Medium Term Financial Strategy 2020/21 to 2023/24

Committee considering report:	Executive on 13 February 2020 Council on 3 March 2020
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	22 January 2020
Report Author:	Melanie Ellis
Forward Plan Ref:	C3810

1. Purpose of the Report

1.1 The Medium Term Financial Strategy (MTFS) is a rolling four 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, Capital Programme, and the Investment and Borrowing Strategy reports.

1.2 The aim of the MTFS is to:

(1) Allocate available resources focussing on those determined as most critical in supporting the Council's priorities and statutory responsibilities

(2) Ensure that capital investment is affordable; and

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

2. Recommendation

That Council approves and adopts the Medium Term Financial Strategy 2020/21 to 2023/24.

3. Implications and Impact Assessment

Implication	Commentary
Financial	These are contained in further detail within the report. Over the four years, the MTFS allocates £554m of Council revenue resources and £107.6m of capital resources. Joseph Holmes, Executive Director (Resources), S151
Human Resource:	The Council's establishment is funded from the Revenue Budget and Capital Programme. Any reductions in budget could impact on personnel.
Legal:	None

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.			
Property:	The proposed Capital Programme will provide £2.1m for maintenance and improvements to a number of existing Council buildings.			
Policy:	The MTFS is aligned directly to the Council Strategy and the Capital Strategy.			
Implication	**Positive**	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				
Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		No		Any impacts have been assessed and publicly consulted upon where necessary.
Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		No		Any impacts have been assessed and publicly consulted upon where necessary.
Environmental Impact:		**X**		
Health Impact:		X		
ICT or Digital Services Impact:		**X**		
Council Strategy Priorities or Business as Usual:	***X***			The MTFS will provide a positive impact on the Council Strategy. Thorough seeking to align resources more closely to Council Strategy priorities through an outcomes based approach over the next four year, this should assist in the successful delivery of the strategy.
Other		*X*		*n/a*
Data Impact:		No		
Consultation and Engagement:	Portfolio Holder for finance			

4. Executive Summary

4.1 The Medium Term Financial Strategy (MTFS) is a rolling four year strategy which is built to ensure that the financial resources, both revenue and capital, are available to deliver the Council Strategy. The MTFS is built on a 1.99% Council Tax increase and a 2% Council Tax precept for adult social care.

4.2 The forecast levels of revenue funding over the period of the MTFS, together with provision for forecast budgetary increases, means that West Berkshire Council has found savings and income generation totalling £3.24m for 2020/21 and faces a funding gap of around £12m over the following three years.

Recommendation

4.3 That Council approves and adopts the Medium Term Financial Strategy 2020/21 to 2023/24.

Conclusion

4.4 The forecast levels of funding available over the medium term, together with provision for budgetary increases and growing pressures, mean that the Council needs to address a funding gap of £12m over the three years from 2021/22. This is after assuming Council Tax increases of 1.99% and a 2% Council Tax precept for adult social care each year.

4.5 From 2020 onwards, the Council is moving its financial planning processes to become more focussed on outcomes through an Outcomes Based Budgeting (OBB) approach, which seeks to align financial resources to the priority areas articulated in the Council Strategy. 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.

4.6 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.

5. Introduction

5.1 The Medium Term Financial Strategy (MTFS) is a rolling four 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, Capital Programme and Investment and Borrowing Strategy reports.

5.2 The aim of the MTFS is to:

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

(2) Ensure that capital investment is affordable; and

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

6. Background

6.1 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 committed the Council to a continued reduction in the Revenue Support Grant (RSG), it has provided some financial certainty on which the Council has planned ahead and built other sources of income.

6.2 Local authorities have had to raise funds locally via increases in Council Tax to keep up with increasing costs and reducing Government funding. West Berkshire raised Council Tax by 1.99% in 2016/17 and 2017/18 and then by 2.99% in 2018/19 and 2019/20. These increases when added to taxbase growth now generate an additional £12m per year. Authorities have been given the opportunity to raise an Adult Social Care (ASC) Precept on 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 3% in 2017/18 and 2018/19. This now funds £7.3m per year to support adult social care needs in the district.

6.3 The additional Council Tax has helped to mitigate the loss of the Revenue Support Grant and the increased costs that the Council has faced from demand led services especially in social care, over and above what can be funded from the ASC Precept. As a result, over the past four years, West Berkshire Council has had to find £30m of revenue savings to balance the budget, which has been achieved through becoming more efficient, making staff reductions, transforming services and generating income.

7. The 2020/21 Local Government Finance Settlement and beyond

7.1 The provisional settlement figures were issued on 20th December 2019 and the final settlement is anticipated to be announced in February 2020. The underlying principles from Central Government remain similar to in previous year, though the proposed settlement for 2020/21 has seen the introduction of £1bn nationally of social care funding:

(1) For Council Tax, a core principle of up to 2% increase was announced, together with a further 2% increase in council tax through the Adult Social Care precept.

(2) It has been announced that negative Revenue Support Grant will not be charged in 2020/21. Negative RSG is the name given to a downward adjustment of a local authority's business rates tariff, as a consequence of changes to distribution methodology adopted in 2016/17.

(3) The Berkshire business rates retention pilot, under a 75% retention scheme, will cease. Being part of a pilot generated additional funding for West Berkshire of £1.5m. Berkshire will now revert to the 50% retention scheme.

(4) The Government has proposed to protect all social care grants from 2019/20 as well as providing one-off grant funding for 2020/21 to spend on social care services for children and adults.

(5) The New Homes Bonus will fund all legacy payments associated with previous allocations, and there is a proposed new round of allocations for 2020/21. The Government will be explore other ways to incentivise growth, and any new 2020/21 allocations will not result in legacy payments in future years.

(6) The Public Health grant will increase in line with inflation.

(7) A number of other grants have been announced to combat rough sleeping, homelessness and improved building safety.

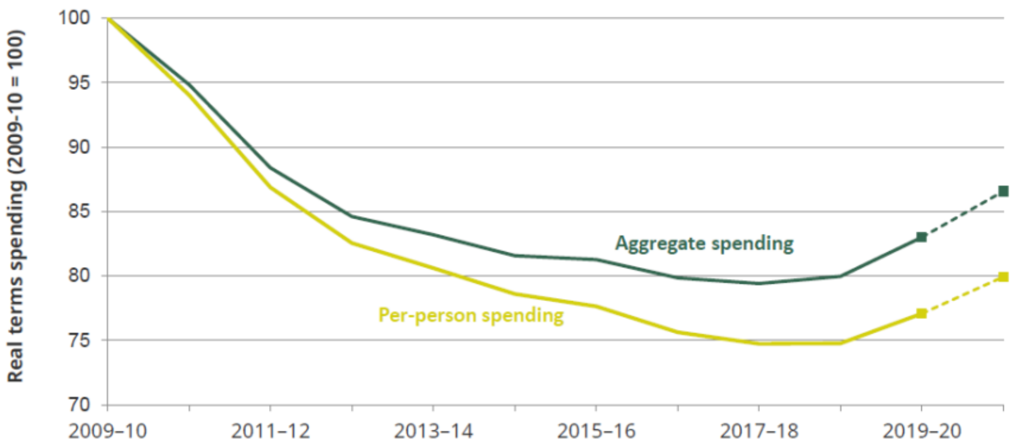
7.2 The 2020/21 settlement is part of the 2019 spending round announced by the Chancellor of the Exchequer in September 2019. It is anticipated that in 2020 there will be a longer spending review, which will provide some greater certainty in the long term for local government financing.

7.3 From the Conservative general election manifesto and previous announcements, there are some key areas that are due to be considered over the coming years though, in terms of non-Council Tax funding streams, this MTFS is based upon estimations from current announcements.

(1) Local Government Fair Funding

The Government has been reviewing options in recent years over the distribution of local government funding across the country and between different parts of the local government sector.

Institute of Fiscal Studies report on Local Government funding:



At present, it is difficult to forecast how the impact of the fair funding review will alter West Berkshire Council's financial positon. It is likely that the Council will benefit from additional social care funding (for 2020/21 there has been a boost to this area and the Conservative general election manifesto implied that this is an ongoing amount through into future years), though the formula for new homes bonus and business rates reform (see below items) will pose opportunities and challenges.

(2) Business Rates retention reform

As noted above, the Council will not be continuing into a business rates pilot for 75% retention from 2020/21. The Government is seeking to move all Councils to a 75% business rates retention basis (i.e. of the business rates collected locally, the local council retains 75% of them **less** a tariff payment to Government – if the business rates retained is *higher* than the amount of funding Government believes appropriate for the Council. West Berkshire is in this position). This may become a 100% retention in the future as this was the Government's original intent.

As part of this reform, the Government is proposing to have a 'hard' reset in 2021/22 of the business rates baseline. At present, the Council collects an element of the growth in business rates above the baselines from earlier in the decade; the policy aim from government is to allow councils a stake in economic development to grow the local business rates base. The baseline is due to be reset in 2021/22 to the current level; therefore the Council will see a significant drop in 2021/22 of its retained business rates, but the opportunity to retain higher levels of business rates growth in the future.

It is expected that the Government will provide some form of transitional funding from 2021/22, though at present, this is an estimate based on a reduction over a three year period; there is no confirmation or consultation on this.

(3) New Homes Bonus

The New Homes Bonus (NHB) was designed to incentivise councils to enable housing delivery in their local areas by providing the band D equivalent of Council tax for each new home built in the area (with additional amounts for affordable housing delivery). Originally Councils could retain this benefit for six years, but recently this has reduced to a four year benefit. In the Local Government finance settlement 2019, the amount for 2020/21 has been confirmed as a four year reward, but that in future it is likely to be abolished and replaced with a different scheme.

(4) Adult Social Care funding

The Government has also committed to publish a Green Paper on the future of Social Care. The aim of the paper is to ensure that the care and support system is sustainable in the long term. This is expected in 2020, though this paper has been delayed for a significant period of time.

(5) Capital funding

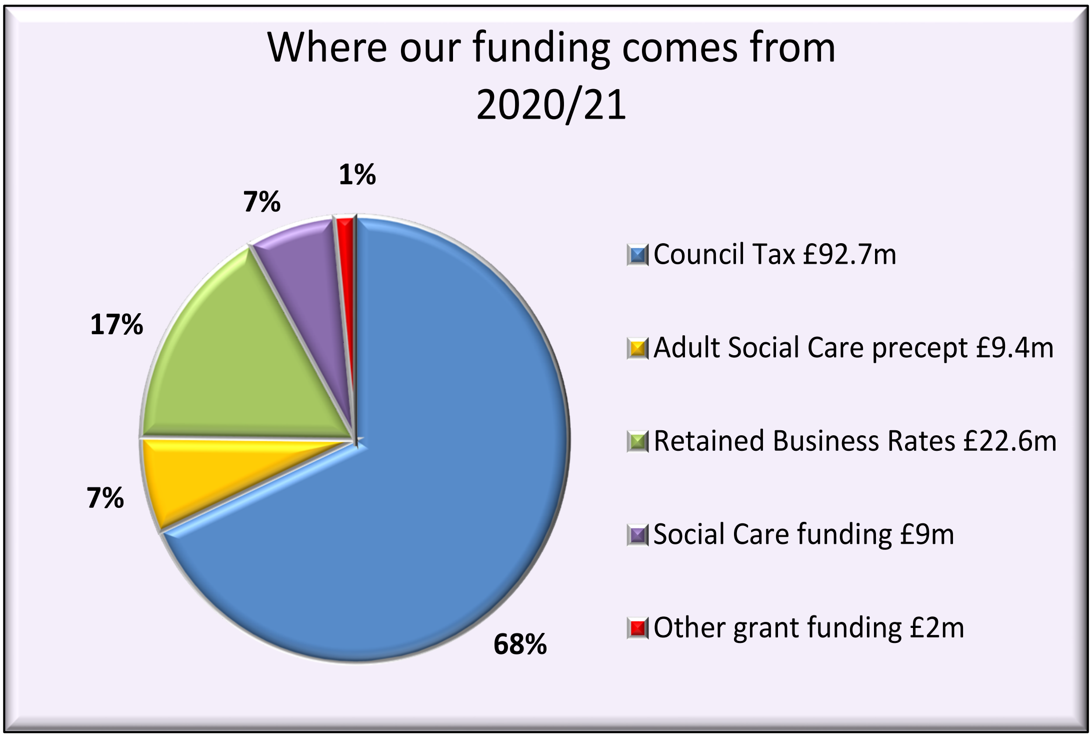
The spending review should also set out a number of core capital grants and priorities for Government funding, for example transportation and highways funding as well as education funding for school places. Community Infrastructure Levy (CIL) is also a critical part of financing the Council's capital strategy and any reform to this will alter the levels of funding available.

(6) Capital financing

The Council, as a borrowing authority (i.e. there is a greater need to borrow for capital investment than ongoing investment funding available) commits a significant amount of its revenue funding to financing annual borrowing costs (see later in the MTFS), currently standing at **9%**. In October 2019, the Treasury increased the rates that local government can borrow from the PWLB (Public Works Loans Board) by a further 1%. Combined with macro-economic changes, this has increased the council's longer term borrowing rates from 1.5% to over 3%. The Council is investigating other financing options, for example community bonds, but an assumption has been made in the MTFS to recognise an increase in borrowing costs as well as inflation rises in the cost of capital schemes.

8. Revenue Funding

8.1 The proposed 2020/21 revenue budget is funded from a number of sources as shown in the following chart:



8.2 Council Tax funds 68% of the revenue budget. The MTFS is built on a 1.99% Council Tax increase and a 2% Council Tax increase through the adult social care precept each year. The tax base growth is built at 0.3% in 2020/21 and at 0.6% thereafter, with a collection rate of 99.6%. The taxbase is the number of properties paying Council Tax.

8.3 Retained Business Rates represents the Council's share of the actual business rate collected in West Berkshire. For 2020/21, West Berkshire will no longer be part of the Berkshire business rates pilot under a 75% retention scheme, and will return to the 50% scheme.

8.4 Social care funding via the Better Care Fund (BCF) and Improved Better Care Fund (iBCF) 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. For 2020/21, additional social care funding will continue. However, this funding is one-off, but assumptions have been made in the MTFS about elements of this continuing.

8.5 Other grant funding is mostly the New Homes Bonus grant: monies received from Central Government for every net new additional property in the district. This is forecast to reduce over the period of the MTFS, but the assumption is that this funding stream will continue or be replaced with funding of a similar value.

9. Revenue Expenditure

9.1 The revenue funding outlined above funds the base budget, Better Care Fund expenditure, and the following year on year changes to the budget.

9.2 **Budget growth and inflation:**

(1) Pay and non-pay inflation: 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 and increases to National Insurance and pension contributions.

(2) Contract inflation: Budgets are inflated where a contract is in place and is subject to annual inflationary increases. The largest single 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 (release date 13.2.2020, current estimate 2.5%).

(3) Modelled growth: Detailed modelling of expected cost pressures is undertaken in demand led services (Adult Social Care, Children and Family Services and Education). The modelling looks at demand, trends and cost increases.

9.3 **Budget increases and investment:**

(1) Increased budget requirement: Each year new pressures arise which need to be built into the budget.

(2) Investment in Council Strategy: The Council has approved a new Council Strategy for the period 2019-23 and is investing £680k to support the strategy.

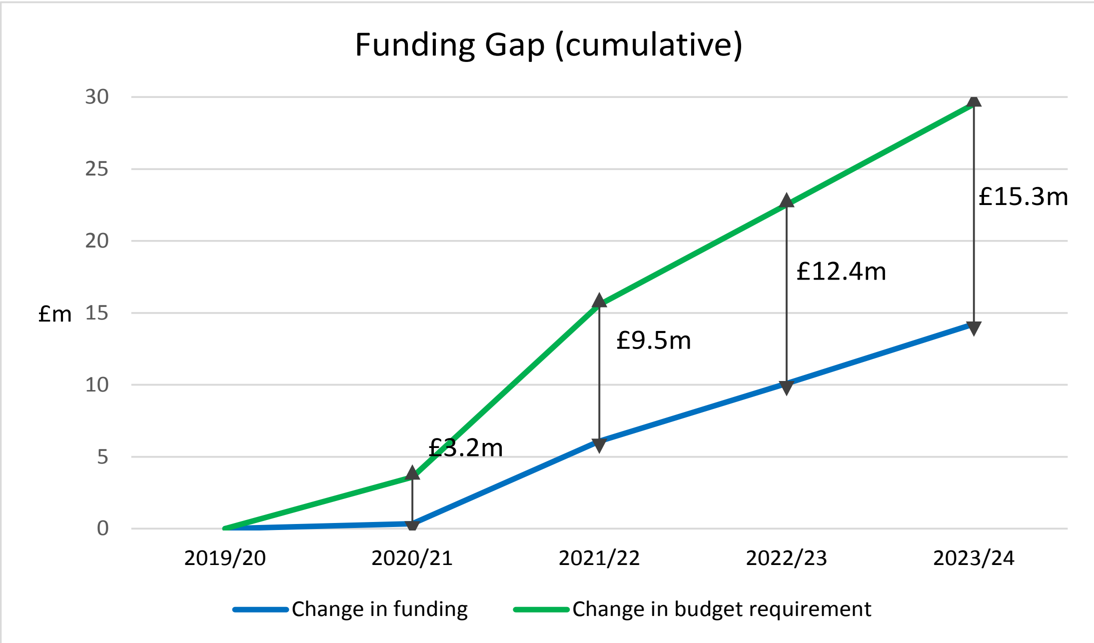
(3) Increase in capital financing: This is primarily, the annual increase in the revenue cost of paying for long term capital borrowing to fund the Council's Capital Programme.

10. Funding Gap

10.1 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 social care.

10.2 The Council continues to invest in commercial property, and this is scheduled to generate £1.1m income per year once fully invested.

10.3 The forecast levels of revenue funding over the period of the MTFS, together with provision for forecast budgetary increases, means that West Berkshire Council has found savings and income generation totalling £3.24m for 2020/21 and faces a funding gap of around £12m over the following three years. This is at assumed Council Tax increases of 1.99% per year with a 2% adult social care precept each year.



10.4 The Medium Term Financial Strategy sets out the Council's plans to close this funding gap.

11. Capital Funding

11.1 Capital funding is covered in detail in the Capital Strategy 2020/21 – 2022/23. The programme over the three year period amounts to £111.2m (£105.9m on operational assets and £5.3m on invest to save schemes). All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of £111.2m on operational assets and invest to save schemes is broken down as follows:

Funding of Expenditure on Operational Assets	2020/21 £000s	2021/22 £000s	2022/23 £000s	Total £000s
External Sources				
External Grants	21,453	12,520	8,389	**42,362**
Section 106 (s106)	3,275	2,539	1,114	**6,927**
Community Infrastructure Levy (CIL)	3,005	2,272	2,863	**8,140**
Own Resources				
Capital Receipts		1,320		**1,320**
Debt financing for operational assets	12,398	15,682	19,107	**47,186**
Debt financing for invest to save schemes	2,401	550	2400	**5,351**
Total Planned Funding	**42,532**	**34,882**	**33,872**	**111,286**

11.2 The proposed programme relies on £57.4m of external funding (i.e. grants, S106 and Community Infrastructure Levy). Levels of funding for later years of the programme is yet to be confirmed, availability of funding will therefore need to be kept under review, and changes may need to be made to the programme in future years.

11.3 £47.1m of external borrowing will be required to deliver the programme. External borrowing to fund capital expenditure on operational assets is supported by an annual increase in the revenue budget for capital financing which has remained unchanged at £500k per year, with no allowance for inflation, since 2011. The planned programme requires an increase on the annual £500k rise, the planned increases in the capital financing budget are:

(1) £500k in 2020/2021

(2) £525k in 2021/2022

(3) £550k in 2022/2023

(4) £606k in 2023/2024

11.4 Further to the above increases in the revenue capital financing budget, £300k of additional treasury income generated in 2019/20 is being utilised to support delivery of the planned programme.

11.5 £5.3m of external borrowing will be required to support proposed invest to save schemes. The capital funding for invest to save schemes is financed through the project via either revenue savings or income generation.

12. Capital Expenditure

The proposed capital programme for 2020/21 – 2022/23 is detailed in the table below:

Expenditure By Service	2020/21	2021/22	2022/23	Total
	£000s	£000s	£000s	£000s
Adult Social Care	1,388	1,407	1,521	4,316
Children & Family Services	20	20	20	60
Education Services	14,375	11,148	15,200	40,724
People Directorate	**15,783**	**12,575**	**16,741**	**45,100**
Public Protection & Culture	659	501	507	1,667
Transport & Countryside	17,549	16,197	8,856	42,602
Development & Planning	1,753	1,808	1,718	5,280
Places Directorate	**19,961**	**18,507**	**11,081**	**49,548**
Chief Executive	0	0	0	0
Finance & Property	2,108	1,672	1,782	5,562
Customer Services & ICT	2,041	1,366	1,655	5,062
Legal & Strategic Support	237	213	214	663
Resources Directorate	**4,386**	**3,250**	**3,651**	**11,287**
Total Planned Expenditure	**40,130**	**34,332**	**31,472**	**105,935**
Invest to Save Schemes				
Public Protection & Culture	550	550	2,400	3,500
Transport & Countryside	1,851	0	0	1,851
Total Invest to Save Schemes	**2,401**	**550**	**2,400**	**5,351**
Total Programme including Invest to Save	**42,532**	**34,882**	**33,872**	**111,286**

13. Reserves

13.1 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.

13.2 Usable Reserves consist of the General Reserve and Earmarked Reserves. The General Reserve exists to cover a number of non-specific items and risks. Earmarked Reserves are held for specific future projects or service risks. The use of reserves is a one off solution and must be used prudently to ensure it does not undermine longer term budget sustainability. Usable reserves are shown in the following table:

Usable Reserves	1.4.2019	1.4.2020
	Actual	Estimate
	£m	£m
General Reserve	8.16	7.97
Earmarked Reserves	19.77	13.38
Total Usable Reserves	**27.93**	**21.35**

13.3 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 the Council is are operating in. The s151 officer, Executive Director (Resources) recommends that the General Reserve totals, as a minimum £6.5m.

13.4 During 2020/21, earmarked reserves are planned to reduce by £6.3m to invest in the Council Strategy, support a commercial property income shortfall and to fund the collection fund deficit, where reserves had been created in previous years to provide for this.

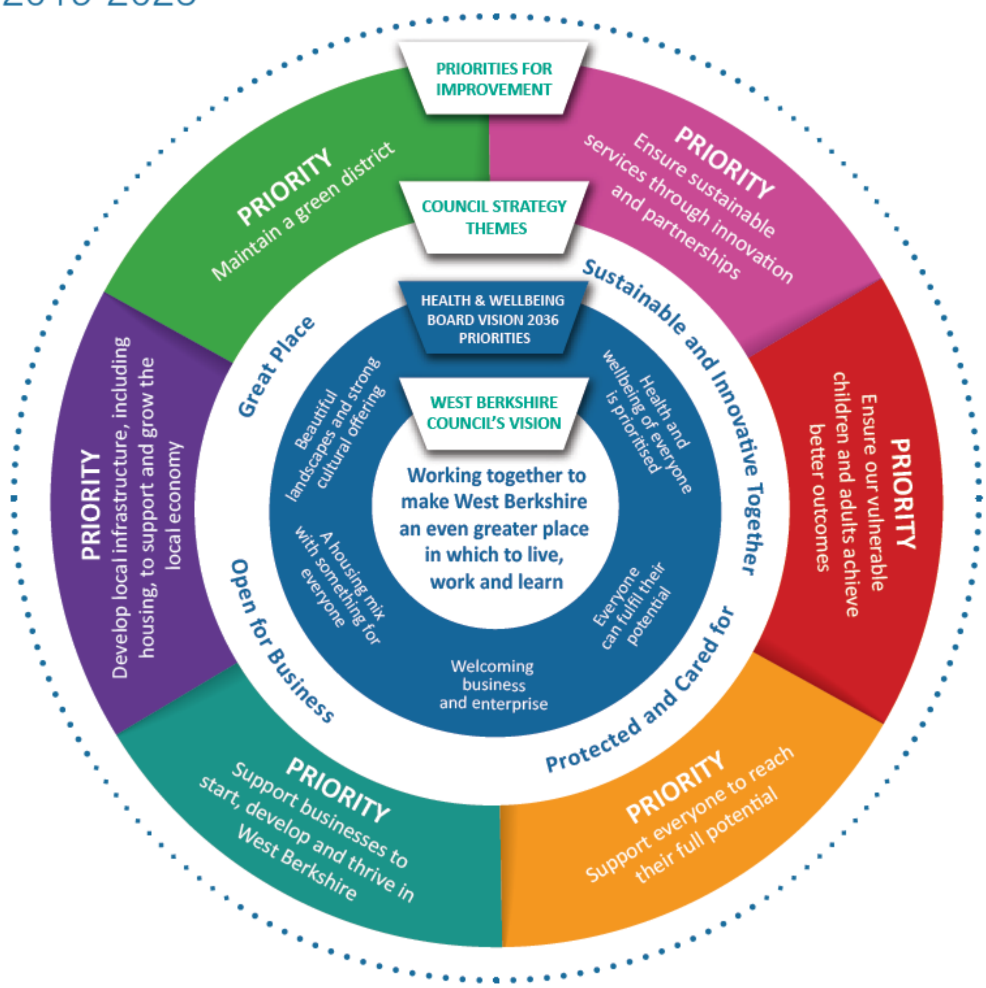
14. Medium Term Financial Strategy

14.1 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 £58m savings taken out of the budgets so far.

14.2 Whilst the Council will continue to maximise efficiencies from across its service areas, the financial strategy to close the funding gap over the medium term will focus on transformation, digitisation and commercialisation. The Corporate Programme will continue to drive this change and there are a number of projects supporting the financial strategy through identifying opportunities to transform services and through implementing changes that will deliver new income streams. Resources and staffing have been allocated to the Corporate Programme in order to move this forward, and in total, £1.6m has been put into a Transformation Reserve, in order to facilitate the delivery of the financial strategy. £1.3m of this has now been allocated to transformational projects.

14.3 From 2020 onwards, the Council is moving its financial planning processes to become more focussed on outcomes through an Outcomes Based Budgeting (OBB) approach. This seeks to align financial resources to the priority areas articulated in the Council Strategy below:

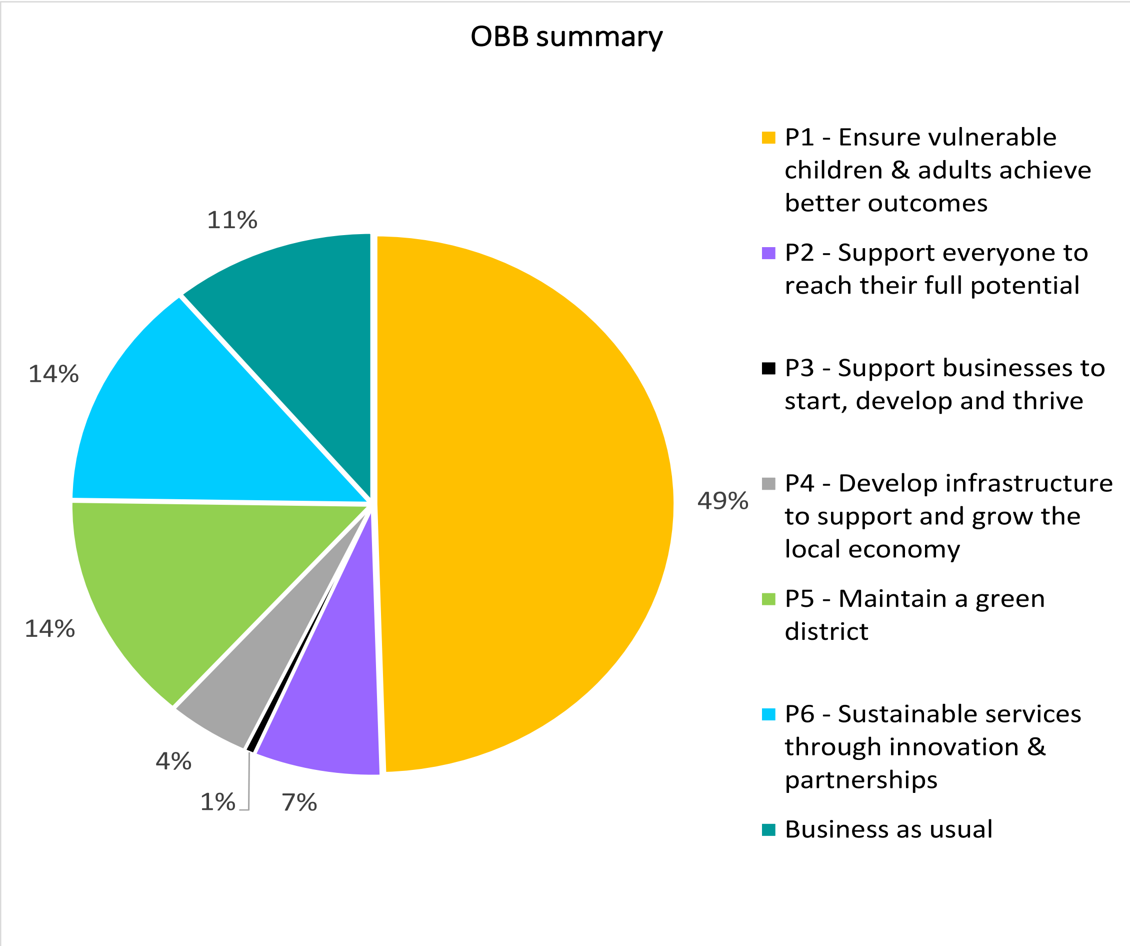
West Berkshire Council Strategy
2019-2023



14.4 OBB aims to provide a much longer term horizon for the MTFS with options presented to members for closing the financial gap over the medium term. The approach will encourage the use of capital and well as revenue budgets to help invest, avoid cost and identify new income streams and savings. The MTFS model has been created to support this approach. The established groups will need to achieve cost base reductions, but *after* an allocation has been made for modelled demand budgets in social care, *after* allocations for contractual and staffing costs, *after* an increase in capital financing costs and *after* an assumed investment of over £2m in the Council Strategy priorities.

14.5 The OBB can be summarised as:

(1) Establishing baseline budgets on an outcome rather than directorate/service basis and the underlying financial model (see Model later) for cost base reduction – estimated at 10% at present.



(2) Through outcomes groups (aligned to the Council Strategy priority outcomes) review budget allocation and consider savings and investment proposals over a four year period that support the revenue and capital strategies. New investment channelled to support council strategy priorities.

(3) OBB reserve allocated to support profiling of savings over the four year period; i.e. so long as supported by a longer term business case, using reserves and topping up reserves as savings profiling change year on year.

(4) Business cases produced setting out savings, their year, and resources required over spring/summer.

(5) Budget allocation for four year period in Autumn 2020 with any required budget consultation and updates to the financial position following spending review and finance settlement indications.

14.6 Supporting the OBB approach there are a number of ongoing workstreams:

(1) New Ways of Working

The New Ways of Working (NWOW) programme was established in 2017 to review how and why we deliver services and looking at how we might deliver them in a more effective and efficient way. As part of these projects, we are reviewing our services and fees and charges by benchmarking against other councils. This large project has a target of three years to deliver changes and will lead to improved communication and streamlined business processes.

(2) 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, in order that we can improve outcomes. 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. This project is being managed by the Corporate Programme Office with the use of the Research Team.

(3) Commercialisation

The Council has committed to developing its commercial agenda and is moving towards changing working practices and encouraging a shift in culture to improve the way it trades with others. This also ties in with our aims through our economic development strategy proposals and the Vision 2036 currently being consulted upon. We are looking at how ideas are created, nurtured and developed into valuable projects to generate income and offset existing costs, working with a wide variety of potential business partners to improve our understanding of leading technologies and building on existing trading models which have a good track record of financial returns. Overall we have put in place good governance arrangements to ensure that there is a sensible, risk based, approach towards investing resources into the best ideas, balanced with being ambitious enough to influence the difficult financial position we find ourselves in.

Projects being developed at the moment include our position as a well-regarded training provider, trusted mental health and wellbeing therapists, reliable schools partner for back office services such as ICT, HR, Finance and Legal. Ideas around green technology, event management, regulatory and business continuity consultancy and many others are also being developed. This commercial activity is expected to provide additional commercial income.

(4) Digitisation

The Council's Digital Services Team has been working on creating a number of reusable "Digital Capabilities" and good progress has been made with the Booking System and Payments System, which have been used to support online forms and services for a number of Council departments. Future projects include:

- Customer services enhanced use of technology and machine learning
- Introduction of a pre-planning validation service to reduce the number of invalid planning applications and to generate additional revenue

(5) Sharing services and working with partners

We will continue to explore joining more 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 Emergency Planning.

We will continue to work with Town and Parish Councils and communities, to identify opportunities for devolving services to them. Communities themselves are taking positive action to request assistance around volunteering for library services and other services.

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

15. Supporting Information

15.1 The four year Medium Term Financial Model is shown in the following table. This is based upon the Council Tax increase model used for the 2020/21 Local Government Finance Settlement and is then replicated across the MTFS. There have been no indications beyond 2020/21 of the level of Council Tax or Adult Social Care precept, and further details of this are expected later in 2020. For modelling purposes this is the latest assumption available and has been replicated to 2023/24.

2019/20	Line ref		2020/21	2021/22	2022/23	2023/24
2.99%		**Council Tax Increase**	**1.99%**	**1.99%**	**1.99%**	**1.99%**
0.00%		**ASC Precept**	**2.00%**	**2.00%**	**2.00%**	**2.00%**
90.61	1a	Council Tax income	92.67	95.08	97.56	100.10
7.26	1b	Adult Social Care Precept	9.39	11.69	14.14	16.75
23.60	2	Retained Business Rates	22.61	18.16	18.52	18.89
2.39	3	New Homes Bonus	1.82	0.91	0.50	0.00
0.07	4	Additional Government Funding	0.22	3.00	2.00	1.00
6.22	5a	Adult Social Care BCF and iBCF ringfenced funding	6.40	5.73	5.84	5.96
0.86	5b	Social Care Grant	2.63	2.63	2.63	2.63
-1.14	6a	Collection Fund deficit (-)/ surplus - Council Tax	-1.47	0.00	0.00	0.00
1.23	6b	Collection Fund deficit (-)/ surplus - NNDR	-3.71	0.00	0.00	0.00
131.11	7	**Funds Available**	**130.56**	**137.20**	**141.20**	**145.33**
143.50	8a	Expenditure budget (net of ring-fenced grants)	151.89	159.48	161.85	166.87
-25.37	8b	Fees, charges and commercial income	-27.74	-29.26	-30.38	-31.52
118.13	8c	**Base budget**	**124.15**	**130.22**	**131.47**	**135.35**
2.59	9a	Pay inflation	1.90	1.84	1.84	1.84
0.12	9b	Non pay inflation	0.16	0.16	0.16	0.16
0.63	9c	Contract inflation	0.69	0.78	0.78	0.78
7.10	10	Modelled growth	3.02	3.00	3.00	3.00
1.30	11	Increased budget requirement (pressures)	1.92	1.20	0.50	0.50
0.00	12	Investment in Council Strategy priorities	1.11	0.00	0.00	0.00
0.50	13	Increase in capital financing cost	0.50	0.53	0.55	0.61
-5.10	14a	Savings	-2.33	-6.25	-2.94	-2.86
-1.11	14b	Income generation	-0.44	0.00	0.00	0.00
0.00	14c	Capitalisation	-0.47	0.00	0.00	0.00
124.15	15	Annual Budget Requirement	130.22	131.47	135.35	139.37
0.74	16	Risk provision	0.00	0.00	0.00	0.00
124.89	17	Net Budget Requirement for Management Accounting	130.22	131.47	135.35	139.37
6.22	18	Adult Social Care BCF and iBCF ringfenced funding	6.40	5.73	5.84	5.96
0.00	19a	Use of Council Strategy reserve	-0.68	0.00	0.00	0.00
0.00	19b	Use of Collection Fund and Business Rates reserves	-5.37	0.00	0.00	0.00
131.11	20	**Budget Requirement**	**130.56**	**137.20**	**141.20**	**145.33**
		£10k roundings may apply				

15.2 The assumptions included in the table above are influenced by the fair funding and business rates retention review highlighted in section 7 of this report.

15.3 In line 2 of the above, there is a substantial decreased forecast in business rates retention. This is due to a proposed ‘hard reset’ of the business rates baseline, above which the Council receives a share of business rate growth. In 2021/22 the government is proposing that the baseline is reset from the 2013/14 baseline. This would remove the growth that the Council has seen in the interim. It is also highlighted that there will be a transition period to get from the current system to the new system of local government funding. This has been assumed in line 4 of the model. The further changes due to the fair funding modelling have not been taken into account due to amount of uncertainty around these in the future.

16. Scenario planning

The corporate risk register already includes a risk specifically on the MTFS. Highlighted throughout this paper are a number of estimates. To provide an indication of the different impacts that assumptions might have in the future are a range of scenarios below and what might happens due to these. The recently produced CIPFA Resilience index (https://www.cipfa.org/services/financial-resilience-index/financial-resilience) also highlights where the Council has higher or lower levels of risk. As highlighted in the revenue budget report, the Council does have comparatively lower levels of the reserves than other Councils but these are above the minimum level required by the s151 officer.

Scenario	**Impact**	**Comments**
Macro economic upturn	Increased income through: • Core service e.g. parking, planning income on major applications, CIL etc • Business Rates income • Reduced Council Tax Reduction scheme payments • Borrowing costs could become higher as interest rates rise • Inflationary cost pressure	
Macro economic downturn	Opposite to the above plus: • Greater demand costs • Increase in Discretionary Housing Payment awards	
Fair funding review	Potential change in funding of up to £5m depending on protections and link to business rates retention. The Council would receive negative core revenue support grant without government funding, though this is without other reforms.	Difficult to forecast at present; unlikely that the Council would 'lose' substantial funding through fair funding as it currently receives £0 of core government funds. However, the impact through business rates retention could be greater on both the upside and

Scenario	Impact	Comments
		downside.
Business rates reset – hard reset no transitional funding	Up to £4m loss in income in 2021-22 – immediate use of reserves, increase charges and/or further savings.	Awaiting further details as highlighted in the main report – further clarity should be available later in 2020
Removal of Council tax referendum principles	A 1% change in Council tax represents approximately a £1m change to the Council's budget	Principle remains in place for 2020-21

17. Proposals

To approve the MTFS.

18. Consultation and Engagement

Not applicable.

19. Conclusion

19.1 The forecast levels of funding available over the medium term, together with provision for budgetary increases and growing pressures, mean that the Council needs to address a funding gap of £12m over the three years from 2021/22. This is after assuming Council Tax increases of 1.99% and Council Tax increase of 2% via the adult social care precept each year.

19.2 From 2020 onwards, the Council is moving its financial planning processes to become more focussed on outcomes through an Outcomes Based Budgeting (OBB) approach, which seeks to align financial resources to the priority areas articulated in the Council Strategy. 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.

19.3 The Council has a track record of strong financial management. Historically budgets have been delivered without significant over or under spends. The Council's ability to manage within significant financial challenge is vital to its continuing success in delivering the Council Strategy.

20. Appendices

None.

Subject to Call-In:
Yes: ☐ No: ☒

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

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