
Medium Term Financial Strategy

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1. Foreword

- 1.1 There remains a lot of unknowns for Local Government finance in the future. The macro economy has seen some major changes during 2022-23 that will impact the future financial position of the Council, not least the increase to interest rates at which the Council can borrow to finance capital expenditure. The Local Government finance settlement (LGFS) was only for a one year period, 2023-24, with some inference for 2024-25. The absence of a longer term financial envelope for Local Government does mean that there remains significant uncertainty over the financial position from 2024-25, though Government have provided an inclination of their thinking for Local Government spending. This strategy does though provide estimates for future years and sets out a range of scenarios to help understand the impact on future budgets.
- 1.2 The Council has a history of strong financial management and has a reserves position that, though comparatively remains constrained, is sufficient to allow some flexibility and support in how we can tackle future budgets to avoid having to make knee-jerk responses. This has been delivered through the utilisation of reserves where possible, though these are at very low levels now (see the revenue budget report) and will need to be replenished for risk reserves in future years.
- 1.3 The MTFS does factor in investment for the future. This is included for the Council Strategy delivery plan, social care demand modelling and for capital investment. Further information on capital investment can be found in the Capital Strategy itself, and this is vital for the future prosperity of our district, and it is incumbent on us to ensure that infrastructure investment takes place to keep West Berkshire as a great place to live. All of these items above will help plan for the long term financial success of the Council in delivering the Council Strategy for our residents and businesses.

2. Executive Summary

- 2.1 The Medium Term Financial Strategy (MTFS) highlights the financial planning, high level proposals, and sensitivity analysis that underpins the financial resources that deliver the Council Strategy (2019-23) and the new Council Strategy once approved for 2023-27. The Strategy is in itself subservient to the Council Strategy, but in its own right attempts to provide the financial planning framework for the coming years as well as act as guide to the organisation in developing projects and schemes to deliver financial balance and the Council Strategy.
 - 2.2 The MTFS looks to a four year horizon; enough to provide some stability over an increasingly volatile financial future, but short term enough so that the first year represents the budget proposals for 2023-24, and for the next three years there are a variety of themes included which form the basis of the future savings areas. The MTFS also includes information on financing the capital strategy and how the scale and profile of this strategy has an impact on the overall financial position of the Council.
 - 2.3 The longer term outlook is dominated by a range of factors; firstly, the macro-economic recovery from the Covid-19 pandemic and the impact that this has had, and will have on the UK economy including inflation and interest rates; secondly the impact on Government reform in Adult Social Care and other services such as planning policy which will alter financial planning assumptions, and thirdly, the long
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awaited fair funding review and proposed further business rates retention proposals for 2025-26 and beyond which should have a significant impact on the Council's finances and hopefully provide some longer term financial planning certainty.

3. **Introduction**

3.1 ***Purpose***

3.2 The purpose of the MTFS is to set out the financial planning assumptions and resources available to the Council to deliver the Council Strategy. The MTFS includes both revenue and capital implications. The MTFS attempts to balance the resources known, and estimated, to be available with the ambitions of the Council Strategy. There is always a calculation to make to even out the additional and current investment in the Council Strategy objectives against the cost of doing so and the pressure that puts on the MTFS.

3.3 ***Vision***

3.3.1 The Vision of the MTFS is:

“To ensure that the Council has the financial resources available to work together to make West Berkshire an even greater place in which to live, work and learn”

3.4 ***Dependencies***

3.4.1 The delivery of the MTFS cannot occur through the Council alone. A significant proportion, 50%, of the Council's budget is delivered through partners in the private, public and voluntary sectors. The Council's proposals for future financial stability will involve all of these partners including where there are proposals to invest in infrastructure, deliver core services and transform how the Council delivers its services in the future.

3.4.2 This fair funding review was originally due to impact on the 2020-21 budget but is now most likely to come into effect from 2025-26 at the very earliest. The following assumptions have been made in the MTFS:

- That the fair funding review and business rate baseline reset does not occur until 2025-26 at the earliest (this has been confirmed by Government) and it is assumed that these do not take place during the life of the MTFS – this assumption will be revised in future years when Government plans are clearer
 - Adult Social care (ASC) funding remains in the longer term with a nil impact on WBC from the proposed care reforms in future years
 - New Homes Bonus is removed but replaced with a funding system that delivers equivalent levels of reward to 2023-24 in future years – Government are due to release information before the 2024-25 finance settlement
 - The assumed permitted Council Tax increases remain at 2.99% and ASC Council Tax precept levels at 2% - any authority proposing an increase above these levels must hold a local referendum
 - Inflation remains at 2% in the longer term – forecasts are that for 2024-25 inflation could be negative
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4. Medium Term Financial Plan

- 4.1 The MTFS is supported by a Medium Term Financial Plan (MTFP). This MTFP sets out the financial planning assumptions and is included below:

Figure 1.1 – MTFP

Line ref	Medium Term Financial Plan (MTFP)	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
	Council Tax income	2.99%	2.99%	2.99%	2.99%
	Adult Social Care Precept	2.00%	2.00%	2.00%	2.00%
1	Council Tax (incl. ASC)	117.5	124.1	131.0	138.4
2	Retained Business Rates	27.3	27.8	28.4	29.0
3a	Adult Social Care BCF and iBCF ringfenced funding	7.3	7.5	7.6	7.7
3b	Social Care Grant	6.8	7.8	7.8	7.8
3c	ASC Market Sustainability & Improvement Fund	1.2	1.1	1.8	2.4
3d	ASC discharge fund	0.3	0.1	0.0	0.0
4a	New Homes Bonus	1.1	1.1	1.1	1.1
4b	Services Grant	0.7	0.7	0.7	0.7
4c	Other non-ringfenced grants	0.3	0.1	0.1	0.1
4d	Lower tier services grant	0.0	0.0	0.0	0.0
5	Collection Fund deficit (-)/ surplus	1.8	0.0	0.0	0.0
6	Funds Available	164.3	170.3	178.5	187.2
7	Base budget after adjustments	141.6	157.9	161.7	169.9
8a	Pay inflation	4.9	2.0	2.0	2.0
8b	Contract inflation and non pay inflation	4.5	1.4	1.4	1.4
8c	Modelled growth	10.1	3.1	3.1	3.1
9a	Investment in Council Strategy priorities	2.3	0.7	0.5	0.5
9b	Investment due to Covid-19	1.3	0.0	0.0	0.0
9c	Other investment	1.7	1.9	0.3	0.2
9d	Increase in capital financing cost	0.6	1.8	1.8	1.8
10	Savings and income requirement	-9.1	-7.1	-2.7	-1.1
11	Annual Budget Requirement	157.9	161.7	169.9	178.5
12	One off investment	0.8	0.3	0.1	0.0
13	Net Budget Requirement for Management Accounting	158.8	162.0	170.0	178.5
14	Adult Social Care BCF and iBCF ringfenced funding	7.3	7.5	7.6	7.7
15	Budget Requirement	166.1	169.5	177.6	186.2
16a	Use of Earmarked Reserves	-1.5	-0.2	-0.1	0.0
16b	Use of Transformation Reserve	0.0	0.0	0.0	0.0
16c	Use of Collection Fund Reserves	-0.3	0.0	0.0	0.0
16d	Increase in reserves	0.0	1.0	1.0	1.0
17	Budget Requirement after use of reserves	164.3	170.3	178.5	187.2
	<i>£10k roundings may apply</i>				

- 4.2 The MTFP highlights the need for cost base reductions of £19.9m over the next four years and is based upon a number of assumptions which are considered below.

Figure 1.2

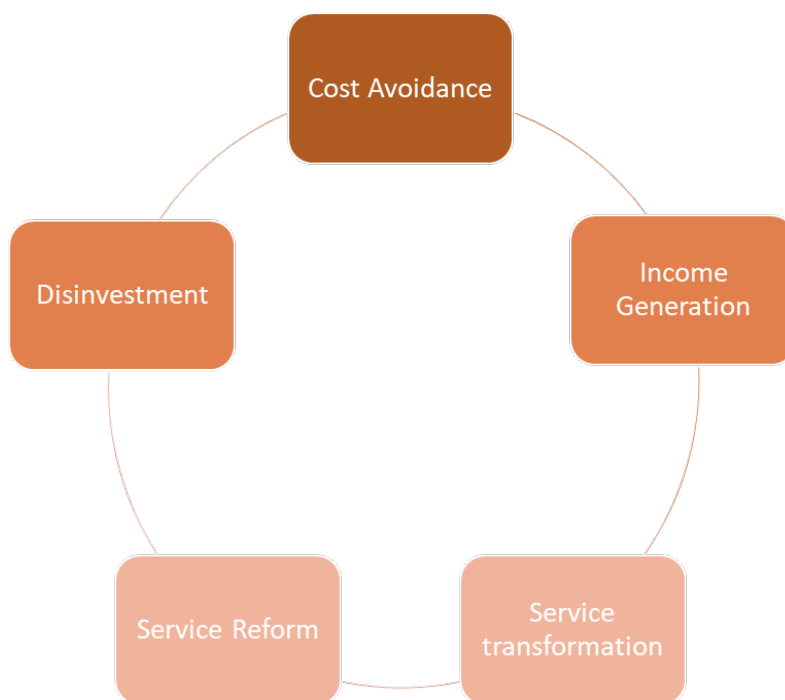
Ref	Item	Commentary
1a	Council Tax Income	<p>This is the amount of Council Tax (excluding the ASC precept, see below) raised. A 1% change in the Council Tax base¹ or Council Tax levied equals approximately £1m. Council Tax provides 62% of the Council's funding excluding fees and charges (72% with the ASC precept).</p> <p>Any increase of this number above 2.99% must be the subject of a public referendum.</p>
1b	Adult Social Care Precept	A specific element of Council Tax, with a maximum increase of 2% allowed for 2023-24, to help provide funds for Adult Social Care. It has been assumed the ASC precept is set at a maximum of 2% so an assumption that 2% will be allowed throughout the MTFS period has been made.
2	Retained Business Rates	The Council collects £97m of business rates, and are allowed to retain some of this through a Government controlled scheme. The amount left over for WBC after payments to the Government is £27m. If business rates increase through new growth in the value of business rates, the Council retains approximately 25%, and retains 100% of all renewable energy schemes.
3a	ASC BCF / I-BCF ring-fenced funding	This is the Adult Social Care (ASC) Better Care Fund (BCF) or Improved Better Care Fund (iBCF). This income is exactly matched by expenditure later in the MTFS and is ring-fenced to support the integration of care services with NHS partners.
3b/c/d	Social Care Grants	Non ringfenced grant from Government (3b) with 3c and 3d implied non ringfenced but with some information to be determined by Government on what activity these support.
4a	New Homes Bonus	The New Homes Bonus is a scheme from the Government since 2010 that allows Councils to keep the equivalent band D Council Tax on all additional homes built in the district for one year.
4b/c/d	Services grant and other non-ringfenced grants	Services Grant – assumed to continue in some form in future years though to be determined by Government.
5	Collection Fund	This is the surplus or deficit on 2022-23 Council Tax and business rates income budget versus the expected actual income. Councils do not account for this in the year it occurred, but in the subsequent year.

¹ the amount of properties in the district adjusted for the Council Tax Reduction scheme and discounts

Ref	Item	Commentary
6	Funds available	Total non-ring-fenced income available, excluding fees and charges.
7	Base budget after adjustments	The budget from the previous year including £363m expenditure, £190m ring-fenced grant income and £31m income from fees and charges.
8a	Pay inflation	Increased costs due to any pay awards (3.5% assumption 2023-24), increased employer pension costs and incremental pay changes.
8b	Contract inflation & non-pay inflation	The amount of funds set aside for key budgets that have a contractual inflation element; the most significant being the Waste PFI (Private Finance Initiative). Non-pay inflation relates to energy costs.
8c	Modelled budget growth	Increases to demand led services through estimated increases in client numbers and/or complexity.
9a	Investment in Council Strategy priorities	Funding investment to deliver the Council Strategy.
9b	Investment – Covid-19	Ongoing future financial pressures relating to the impact of the Covid-19.
9c	Investment in other priorities	Investment to ensure the delivery of core services.
9d	Increase in capital financing costs	The revenue funding for additional borrowing that supports the delivery of the Capital Strategy. This is an area under pressure; the future borrowing costs of the Council have more than doubled since setting the 2022-23 budget and so the revenue funding available to finance capital spend will either need to increase in the MTFS to fund previous levels of Council funded programmes or remain/reduce to fund fewer Council funding projects.
10	Savings and income requirement	Items that reduce cost via the themes identified.
11	Annual budget requirement	Sub-total of the above.
12	One off investments	Investment to support initiatives, on a one-off basis.
13	Net budget for management accounting	Sub-total of the above.
14	ASC BCF / iBCF funding	Expenditure that equals the income from this funding source in line 3a above.
15	Budget requirement	Sub-total of the above.
16	Use of Reserves/ increase in reserves	Use of any earmarked or unallocated reserves to support future budgets, and cover the collection fund deficit. Building back reserves in future years.
17	Budget requirement	The new budget that equates to the funds available in line 6.

- 4.3 The MTFS considers investment as well as savings. The latter is discussed in further detail below but, importantly, the MTFS does have investment set aside over the next four years of £15m. This includes a wide range of areas and remains in line with the Council Strategy ambitions – i.e. investment to achieve the Strategy, continue to build on our strengths and investment in infrastructure to deliver the Council Strategy and other supporting strategies. The savings themes for the MTFS is based on the model below:

Figure 1.3



- 4.4 The model has been considered to drive different strands of activity and reflect that there are a variety of different ways of delivering a long term balanced budget. The Council has moved to a more outcomes based budgeting approach for this MTFS.
- 4.5 Below is a summary of the five key themes and some of the proposals that are included in 2023-24 budget and that are being considered for future financial years. For years beyond 2023-24, worked up proposals will be required and will be incorporated into the annual budget for those financial years. There is a gap between proposals at present and the total savings requirement in the MTFS, but this highlights that proposals are being considered in advance of their requirement to ensure greater medium term financial planning. At present there is a requirement of £10.8m of which at least £3.7m has been identified in proposals for future budgets.

Cost Avoidance - £5.8m

The projects involving, for example, intervening in service demand early to reduce future modelled costs. This is particularly evident in Adult and Children Social Care where the modelled budget line can be reduced through interventions that either avoid anticipated costs or provide alternative service arrangements at no cost to the Council.

Income Generation - £1.8m

Either new income generating opportunities or through increasing additional revenue from existed income sources from fees and charges.

Service Transformation - £0.6m

Opportunities to transform how services are provided by the Council. Key elements included in this are digital opportunities so that more services are available for those who want to use them online and out of core office hours. The Council is also looking at the physical location of its offices and opportunities to transform how services are delivered and from where to improve customer service and deliver financial savings.

Service Reform - £0.8m

This element is focussed on the improved efficiency and effectiveness of existing services and where incremental adaptations can be made so that they are delivered at a lower cost. Historically, this has been an area of success for the Council but as each year occurs, the scale of the opportunities reduce.

Disinvestment - £0.1m

This is the removal of an existing service or a reduction in the level of service provided without a compensating transformation. This will be the area that the Council prioritises last, but does have to be considered with all other options depending on the overall funding position.

Reserves - £1.8m

Reserves have been set aside to support the profiling of savings in the MTFS and the delivery of Council Strategy outcomes. These reserves are held to ensure that there is a lesser requirement to make immediate and significant revenue budget changes that would make a deterioration in service delivery without a longer term consideration. The budget for the year ahead exhausts the majority of available reserves outside of the General Fund balance. The MTFS model shows £1m increase to reserves from 2024-25 for each year for the remaining three years of the strategy to increase risk reserves and earmarked reserves.

Use of Reserves to support the 2023-24 Budget	£m
Collection Fund Reserves	-0.3
Earmarked Reserves	-1.5
Total	-1.8

- 4.6 It is also important for the MTFS to consider the different scenarios that relate to the MTFP. Appendix A highlights the detail behind these and is summarised below:
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Figure 1.4: Scenario planning

Scenario	Best / highest case	Financial impact	Worst Case	Financial impact
Council Tax base changes	2% growth p.a.	£1.7 extra p.a	0% growth from 2024-25	£0.7m p.a.
Council Tax referendum levels	3%	£1.1m p.a. from 23/24	0%	£3.3m p.a. from 23/24
ASC precept	2%	£1.1m p.a. from 23/24	0%	£2.2m p.a. from 23/24
Business Rates reset and fair funding review from 2025-26	No reset – keep retaining growth	£1.8m in year 3	Full reset – no transition	£5m drop from 2025-26 plus impact of fair funding review
Agency costs (staffing) within social care continue on current level leading to an overspend			Growth in agency costs as recruitment activity is unsuccessful	£3m overspend
Inflation and pay award	0.5 % lower	£0.3m p.a.	2% increase	£1.2m
Capital financing costs	Rates drop by 1%	tbc – gilt rates dependent	Increased rates of 1%	£0.2m
ASC finance model	Per 'best' case	£2.8m benefit	Per 'worst' case	£4.8m overspend

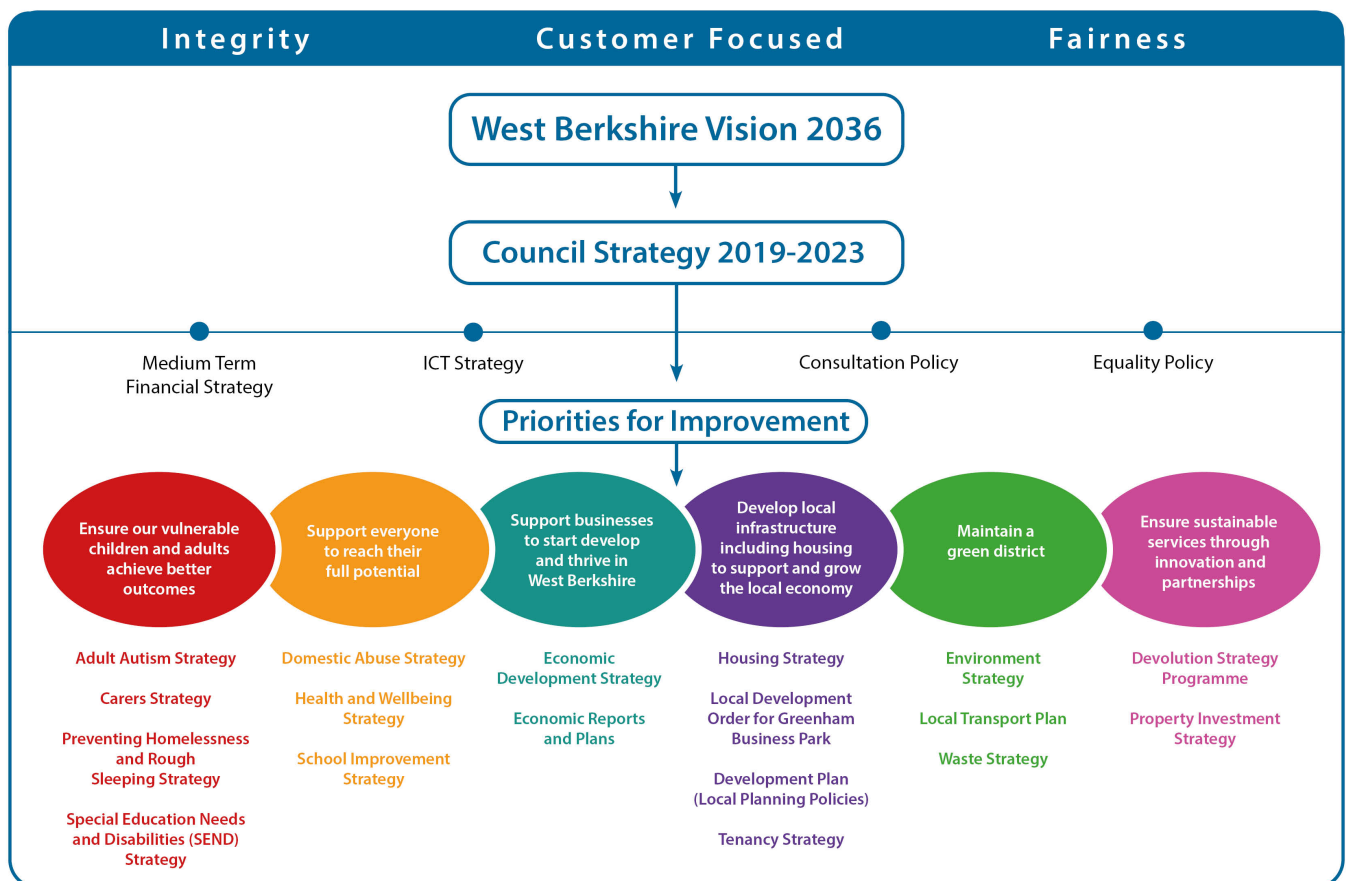
5. **Priorities**

5.1 The overarching priorities of the MTFS are:

- To ensure a balanced financial position over the medium term
- To ensure that there are sufficient resources to deliver the Council Strategy
- To enable longer term decision making by providing financial planning over a four year timeframe

6. **Actions**

6.1 Unlike other strategies that have a clear action plan, the MTFS is slightly different in that it provides an over-arching view of the financial position and the actions to deliver the strategy are contained in other Council strategies – see interaction below:



6.2 Key actions to take place though include:

- Review of fair funding outcome and future of business rates post 2024-25
- Further savings proposals for years 2 to 4 of the MTFS
- Further review of reserves in 2024-25 budgets and beyond to ensure that risk reserves are replenished through a contribution to reserves
- Investment in a transformation programme for preventative work to support long term cost recovery or avoidance where demonstrable

7. Implementation

- 7.1 The MTFS is implemented through the revenue budget for the year ahead (2023-24) as well through the oversight of the Budget Board, an internal board at the Council, which considers changes to the financial planning assumptions as well as future options for delivering the MTFS.
- 7.2 The MTFS also provides a steer for officers on the approach to take and the themes articulated above will help to shape future budgets.

8. Conclusion

- 8.1 The Local Government Finance Settlement for 2023-24 has provided some greater certainty and information to inform this MTFS. The removal of changes due a fair funding review and hard business rate baseline reset until 2025-26 at the earliest provide greater levels of certainty over the medium term than has been provided in recent years. This enables the MTFS, certainly for the next two years, to have a

much greater level of certainty over the income levels assumed, though many Government funding streams remain unclear e.g. Services Grant and New Homes Bonus. The new Council Strategy for 2023-27, once approved, will provide greater stability on Council policy direction and a redirection of Council funding to those priorities approved by members.

Glossary

None

Appendices

Appendix A – Scenario planning

Other relevant documentation

Previous Medium Term Financial Strategies
Accompanying budget papers for 2023-24
Local Government Finance Settlement 2023-24 (MHCLG)

Appendix A – Scenario planning

The below sets out some of the potential changes on the specific lines of the MTFP – all of these are estimates. The amounts show the cumulative position over the MTFP (4 years).

Council Tax Base Changes

A 1% increase in the Council Tax base equates to approximated 650 properties and just over a £1m additional income. The ability to accurately forecast this figure is difficult. The Council has little control over how quickly properties are built across the district on a year by year basis (the local plan can set out the overall quantum over a much longer period) so faster or slower building rates have a large impact in future years. The other determinate of the Council Tax base is how many residents receive the Council Tax reduction scheme; greater levels of take up will mean a smaller taxbase as this affords some protection to residents from paying the full rates of Council Tax.

The 2022-24 period is forecast to see above 1% increases to the taxbase.

Council Tax referendum level

This is proposed at 2.99% by the Government for 2023-24 and assumed to remain at this level throughout the MTFP. Councils can increase Council Tax above this level but would need to conduct a referendum with residents first. It is assumed in the MTFP scenario planning that this would not occur.

ASC precept

Similar to the above, with a maximum level of 2% allowable.

Business Rates and Fair funding review

This has been articulated in the MTFP above, but the Council is currently above its 'business rates baseline' by over £5m. This is the amount at which the Government, when creating the retention of business rates in 2013-14 assessed as the amount of business rates the Council collected and then ended up retaining after transfers to the Government. If the Government implemented a reset to the underlying business rates baseline this would cost the Council well over £5m a year as the Council has seen growth in business rates above this baseline level over the past ten years.

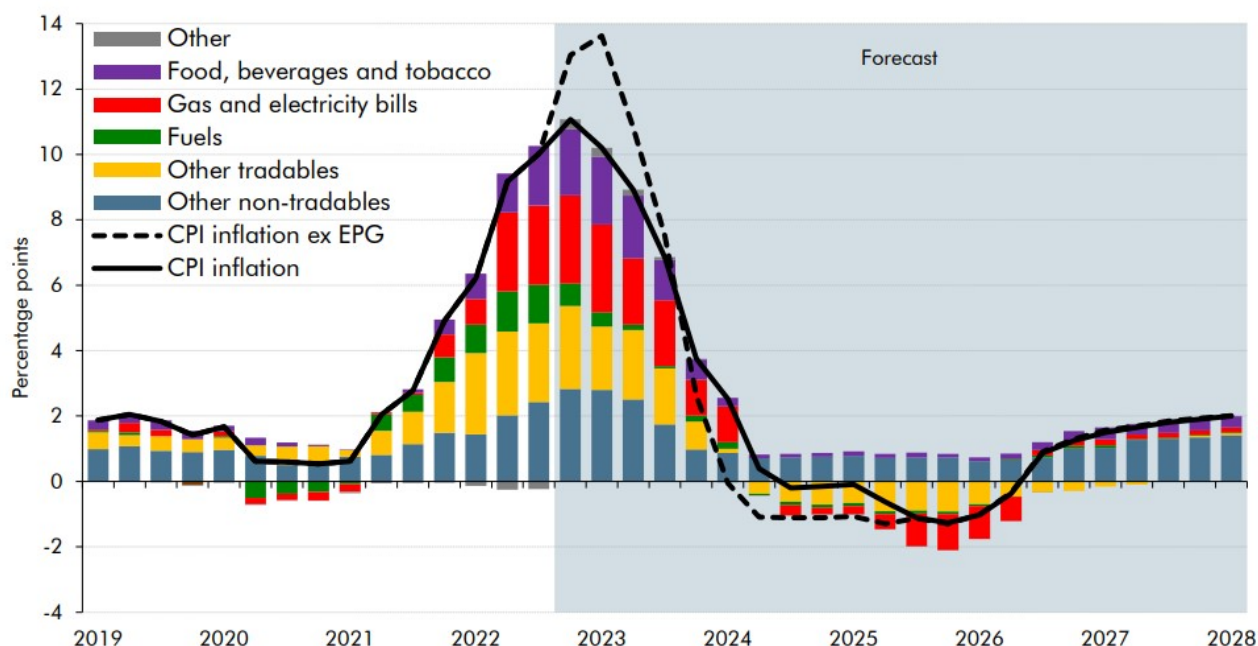
Agency costs

The Council is facing significant pressures on recruiting and retaining staff in certain services, especially in adults and children's social care. The additional agency costs required (to cover vacant posts) are substantial and an estimate of £3m has been identified as a worst case additional cost – in quarters 1 and 2 of 2022-23 the additional costs in adult and children's social care are £1.5m together.

Inflation and pay award

Forecasts for inflation vary significantly but the Office of Budget Responsibility forecast in November 2022 was for an approximate 3.5% inflation figure in 2023-24 (from a high of 11% in 2022-23) with deflation from 2024-25, see below:

Chart 4: Contributions to CPI inflation



Capital financing costs

As highlighted above, interest costs have more than doubled during 2022-23; when the budget was set, Public Works Loans Board rates were approximately 2% and are now in excess of 4%, this means that for the same revenue costs, the Council will be able to afford half of the total Council funded capital projects.

ASC finance model

This model is presented to Executive every quarter as part of budget monitoring. The model has best and worst case costs scenarios. The 2023-24 model provides for the expected costs with a 3.5% inflation uplift, on top of a significant uplift in 2022-23. The difference between the base and best case is £2.8m and between the base and worst case is £4.8m. This has been highlighted during 2020-21, where there was a significant underspend on ASC spend and during 2022-23 where there is a significant overspend forecast.