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# Medium Term Financial Strategy 2019/20 to 2021/22

## – Supporting Information

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### 1. Introduction

- 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, Capital Programme 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.

### 2. Background

- 2.1 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. Since 2016/17, West Berkshire Council has seen the RSG reduce from £15m to zero.
- 2.2 The 2016/17 Local Government Settlement announced the move to the retention of 100% of business rates by 2020 (now revised to 75%). In 2018/19, West Berkshire Council became part of the Berkshire business rates pilot, under a 100% retention scheme. As a pilot, additional business rates income collected in Berkshire are retained within the county, rather than being returned to Central Government. The Berkshire authorities committed to set aside 70% of the additional funding to make improvements to transport infrastructure in the Reading – Wokingham and Slough – Heathrow corridors, with the works being taken forward by the Thames Valley Berkshire Local Enterprise Partnership (LEP), an organisation with both private and public sector representation. The remaining 30% of additional funding was distributed to the individual local authorities in Berkshire, in proportion to their respective contribution to the overall growth.
- 2.3 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 2% in 2016/17 and 2017/18 and then by 3% in 2018/19, when government raised the threshold. These increases when added to taxbase growth now generate an additional £10m 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.

- 2.4 The additional Council Tax has helped to mitigate the loss of the RSG 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 three years, West Berkshire Council has had to find £24m of revenue savings to balance the budget, which has been achieved through becoming more efficient, making staff reductions, transforming services and generating income.

### 3. The 2019/20 Local Government Finance Settlement

- 3.1 The final settlement figures were issued on 29 January 2019 and the final settlement will be announced in February 2019. Key points are:

- (1) The Secretary of State for local government has approved a bid submitted collectively by the six unitary authorities in Berkshire to continue the business rates retention pilot, under a 75% retention scheme.
- (2) One-off funding has been announced for 2019/20 to spend on adult social care services to help alleviate winter pressures on the NHS, and a social care grant to improve the local authority social care offer for older people, people with disabilities and children.
- (3) For Council Tax, a core principle of up to 3% increase was announced. The ASC precept continues, subject to total increases not exceeding 6% between 2017/18 and 2019/20.
- (4) It has been announced that negative RSG will be eliminated. 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. This has given us a benefit of £1.8m in 2019/20.

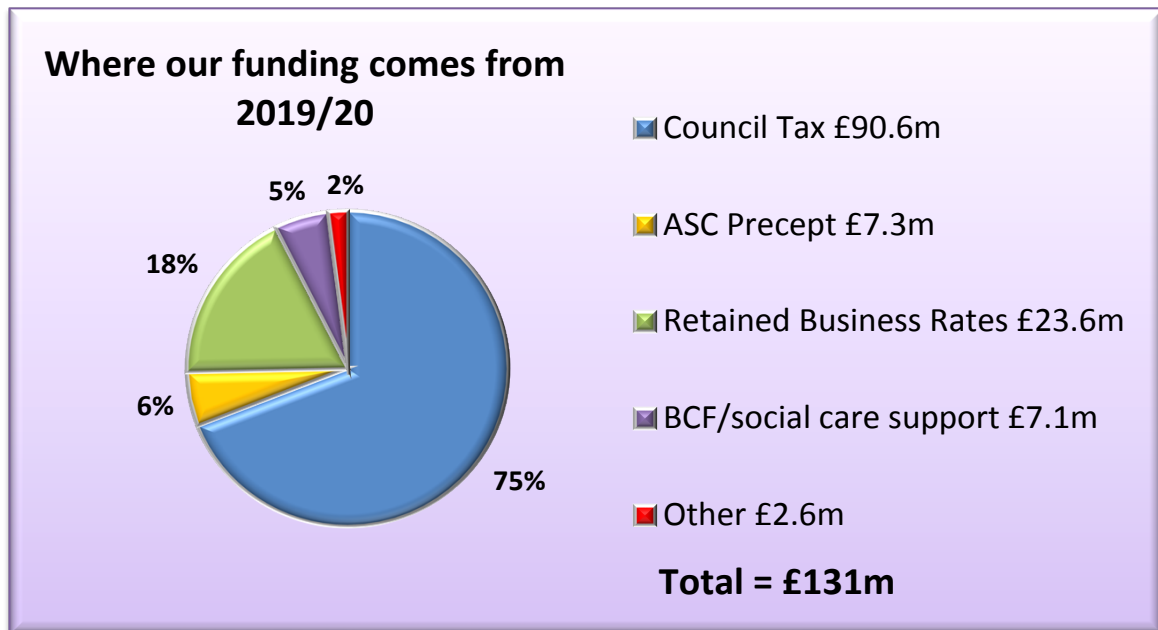
- 3.2 2019/20 is the final year of the four year settlement. Beyond this, clarity over future funding for local government will be announced as part of the 2019 Spending Review. This will confirm overall local government resourcing from 2020/21, and the Government is working towards significant reform in the local government finance system, including:

- (1) A new distribution methodology, following the review of relative needs and resources;
- (2) Reforms to business rates retention, including resetting business rates baselines.

- 3.3 The Government has also committed to publish a Green Paper on the future of Social Care in 2019. The aim of the paper is to ensure that the care and support system is sustainable in the long term.

## 4. Revenue Funding

- 4.1 The proposed 2019/20 revenue budget is funded from a number of sources as shown in the following chart:



- 4.2 Council Tax funds 75% of our budget. The MTFs is built on a 2.99% Council Tax increase in 2019/20 and a 1.99% increase thereafter, tax base growth of 0.2% in 2019/20 and 0.75% thereafter, and a collection rate of 99.6%. The tax base is the number of properties paying Council Tax.
- 4.3 The ASC precept on Council Tax now raises annual funds of £7.3m, but we cannot raise additional precept in 2019/20, as we have reached the maximum allowable limit. After 2019/20, there may be further opportunity to raise precepts for social care, but the MTFs does not assume any funding arising from this.
- 4.4 Retained Business Rates represents our share of the actual business rate collected in West Berkshire. For 2019/20, West Berkshire will be part of the Berkshire business rates pilot under a 75% retention scheme, and the assumption is that this will continue. Being part of a pilot is estimated to generate additional funding for West Berkshire of approximately £1.75m per year. However, from the £86m we collect in business rates locally, we still only retain £24m under a 75% pilot scheme. This is because we pay 25% to central government, and pay a further 48% to central government in the form of a tariff.
- 4.5 Department of Health 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 2019/20, additional funding has been announced: a Winter Pressures Grant of £501k which will be pooled into the BCF via the iBCF, and a Social Care Support Grant of £856k. This funding is one-off.

4.6 Other funding consists of:

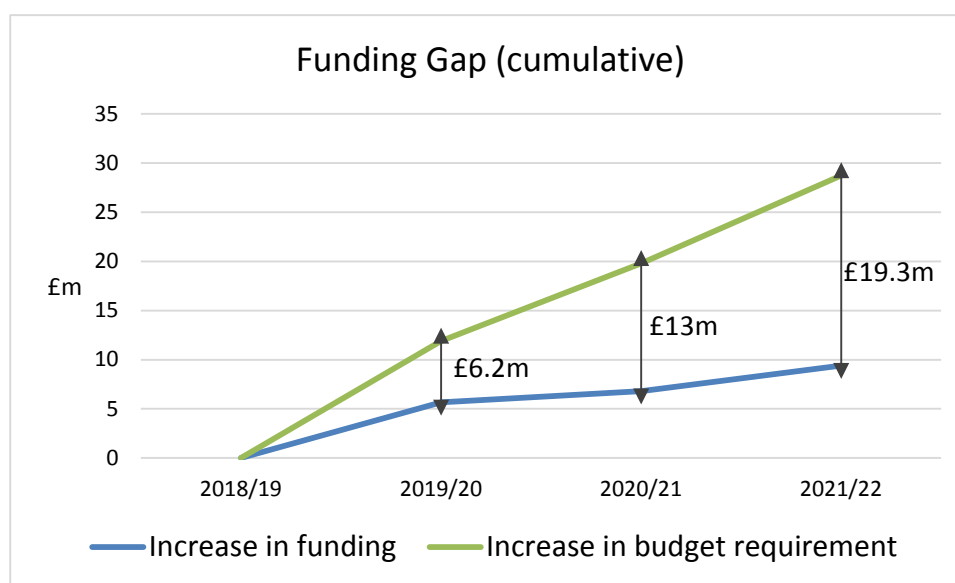
- (1) Additional Government funding: small levels of non-ringfenced grants assumed to continue on a reducing basis.
- (2) New Homes Bonus grant: monies received from Central Government for every net new additional property in the district. This is forecast to reduce over the period of the MTFS, but the assumption is that this funding stream will continue or be replaced with funding of a similar value.
- (3) Collection Fund balances: a ring-fenced account for Council Tax and Business Rate collection. Any surplus or deficit on this is recovered in the following year. Our share of the estimated Council Tax deficit is £1.1m and our share of the estimated Business Rates surplus is £1.2m. These amounts are reflected in the 2019/20 Revenue Budget.

## 5. Revenue Expenditure

- 5.1 The revenue funding outlined above funds the base budget, Better Care Fund expenditure, and 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 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 December 2018 CPI rate of 2.1% has been used. 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 13.2.2019, current estimate 3%).
- 5.4 **Increased Budget Requirement:** Each year new pressures arise from demand or new service provision. These need to be built into the budget. The 2018/19 budget is forecasting an over spend of £250k at Quarter Three and any ongoing pressures arising from this need to be built into future budgets. Pressures in Adult Social Care include provision for the transition of learning disability clients from children to adult placements together with increased demand, staffing shortages and cost increases. Children and Family Services are facing pressures in the placements budgets, and childcare legal costs.
- 5.5 **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.
- 5.6 **Risk Provision:** The Council is facing a number of risk items that may arise but cannot yet be quantified. These include increased in demand for services over and above modelled assumptions, higher inflation and risk of delivering savings plans in full.

## 6. Funding Gap

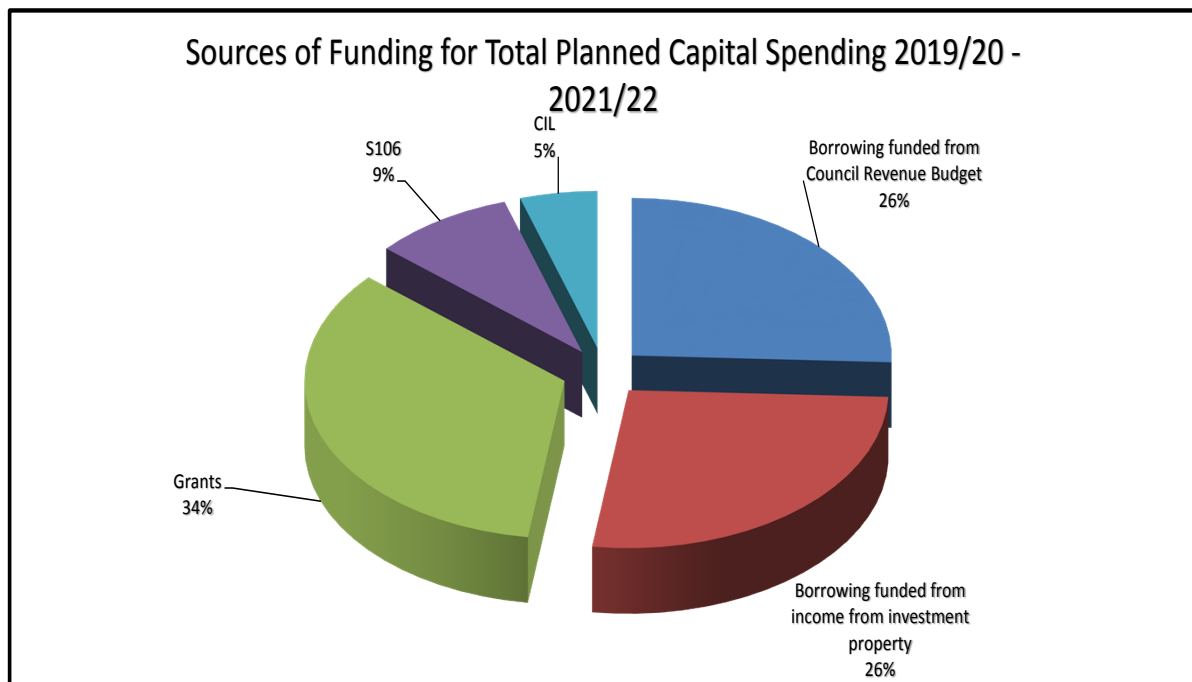
- 6.1 The Council's costs grow each year as a result of inflation, salary increases, changes to National Insurance and pension contributions, and service pressures arising from increased demand and new responsibilities, particularly in social care.
- 6.2 The Council continues to invest in commercial property, and this is scheduled to generate £2m income per year once fully invested, which is equivalent to approximately 2% Council Tax.
- 6.3 The forecast levels of revenue funding over the period of the MTFs, together with provision for forecast budgetary increases, means that West Berkshire Council faces a funding gap of just over £6m each year. This is at an assumed Council Tax increase of 2.99% in 2019/20 followed by 1.99% thereafter.



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

## 7. Capital Funding

- 7.1 Capital funding is covered in detail in the Capital Strategy 2019 to 2022. The size of the proposed 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 2019/20 to 2021/22 is shown in the following chart:



7.2 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% annually.

7.3 The Council funded three year programme for 2019/20 to 2021/22 is £68m. This figure includes £35m planned to be spent on investment property, the borrowing for which will be funded from income to be earned from that property. Further detail on Council borrowing is included with the Capital Strategy and Capital Programme 2019/20 – 2021/22.

## 8. Capital Expenditure

8.1 The proposed capital programme for 2019/20 to 2021/22 is £131million, funded through a combination of external grants, s106 and CIL and a further £68million by the Council through a combination of capital receipts and borrowing.

Directorate	Council Funded	External Grants	S106	CIL	Totals
	£'000	£'000	£'000	£'000	£'000
Communities Directorate	11,737	21,297	6,652	3,469	43,155
Economy and Environment	13,211	23,721	4,898	2,694	44,524
Resources	43,890	0	0	0	43,890
<b>Total Directorate Expenditure</b>	<b>68,838</b>	<b>45,018</b>	<b>11,551</b>	<b>6,163</b>	<b>131,569</b>

8.2 The proposed Capital Strategy and Capital Programme 2019/20 – 2021/22 provides a breakdown of proposed expenditure by Directorate.

## 9. Reserves

- 9.1 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.
- 9.2 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	1.4.2017	1.4.2018	1.4.2019
	Actual	Actual	Estimate
	£m	£m	£m
General Reserve	6.35	6.07	6.55
Earmarked Reserves	12.85	11.37	10.58
<b>Total Usable Reserves</b>	<b>19.20</b>	<b>17.44</b>	<b>17.13</b>

- 9.3 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 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 2019/20 would be £6.55m.
- 9.4 During 2018/19, earmarked reserves are expected to reduce by £0.8m to fund the forecast revenue over spend, fund exit costs arising from savings plans, fund transformation projects and release earmarked reserves.

## 10. Medium Term Financial Strategy

- 10.1 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 our budgets so far.
- 10.2 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.
- 10.3 The areas of focus that will contribute to closing the funding gap include the following:



(1) Financial Challenge

The Financial Challenge Review (FCR) process was launched in 2017 to support the budget setting process. Each service within the Council has been reviewed in detail from their budget sheets through to the activity undertaken and their staffing structures, by a Panel of Officers and Members. The Financial Challenge process asks Heads of Services to explore activities, service levels, costs and income. The Panel identified savings and income generation of £1.9m in 2017 and £1.3m in 2018.

The FCR process is now well established and has successfully delivered savings for the past two years. The FCR will continue to challenge services to identify savings and income generating opportunities.

(2) 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.

(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, 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.

(4) Commercialisation

The Council will continue to invest in both residential and commercial property with the aim of helping to meet our statutory housing duties in a more cost effective way and generating an ongoing income stream. The Council will deliver housing using a Joint Venture with Sovereign Housing Association. Commercial property investment is overseen by the Council's Property Investment Board to deliver against the agreed strategy in this area. Property investment has so far generated £530k of income and is anticipated to increase to £1.5m in 2019/20 and to £2m by 2020/21.

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.

(5) 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:

- Online booking of rooms and appointments
- Introduction of a pre-planning validation service to reduce the number of invalid planning applications and to generate additional revenue
- Planned digitisation of Revenues and Benefits systems will enhance customer experience in these areas.

(6) 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 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 national programme that brings public sector partners together to take a strategic approach to asset management, getting more from our collective assets, to enable economic growth and generate efficiencies, through capital receipts and reduced running costs. As part of the One Public Estate programme West Berkshire Council is working with other Berkshire public sector partners to achieve these benefits.

We will continue to work with Town and Parish Councils and communities, 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 reduce 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 had to withdraw funding.

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

## 11. Supporting Information

11.1 The three year Medium Term Financial Model is shown in the following table.

2018/19	Line ref		2019/20	2020/21	2021/22
£m			£m	£m	£m
2.99%		<b>Council Tax Increase</b>	2.99%	1.99%	1.99%
3%		<b>ASC Precept</b>	0.00%	0.00%	0.00%
88.05	1a	Council Tax income	90.61	93.10	95.67
6.79	1b	Adult Social Care Precept	7.26	7.46	7.67
0.00	2	Revenue Support Grant	0.00	0.00	0.00
6.01	3a	Adult Social Care BCF and iBCF ringfenced funding	6.22	5.43	5.43
0.31	3b	Social Care Support Grant	0.86	0.00	0.00
0.08	4	Additional Government Funding	0.07	0.05	0.00
86.63	5a	<i>Business Rates Collected</i>	86.43	86.91	88.64
-64.15	5b	<i>Business Rates sent to Central Government</i>	-62.83	-62.61	-64.27
22.48	5c	Retained Business Rates	23.60	24.29	24.37
2.69	6	New Homes Bonus	2.39	1.91	1.72
-0.97	7	Collection Fund deficit (-)/ surplus	0.09	0.00	0.00
<b>125.44</b>	<b>8</b>	<b>Funds Available</b>	<b>131.11</b>	<b>132.25</b>	<b>134.86</b>
136.28	9a	Expenditure budget (net of ring-fenced grants)	143.50	152.13	155.64
-21.33	9b	Fees, charges and commercial income	-25.37	-27.74	-29.32
<b>114.95</b>	<b>9c</b>	<b>Base budget</b>	<b>118.13</b>	<b>124.39</b>	<b>126.32</b>
2.35	10	Budget growth	2.71	2.04	2.06
1.76	11	Contract inflation	1.72	1.77	1.86
4.49	12	Increased budget requirement (pressures)	7.57	4.39	4.50
0.50	13	Increase in capital financing cost	0.50	0.50	0.50
-4.70	14a	Savings/Income Proposals	-5.13	-1.26	0.00
-0.53	14b	Commercial income	-1.11	-0.50	0.00
	14c	Remaining savings/income target	0.00	-5.00	-6.31
118.83	15	Annual Budget Requirement	124.39	126.32	128.93
0.60	16	Risk provision	0.50	0.50	0.50
119.43	17	Net Budget Requirement for Management Accounting	124.89	126.82	129.43
6.01	18	Adult Social Care BCF and iBCF ringfenced funding	6.22	5.43	5.43
0.00	19	Use of reserves	0.00	0.00	0.00
<b>125.44</b>	<b>20</b>	<b>Budget Requirement</b>	<b>131.11</b>	<b>132.25</b>	<b>134.86</b>

## 12. Proposals

12.1 To approve the MTFS.

## 13. Conclusion

13.1 The forecast levels of funding available over the medium term, together with provision for budgetary increases and growing pressures, mean that we need to address a funding gap of over £6m each year, after assuming Council Tax increases of 2.99% in 2019/20 and 1.99% per year thereafter. 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.

13.2 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.

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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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