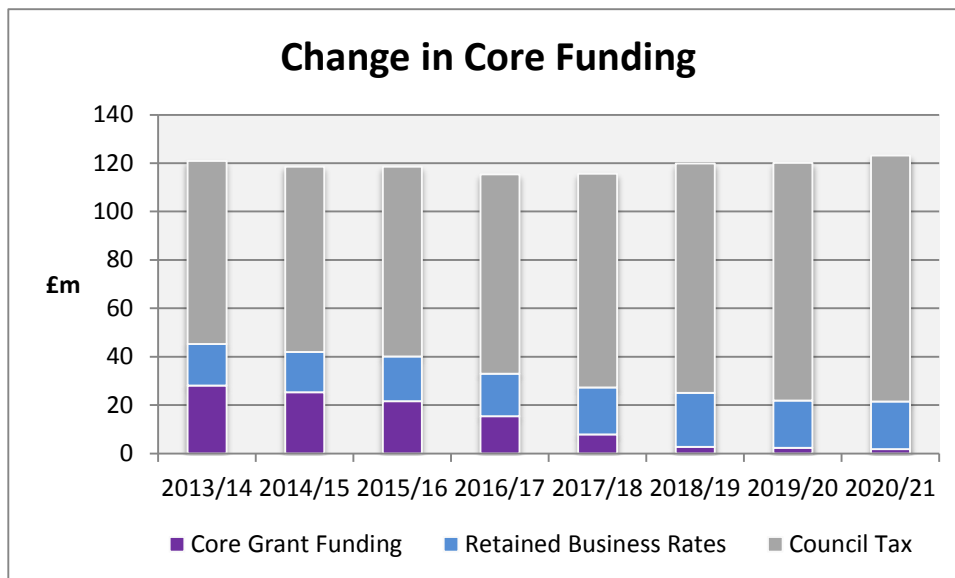
- 4.1 The 2018/19 revenue budget is funded from a number of sources as shown in the following chart:



- 4.2 In addition to any Council Tax increases, income from Council Tax is expected to increase over the period as a result of growth in the tax base, or the number of properties paying Council Tax. This increase is forecast to be 1.26% in 2018/19 and then an estimated 1.5% each year. This is based on a collection rate of 99.4%.
- 4.3 Revenue Support Grant reduced to £120k in 2018/19 and from 2019/20 we will be charged an additional tariff on our business as a 'negative RSG'. The additional tariff amounts to £3.5m, which under the 50% retention scheme would be an impact of £1.75m for West Berkshire. Government is expected to address negative RSG, but it is not yet clear if it will be removed.
- 4.4 Retained Business Rates represents our share of the actual business rate collected in West Berkshire. For 2018/19, West Berkshire will be part of the Berkshire business rates pilot and of the £86m we raise locally, we expect to retain £22m (26%).



- 4.5 The MTFS assumption is that the pilot will be for one year only. If the pilot were extended there could be a positive impact on our funds available in the region of £2m.
- 4.6 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. The fund is allocated to local areas where it is 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.
- 4.7 Other funding consists of New Homes Bonus grant, Adult Social Care Support Grant and non ring-fenced other grants. The Council also receives ring-fenced funding which must be spent on specific areas. The largest of these are detailed below.
- (1) The Dedicated Schools Grant (DSG) does not form part of the Revenue budget as it is received by government and then passed straight out to schools. For 2018/19 the grant is expected to be £128m.
  - (2) Public Health grant amounting to £5.853m in 2018/19.
- 4.1 The following chart shows the changes in the Council's core sources of funding between 2013/14 and our expected funding in 2020/21. Core funding is Council Tax, Retained Business Rates and non ring-fenced grants such as New Homes Bonus.



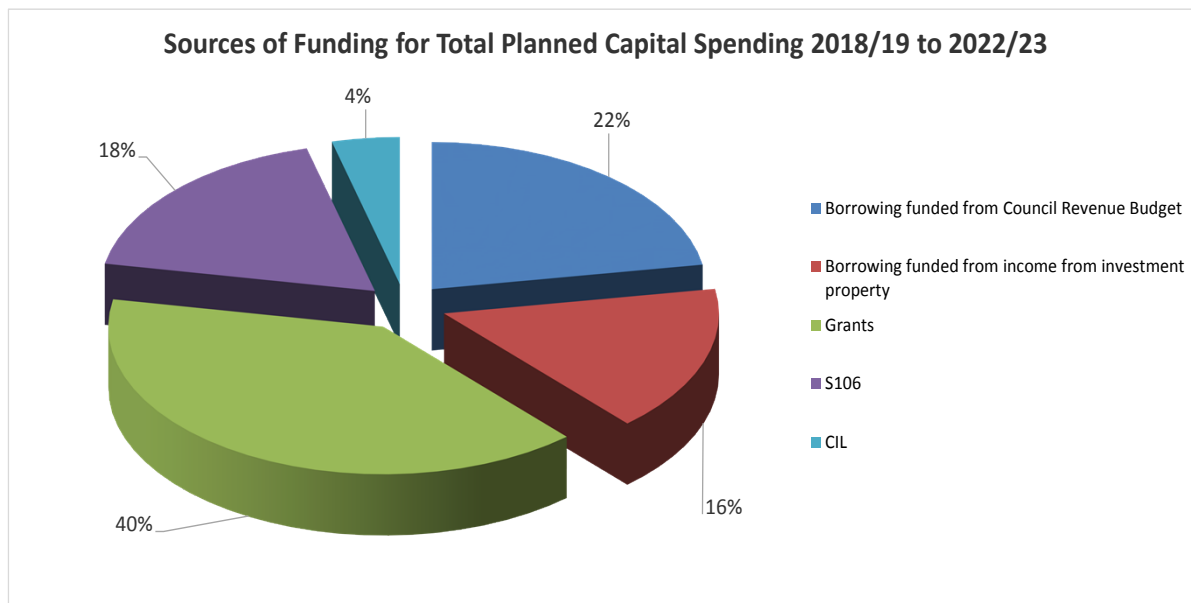
## 5. Revenue Expenditure

- 5.1 The Revenue funding outlined above, funds the following year on year changes to our budget.
- 5.2 **Budget Growth:** This is the annual budget increase required for the Council to perform exactly the same functions year on year. As part of the budget setting process, the Council provides for general inflationary pressures such as salary increases (2% assumption) based on the established number of posts, together with salary increments and increases to National Insurance and pension contributions.
- 5.3 **Contract Inflation:** Budgets are inflated where a contract is in place and is subject to annual inflationary increases. The main amount of contract inflation the Council faces is from the waste PFI contract. This contract increase is based on the RPIx measure in January of each year.
- 5.4 **Service Pressures:** Each year new pressures arise from demand or new service provision. These need to be built into the MTFS. The 2017/18 budget is forecasting an over spend of £860k at Quarter Three and any ongoing pressures arising from this need to be built into future budgets. The pressures have largely arisen in adult social care and include provision for the transition of learning disability clients from children to adult placements together with increased demand, staffing shortages and cost increases related to the introduction of the National Living Wage and paying for sleep-in carers. Children and Education services are facing pressures in the placements budgets.
- 5.5 **Provision for Other Risks:** The Council is facing a number of risk items that will arise but cannot yet be quantified. These include increase in demand for services over and above budget assumptions, inflationary pressures and income from business rates at risk. There is a risk to delivering some savings plans in full, and this risk increases in line with the size of the savings programme. We have allocated some funding in the MTFS to help fund these items.

## 6. Capital Programme

- 6.1 Capital funding is covered in detail in the Capital Strategy 2018 to 2023. 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 2018/19 to 2022/23 is shown in the following chart:



- 6.2 Annual increases of £500k have been built into the Council's revenue budget to accommodate borrowing to fund the Capital Programme. 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 2018/19 to a peak of 2.5% in 2022/23.
- 6.3 The Council funded programme for 2018/19 is £42.7m. This figure includes £30m planned to be spent on investment property which will be funded from income to be earned from that property. From 2019/20 onwards the ongoing level of new Council funded capital is expected to continue at approximately £7.7m per year.

## 7. Reserves

- 7.1 Reserves are categorised into unusable and usable reserves. Unusable reserves includes those reserves which are kept to manage the accounting processes for non-current assets, retirement and employee benefits. These do not represent usable resources for the council. Usable Reserves consist of the General Reserve and Earmarked Reserves. The General Reserve is comprised of the 'General Fund' and the 'Risk Fund' and exists to cover a number of non-specific items and risks. Earmarked Reserves are held for specific future projects or service risks and include schools balances, schools in financial difficulty, self insurance, waste management and service specific risk funds. The service specific risk funds were created to meet known risks within Adult Social Care, Children and Family Services and Legal Services, and these may be called upon to support the 2017/18 over spend, subject to Executive approval.
- 7.2 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 s151 officer (Head of Finance & Property) recommends that the General Reserve totals, as a minimum, 5% of the Council's net revenue expenditure, which for 2018/19 would be £6.3m. The use of reserves is



a one off solution and must be used prudently to ensure it does not undermine longer term budget sustainability.

7.3 Usable reserves are shown in the following table:

	1.4.2017	1.4.2018	1.4.2019
	Actual	Estimate	Estimate
Usable Reserves	£m	£m	£m
General Funds:			
General Fund	5.32	5.32	5.32
Risk Fund	1.03	1.03	1.03
<b>Total General Reserves</b>	<b>6.35</b>	<b>6.35</b>	<b>6.35</b>
Earmarked Reserves	12.85	10.18	9.03
<b>Total Usable Reserves</b>	<b>19.20</b>	<b>16.53</b>	<b>15.38</b>

7.4 During 2017/18, earmarked reserves are expected to reduce by £2.67m to fund the forecast revenue over spend, fund exit costs arising from savings plans, fund transformation projects and release earmarked reserves. During 2018/19, estimates have been made for funding exit costs, use of transformation fund and other use of earmarked reserves.

## 8. Medium Term Financial Strategy

8.1 Over the past few years, the Council's savings programmes have focussed largely on becoming more efficient at what we do and reducing the Council's administrative functions. Over the last eight years these efficiencies have contributed almost half of the £55m savings taken out of our budgets so far.

8.2 Whilst the Council will continue to maximise efficiencies from across its service areas, the key financial strategy to close the funding gap over the medium term will focus on innovation around service transformation, strategic transformation and commercialisation. The Corporate Programme is driving this change and contains a number of projects that aim to support the Council's financial strategy through identifying opportunities to transform services and through implementing changes that will deliver new income streams. These areas of activity are being progressed using the council's project management methodology and therefore have their own time lines and governance structures. Resources and staffing have been allocated to the Corporate Programme in order to move this forward, and £1m was put into a Transformation Reserve, in order to facilitate the delivery of the financial strategy.

8.3 The areas of focus that will contribute to closing the funding gap include the following:

- (1) Investing in digitisation to both improve services and reduce costs

This agenda is driven through the Customer First Programme Board and there are a number of digitisation projects underway. Digitisation solutions have been identified to address council services such as bookings, training courses and payments and to assist with the Waste Services project.

- (2) Continuing to improve our systems and processes



One of the most successful processes undertaken in 2017 was the Financial Challenge Reviews where each service within the council was reviewed in detail from their budget sheets through to the activity undertaken and their staffing structures. This review has so far identified £1.9m that might be generated from savings or income generation over the next three years, over and above that already identified as part of other processes. This is a significant contribution towards the funding gap. The process continues into 2018, at a less molecular level, with the Panel having responsibility for identifying contributions towards the remaining funding gap for 2019/20 and 2020/21.

Linked to this piece of work and with a view to enabling the council to be able to keep pace with the constant demand on budgets, is the New Ways of Working project which is designed to review how and why we deliver the services and looking at how we might deliver them in a more effective and efficient way. We will be reviewing statutory and non-statutory elements and most importantly, the structure of the organisation. If the council is to withstand the financial challenge, we must adapt and this can only ultimately be achieved through a completely new structure and method of delivering our services. This large project has a target of three years to deliver changes.

As part of these projects, we are reviewing our services where benchmarking against other councils suggest they may be above average cost. As part of our benchmarking work, we are reviewing income generating sources and fees and charges, comparing ourselves nationally and with similar authorities.

(3) Demand Management

One of the key projects underway is to review where the demand on our services actually comes from, who the key users are, what their requirements are and how might we better manage demand or anticipate needs. This will naturally feed into the New Ways of Working piece of work as it will inform the direction of travel the council needs to take, in order to meet continuing demand on its services.

(4) Commercialisation

The Council is investing in residential and commercial property with the aim of meeting our statutory housing duties in a more cost effective way and generating a new income stream. A Property Investment Board has been established to drive this.

The Commissioning Service has been established in order to bring a more commercial approach to the way in which goods and services are procured. There is a large piece of work looking at where we can trade further with schools and other organisations to increase our income opportunities and compete in what has previously been, a limited market.

(5) Reducing the amount we pay for collecting and disposing of household waste

One of the largest projects underway at present centres on the savings to be generated from amending our current street cleansing schedules and the potential to start charging residents for garden waste collection. Both of these topics have been subject to public consultation.

(6) Sharing Services

We are continuing to join our services with those of other local authorities where it makes sense to do so. One of the most successful examples of this occurring has been in Public Protection and Culture where we have a shared service now with Bracknell Forest and Wokingham councils. There are other projects underway looking at where we may replicate this.

The One Public Estate programme is a Berkshire wide programme of activity looking at how to make the best use of our collective buildings estate. This is already working well via joint working with the Thames Valley Police who now share the Market Street ground floor premises with West Berkshire Council.

(7) Working with partners and communities to deliver services differently and devolution to Parish and Town Councils.

We have been working with Town and Parish Councils to identify opportunities for devolving services to them. The launch of the Parish Portal and the devolution agenda has proven successful and positive feedback has been received from parishes. Many of the more proactive parish councils are contacting us to request assistance with many of the services we have had to cut with a view to taking them on and running either with or for the communities. Communities themselves are taking positive action to request assistance around volunteering for library services and other services where the council has withdrawn its funding.

- 8.4 This strategy is aimed at closing the funding gap and bringing financial stability for the future.

## 9. Supporting Information

- 9.1 The three year Medium Term Financial Model is shown in the following table, with further explanation behind each item in Appendix C.

2017/18	Line ref	Medium Term Financial Model	2018/19	2019/20	2020/21
£m			£m	£m	£m
<b>4.99%</b>		<b>Council Tax/ASC Precept Increase</b>	<b>5.99%</b>	<b>2.00%</b>	<b>2.00%</b>
88.37	1	Council Tax income	94.84	98.19	101.65
3.70	2a	Revenue Support Grant	0.00	-1.79	-2.12
1.37	2b	Transitional Grant Funding	0.00	0.00	0.00
5.08	3a	Adult Social Care BCF ringfenced funding	5.43	5.43	5.43
0.70	3b	Adult Social Care iBCF ringfenced funding	0.58	0.28	0.00
0.50	3c	Adult Social Care Support Grant	0.31	0.00	0.00
0.06	4	Other Non-Ringfenced Grants	0.08	0.07	0.05
85.41	5a	<i>Business Rates Collected</i>	86.38	88.37	90.40
-66.03	5b	<i>Business Rates sent to Central Government</i>	-64.15	-67.01	-68.63
19.38	5c	Retained Business Rates	22.23	21.36	21.77
0.51	6	Education Services Grant (ESG)	0.00	0.00	0.00
3.63	7	New Homes Bonus	2.69	2.29	1.81
-0.11	8	Council Tax Collection Fund deficit (-)/ surplus	-0.73	0.00	0.00
0.00	9	Use of Capital Receipt	0.00	0.00	0.00
<b>123.19</b>	<b>10</b>	<b>Funds Available</b>	<b>125.44</b>	<b>125.84</b>	<b>128.59</b>
113.77	11a	Opening budget	114.55	118.83	119.72
-0.95	11b	Opening budget adjustments	0.21	-0.71	0.00
1.45	12	Budget growth	2.55	2.31	1.74
0.79	13	Contract inflation	1.76	1.58	1.62
3.71	14	Service Pressures	4.49	2.43	2.33
0.50	15	Increase in capital financing cost	0.50	0.50	0.50
-4.72	16	Savings or income requirement	-5.23	-5.22	-3.10
114.55	17	Annual Budget Requirement	118.83	119.72	122.81
0.51	18	One off provision for other risks	0.60	0.40	0.35
1.37	19	One off transitional grant funding	0.00	0.00	0.00
116.43	20	Net Budget Requirement for Management Accounting	119.43	120.12	123.16
5.08	21a	One off Adult Social Care BCF ringfenced funding	5.43	5.43	5.43
0.70	21b	One off Adult Social Care iBCF ringfenced funding	0.58	0.28	0.00
0.98	22a	Increase in reserves	1.24	0.00	0.00
0.00	22b	Use of reserves	-1.24	0.00	0.00
<b>123.19</b>	<b>23</b>	<b>Budget Requirement</b>	<b>125.44</b>	<b>125.84</b>	<b>128.59</b>
		<i>£10k roundings may apply</i>			

## 10. Proposals

10.1 To approve the MTFS, subject to final changes.

## 11. Conclusion

11.1 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 need to address a funding gap of £23m. In 2018/19, a 2.99% Council Tax increase will raise £2.7m, a 3% adult social care precept will raise a further £2.7m, our savings and income generation plans will save £5.2m. For the following two years, the gap will be closed from Council Tax increases and savings and income generation. The key financial strategy to close the funding gap over the medium term will focus on innovation around service transformation, strategic transformation 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 for the Council to deliver services and take

appropriate risks in amending service delivery models without impacting on the financial viability of the organisation.

- 11.2 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.

## 12. Consultation and Engagement

- 12.1 Consultation has taken place where appropriate on the individual savings proposals for future years.

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### Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval	<input checked="" type="checkbox"/>
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>
Delays in implementation could compromise the Council's position	<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months	<input type="checkbox"/>
Item is Urgent Key Decision	<input type="checkbox"/>
Report is to note only	<input type="checkbox"/>

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### 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 priority:

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

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## Appendix C

### Medium Term Financial Strategy - Assumptions

1) Council Tax. The MTFS assumes a Council Tax increase of 2.99% in 2018/19 with a ring-fenced 3% precept for adult social care. After this the working assumption is for Council Tax increases of 2% per year. Taxbase growth assumptions are 1.26% in 2018/19 and 1.5% per annum for the remaining years of the MTFS.

2a) Revenue Support Grant (RSG) allocations have been received up to 2019/20, although we receive no RSG after 2018/19 and may be charged an additional tariff on our business rates, or 'negative RSG'.

2b) Transitional grant funding was awarded in 2016/17 and 2017/18.

3) Adult Social Care BCF ring-fenced funding is assumed to continue at the same rate. iBCF ring-fenced funding figures have been announced. Adult Social Care Support Grant was a one off grant for 2017/18 funded by a reduction in the New Homes Bonus funding. A further one off grant has been awarded in 2018/19.

4) Other Non-Ringfenced Grants are expected to be received during the financial year and will be used to support the Council budget. It is assumed that these will continue to reduce each year.

5) Retained Business Rates. For 2018/19 onwards, any increases have been assumed to be in line with Consumer Price Index (CPI) estimates. It is assumed that the pilot is operational for one year only as per the confirmation letter received from Government.

6) Education Services Grant (ESG). This figure represented a transitional Government Grant in respect of Local Education Authority (LEA) support service functions to schools up to August 2017. After this there is no ESG.

7) 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. The payments were reduced in 2018/19 from six years to five and are reduced to a four year payment from 2018/19.

8) 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.

9) 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.

10) Funds Available are the total non-ringfenced funds available for setting the Council's budget.

- 11) Opening Budget is the opening budget before new costs are built in and savings taken out.
- 12) Budget Growth. This is the adjustments to the Council's core costs; primarily pay inflation 2% and incremental pay awards (approx £540k pa). Pension provision is assumed to increase by 1.7% per annum from 2018/19 in order to fund the actuarial valuation.
- 13) Contract Inflation represents all inflation on Council contracts that are inflation linked.
- 14) Service pressures are any additional investments required for new costs; for example due to additional demand in social care. Detailed modelling work has been done for adult social care and children and family services looking at demographic changes, inflationary increases and complexity of care.
- 15) Increase in Capital financing cost. This includes 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.
- 16) Savings or income requirement. This is the total savings or additional income that will have to be found in order to ensure a balanced budget.
- 17) Annual Budget Requirement is the base budget for the Directorates.
- 18) One Off Provision for Other Risks. The Council is facing a number of risk items that will arise but cannot yet be quantified including increases in demand for services, inflation and risk of delivering savings plans.
- 19) One Off Transitional grant funding. This was made available by Government as part of the Local Government Settlement. It was available for 2016/17 and 2017/18.
- 20) Net Budget Requirement for Management Accounting. The amount of budget available.
- 21) One off Adult Social Care BCF and iBCF funding is the expenditure budget to match the funding received.
- 22) Increase or use of reserves. This is any planned use of reserves to support the revenue budget or increase in reserves to support future plans.
- 23) Budget requirement is the total budget for the year.