

Bath & North East Somerset - Medium Term Financial Strategy 2018/19- 2022/23

1. Purpose of the Strategy

This Medium Term Financial Strategy (MTFS) provides a framework for budget setting. It explains the financial context and the targets, as well as the financing mechanisms available to the Council.

This strategy does not detail how individual savings will be made, nor how categories of additional income will be achieved. Nevertheless it describes the scope of the work required, and taking place, to meet these targets together with some of the anticipated impacts

The focus is on the next two years, as there is significant uncertainty about the following three, mainly because the national approach to funding local government remains under review.

This strategy also provides the background for budget consultation due to take place this autumn.

2. Expected Outcomes from the Strategy

The objective of this document is to set the context to enable a budget setting and financial planning process that will deliver a balanced budget for the next five years, but with the focus on the next two years.

A balanced budget means that balances or reserves are not used to meet on-going expenditure commitments. B&NES will look to ensure sound plans are in place to balance the budget over the medium to longer term rather than year to year balancing.

The financial strategy needs to integrate with and support the corporate strategy for the Council. This is under review and will be updated alongside budget setting.

The unprecedented scale of the financial challenge, the additional demands on the Council especially for social care, and the scope to use new ways of working notably digital communications, all indicate the need for different ways of working and greater prioritisation of activity and spend. For some services, a different relationship with customers and communities may also be needed. These issues will be addressed as part of the planned update of the Council's corporate strategy.

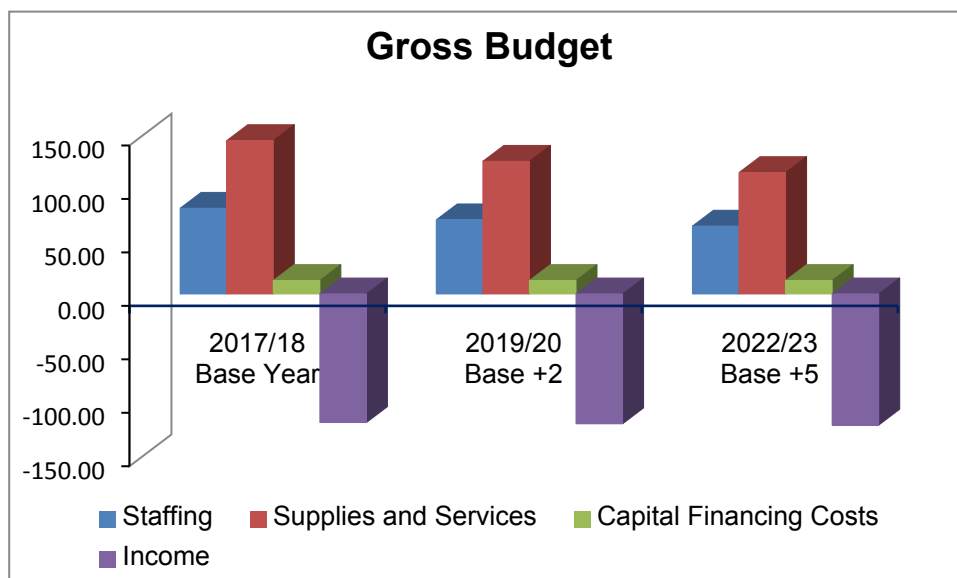
3. Executive Summary and Recommendations from the Strategy for Consideration

The Council previously identified that around £49m savings would need to be found by 2019/20 and Directorate plans were put in place to deliver them. The delivery of the majority of those savings are well underway however, reductions in funding as well as greater demand for services especially in Adult and Children's Services has meant that the Council has had to refresh its medium term plans and look further ahead. Therefore this strategy spans five years the next two years with some certainty around Government funding plus a further three year horizon to aid longer term planning. Current estimates show that the Council will need to find a further £34.19m in savings over the next five years. This is in addition to the savings already planned to be delivered of £14.8m in 2018/19 and 2019/20. In essence the Council will need to reduce net spend by approximately 43% (14% of gross spend) over the next five years.

The current plans identified, delivered, and will continue to deliver a high number of efficiency savings and therefore the scope for delivering further large savings from efficiencies is limited. The new approach will be:

- To review Council priorities to understand scope for further savings;
- To maximise income opportunities;
- To review the scope for shared services and rightsizing taking into account the planned business model for B&NES;
- To target capital spend to priority areas;
- To maximise contract savings;
- To manage demand where possible and the processes around demand in those high demand services.

Ensuring that B&NES has clear affordable priorities going forward will ensure that there will be continued capacity to deliver those priorities. The following shows an example of the scale of the reductions required over the next five years even if the strategy is successful and includes an increase in income, with equally shared % savings from supplies and services and staffing (13.5% over the first two years followed by a further 7% by 2022/23):-



If we are not successful in delivering the new approach outlined savings will still need to be found adversely impacting on capacity to deliver services across the board.

In the shorter term the profile of the savings shows a requirement of £16.16m over the next two years (£12.77m in 2018/19 followed by £3.39m in 2019/20) if the savings already identified can be delivered. To ensure that there is sufficient time to consider and implement savings as well as the future operating model for B&NES the strategy is dependent on a number of recommendations being agreed for it to be successful. These are as follows:-

- Appropriate transformation and ICT spend are capitalised or funded through capital receipts flexibility to free up revenue reserves (current estimates are that approximately £3.0m could be funded in this way);
- The reserves review in this Strategy is implemented and the transfers outlined in part 12 of this report are implemented to phase and smooth savings;
- Capital receipts already factored in to financing the capital programme and spend transferred are replaced by borrowing;
- Capital receipts are utilised through flexibility to fund costs that result in ongoing savings where appropriate (target estimated at £10m over the next two years);
- Greater targeting of capital spend is agreed to be proportionate to financial and staffing capacity with limited financing available each year for priority schemes that require borrowing.

The current budget gap does not include any increases in Council Tax – an increase of 2% per annum reduces the overall five year gap by £8m.

As part of delivering this strategy plans are being put in place to engage with all elected members, partners and the public as part of the budget process for 18/19 and the following years.

4. Introduction

The Council's Corporate Strategy was adopted by Council at their meeting on 16th February 2016. It set out the 2020 Vision and the Council's direction of travel. The Council's four strategic priorities as set out in the Corporate Strategy are outlined below:-

- A strong economy and growth;
- A focus on prevention;
- A new relationship with customers and communities;
- An efficient business

Three Directorate Plans were developed as part of that strategy and set out both the strategic and financial ambitions of each Directorate and how the Corporate Strategy commitments would be delivered. It was estimated that the scale of the financial challenge over the 4-year period covering 2016/17 to 2019/20 that the likely savings, or additional income required, would be around £49m. The Council has made good progress in identifying many of the savings required including:-

- A root and branch spending review aimed at cutting waste and increasing efficiency;
- Growing income opportunities through investment in property, housing, and the economy;
- Finding smarter ways of working, reducing office costs and overheads;
- Working closely with neighbouring authorities to share services;
- Bringing services together such as the library and customer services to save £800k per annum and securing the future of both services;
- Supporting the West of England Combined authority means the region will benefit from £1bn investment for transport, infrastructure, and job creation;
- Raising more income from tourism, property, heritage, and film services.

However, due to financial, social, and economic pressures more saving will need to be found. Inevitably, this will mean making tough choices over what services

B&NES can provide and how services can be delivered with our local community groups, parishes and the voluntary sector playing an increasingly important role.

5. The Current Financial Position

2016/17 Outturn

The 2016/17 outturn reported an overspend position of £2m to Cabinet in July 2017 as follows:-

Directorate	2016/17 Budget £m	2016/17 Actual Outturn £'m	2016/17 Variation £m
Place	24.361	24.018	-0.343
People and Communities	87.062	90.524	3.462
Resources	10.543	11.182	0.639
Corporate	1.306	-0.420	-1.726
Total	123.272	125.304	2.032

(note the figures outlined above exclude carry forwards)

Budget 2017/18

The 2017/18 net budget of £112.9m was approved by Council in February 2017. Budget monitoring to the end of August showed an expected overspend of £5.1m against the revised budget of £115.2m (including carry forwards) as shown below:-

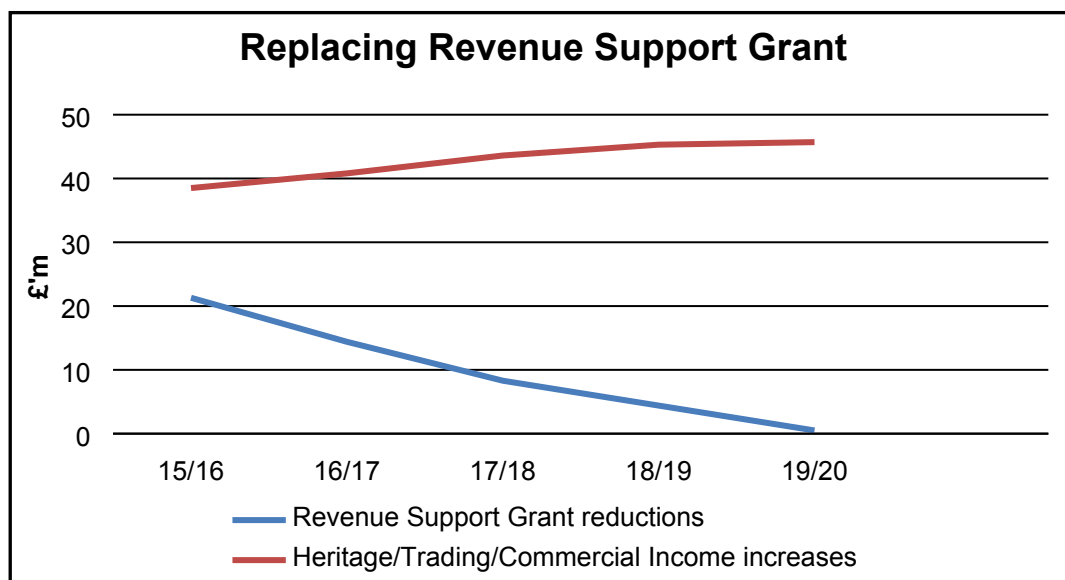
Directorate	2017/18 Budget £m	2017/18 Expected Outturn £'m	2017/18 Variation £m
Place	16.824	16.450	-0.374
People and Communities	86.545	90.565	4.020
Resources	7.790	8.970	1.180
Corporate	4.075	4.374	0.299
Total	115.234	120.359	5.125

(Note the higher budget in Corporate is due to the WECA levy)

The figures show an upturn on the demand and financial pressures especially in the Adults and Children's services. There are a number of management actions and mitigations in place to reduce this over the remainder of the year including reviewing all vacancies, holding vacancies vacant for at least three months, a buying leave option for staff, and reviewing all contract spend over £10k.

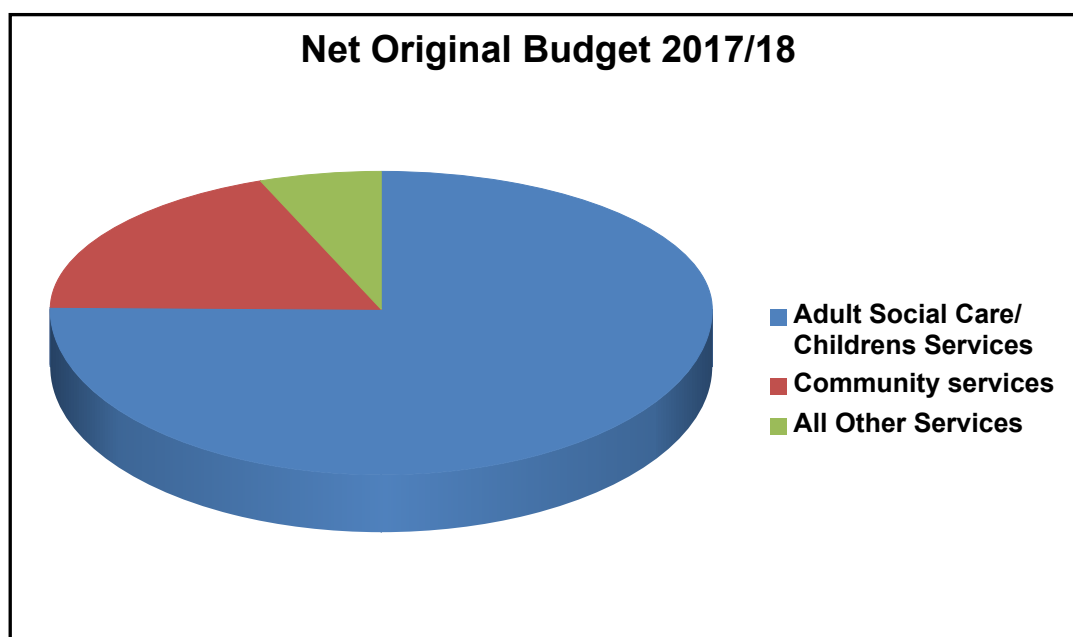
Analysis of Current Position

Local Government has suffered from continued reductions in funding – even reviewing Revenue Support Grant since 2013/14 it shows the grant declining from £21.3m to completely being removed in 2020/21. The authority has increased its commercial and trading activities to meet some of the reductions in Revenue Support Grant as follows:-



Current forecasts show that B&NES will have replaced around 35% of the reduction in grant from heritage, trading, and commercial income activities by 2019/20.

In addition to the cuts in grants demand in line with other authorities and a growing population has increased for Adult Social Care and Children's Services. Spend within the People and Communities Directorate is expected to exceed the budget provision from the £3.462m in 2016/17 to £4.020m in 2017/18. Although steps are being taken to manage the increase the MTFS does reflect some of these additional pressures going forward into 2018/19. In 2015/16 around £0.66 in each £1 was spent on Adult Social Care and Children's Services and this is expected to increase to £0.80 in every £1 if current pressures continue. The following chart shows the breakdown of the 2017/18 budget as set:-



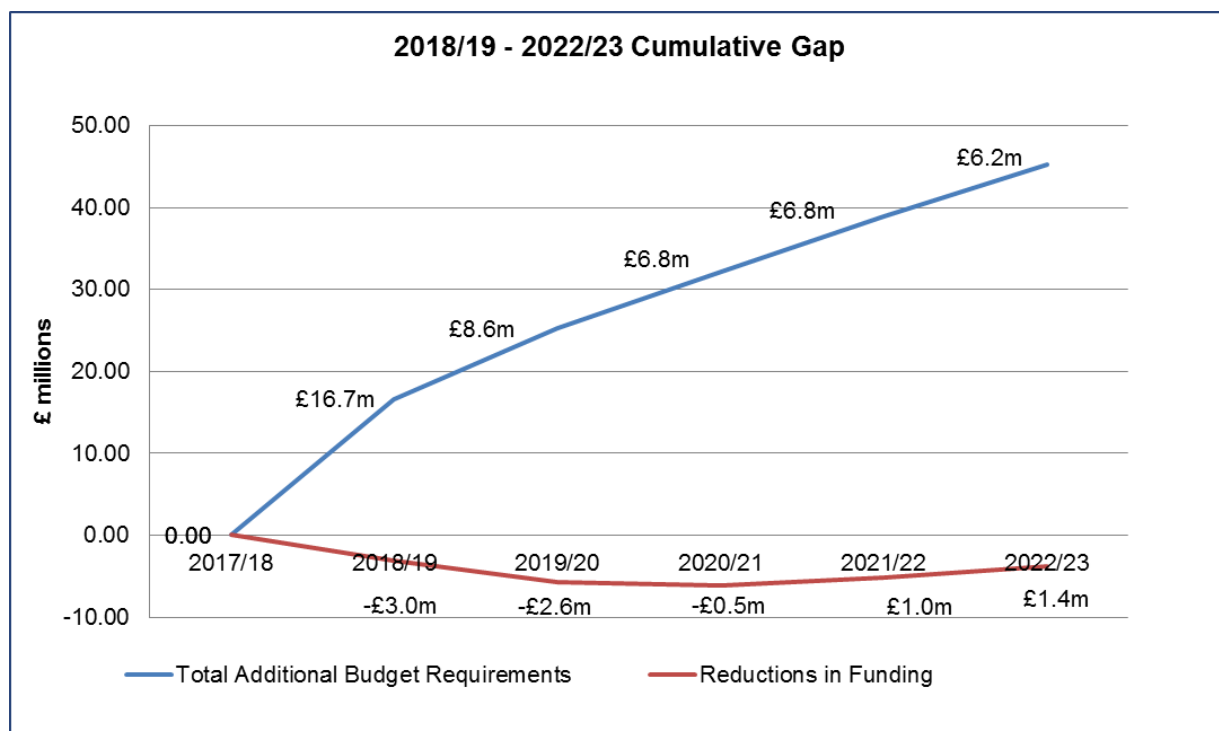
6. Financial Outlook

Currently the MTFS shows a projected budget gap for each year of the plan as follows:-

Indicative Budget Forecast	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Estimated Base Budget	112.90	129.56	138.17	145.00	151.83	158.07
Estimated Funding	-112.90	-109.86	-107.21	-106.73	-107.68	-109.08
Cumulative Funding Gap	-	19.70	30.96	38.27	44.15	48.99
Annual Funding Gap	-	19.70	11.26	7.31	5.88	4.84

Note – the figures do not include current savings plans

The funding gap over the medium term can be analysed further to identify additional pressures on expenditure and the impact of funding reductions in income as follows:-



Indicative Budget Forecast

The detail of the budget gap is shown in the table below and outlines additional cost pressures and reduced funding:-

MTFP - 5 Year Estimate of Budget Shortfall	2018/19 £m	2019/20 £m	Total 2 Year £m	2020/21 £m	2021/22 £m	2022/23 £m	Total 5 Year £m
Pay inflation	1.20	1.20	2.40	1.20	1.20	1.20	6.00
National living wage impact	0.17	0.18	0.35	0.19	0.20	0.21	0.95
Pension Contributions	0.60	0.60	1.20	0.60	0.60	0.60	3.00
Demographic and contract inflation	3.43	3.43	6.86	3.43	3.43	3.42	17.14
Budget Pressures from 17/18	7.72	0.30	8.02	0.30	0.30	0.30	8.92
Provision for amber rated planned savings	0.64	0.80	1.44	-	-	-	1.44
Provision for use of Capital Receipts flexibility	0.47	0.09	0.56	0.01	0.01	-	0.58
Provision for new capital schemes	0.50	0.50	1.00	0.50	0.50	0.50	2.50
Borrowing costs of current capital programme	-	1.20	1.20	0.60	0.60	-	2.40
Revenue costs of capital- previously	1.93	0.31	2.24	-	-	-	2.24

agreed schemes							
Total Additional Budget Requirements	16.66	8.61	25.27	6.83	6.84	6.23	45.17
Changes in External Funding							
Increase in Council Tax Base	-0.76	-0.76	-1.52	-0.76	-0.76	-0.76	-3.80
Increase in Council Tax %	-	-	-	-	-	-	-
Revenue Support Grant	3.88	3.90	7.78	0.49	0.00	0.00	8.27
Business Rate Retention (inflation)	-0.91	-0.90	-1.81	-0.62	-0.63	-0.64	-3.70
Business Rate Retention - base reset	-	-	-	0.78	-	-	0.78
Public Health Grant Reduction	0.28	0.27	0.55	-	-	-	0.55
New Homes Bonus	0.55	0.14	0.69	0.59	0.44	0.00	1.72
Reductions in Funding	3.04	2.65	5.69	0.48	-0.95	-1.40	3.82
Overall budget and funding gap	19.70	11.26	30.96	7.31	5.89	4.83	48.99
Savings already planned	6.93	7.87	14.80	-	-	-	14.80
Additional Savings to Find	12.77	3.39	16.16	7.31	5.89	4.83	34.19

The forecast includes the following cost pressures and assumptions:-

- **Pension Costs** – Estimated 1% increase per annum;
- **Service Demand Pressures** – the strategy assumes that demand especially within Adults and Children's Social Care remain at mid-year estimates in 2017/18.
- **Interest Rates** - Continued very low rates of interest of under 0.3% per annum for treasury management cash investments. The Council will maintain a minimum cash policy;
- **Inflation** – CPI projections for the coming years are expected to be 2.6% in 2018/19, 2.2% in 19/20 and 1.9% thereafter. However it is expected that services will continue to absorb all but a limited amount based on specific service circumstances and contractual commitments;
- **Capital Spending** – an allowance has been made to fund a minimal number of new schemes;
- **Borrowing** – the strategy introduces longer term borrowing costs into the MTFS to free up revenue reserves however the authority will continue to

optimise the use of cash balances subject to market conditions and the overriding need to meet cash outflows;

- **Partnerships** - That WECA and the CCG have a neutral impact on the Council's finances.

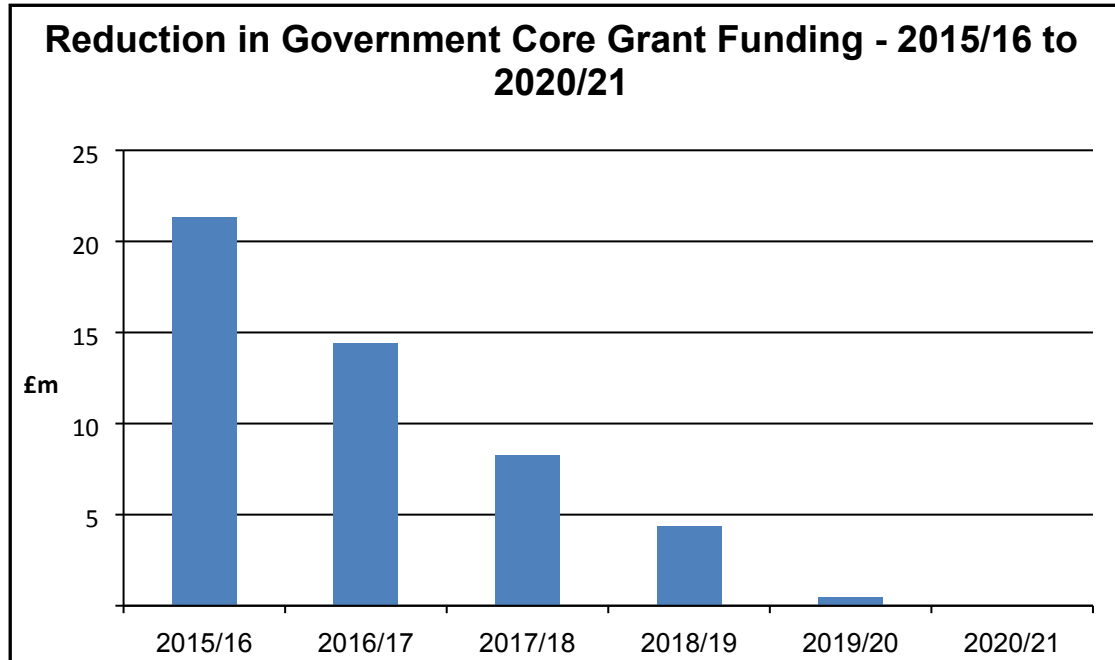
7. Outlook for Government Grant Funding

During 2016, the Council provided an Efficiency Plan submission to the Government as part of a national scheme, to secure the basis of a 4-year financial Settlement through to 2019/20. This was agreed by the Government and provides some protection to the Council against any additional funding reductions in revenue support grant over this period.

The Government released a consultation paper on the 14th September 2017 outlining its intention to continue with the methodology around the 4-year financial settlement. The possible impact on various grants are outlined under those grant headings below.

Revenue Support Grant

The strategy assumes that the 4-year settlement will continue to 2019/20 and then further reductions of £0.49m in 2020/21 will to remove any remaining RSG (note the remaining RSG has been rolled into the 100% Business Rate Pilot).



New Homes Bonus

The 2017/18 Settlement announced changes to the funding arrangement for the New Homes Bonus. The strategy assumes a reduction in the number of years for which the payments are made to 4 years in 2018/19 and for the remainder of the plan. The figures also assume that the national housing growth baseline

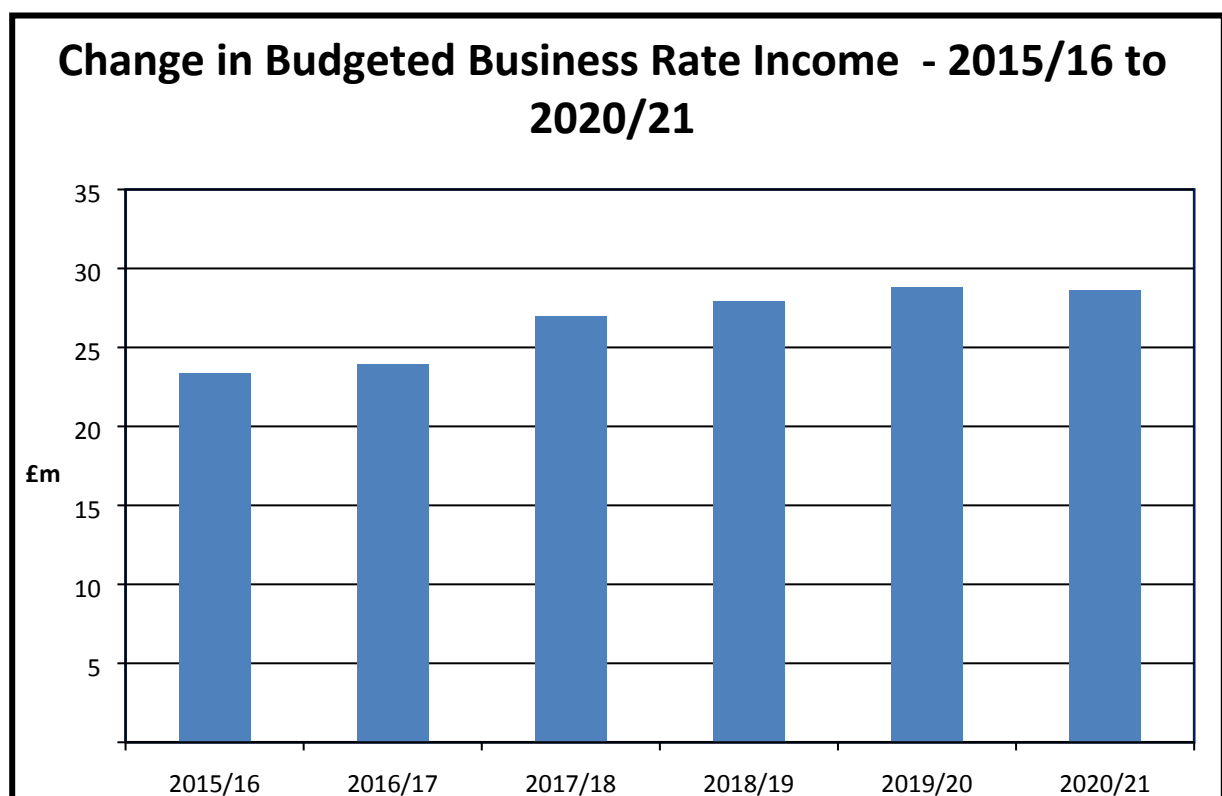
adjustment remains at 0.4%. The current consultation paper does not suggest amending these at this time unless there is significant and unexpected housing growth.

The current Consultation paper for the 2018/19 settlement outlines a number of ways to reduce the bonus for successful planning appeals. An initial assessment has shown that this will not have a material impact on B&NES based on previous appeals.

The Government intends taking this further in 2019/20 possibly linking the bonus to the housing delivery test or the standard approach to local housing need. A further consultation will be made prior to implementation.

Retained Local Business Rates – 100% Business Rate Retention Pilot

In 2016 the Government announced that it was introducing pilot schemes for 100% business rate retention from 2017/18 in advance of a national scheme later in the parliament. The Government has since sent out a prospectus asking for further pilots to come forward however, the offer is limited to one year. The consultation paper also outlines the Government's intention for the current pilots including the West of England pilot to continue into 2018/19.



(Note – the chart shows budgeted income rather than actual which is at risk from appeals etc.)

The estimated benefit of £2.5m per annum for this Council was factored into the Budget in 2017/18. The current consultation does not include an update or

proposals on the Fairer Funding Review nor for permanent proposals for 100% business rate retention (although the request for further pilots is a positive sign). The strategy assumes that this benefit will remain in place over the five year period. If the authority returns to 50% retention, it is currently estimated that a further £3.9m will be added to the gap if this was to occur in 2020/21 once forecast increases have been factored in. The strategy also assumes that a baseline reset will occur in 2020/21.

As part of the proposed Budget, reasonable assumptions have been made for likely levels of future Business Rate income, together with specific provisions for appeals and growth. Any surplus or deficit on the Business Rate Collection Fund will be transferred to an *earmarked reserve for consideration as part of the Business Rates calculations for future years*.

Schools Funding

Schools are funded by the Dedicated Schools Grant (DSG) which is initially allocated to the Council by the Department for Education (DFE). The DSG supports all expenditure in schools (who set their own budgets) and the activities that the Council carries out directly for schools. It does not cover the statutory responsibilities the Council has towards parents. These responsibilities are funded through the Councils main revenue funding and included as part of the proposed Budget.

As schools convert to academies the DFE take back the element of DSG payable to the local authority in order to make payments direct to the academies. It is estimated that 75% of schools will have converted to academies by September 2018 and that all schools will develop plans to convert in the coming years. With the introduction of the National Funding Formula for schools the DSG for schools will be ring-fenced for schools from 2018-19 making the LA responsible for the demographic pressures being observed in the SEND / High Needs element of the DSG. The pressures currently being observed amount to £2.3 m and this pressure has been incorporated in the demographic pressures in this report.

Adult Social Care Support Grant

The Government distributed £240m of savings from New Homes Bonus nationally to authorities responsible for Adult Social Care. For the Council this resulted in a one-off amount in 2017/2018 of £733k. The current consultation paper is silent on further distribution and therefore no further grant has been factored into the MTFS.

Better Care Fund

The Better Care Fund is intended to incentivise the integration of health and social care, requiring Clinical Commissioning Groups and Local Authorities to pool budgets and agree an integrated spending plan. Greater integration is seen as a potential way to use resources more efficiently, in particular by reducing avoidable hospital admissions and facilitating early discharge from hospital.

The Council and CCG's Better Care Fund has a minimum CCG funding contribution of £11.4m in 2018/19; this is a 1.9% increase from 2017/18. The Council's contribution for joint commissioned services is £8.78m.

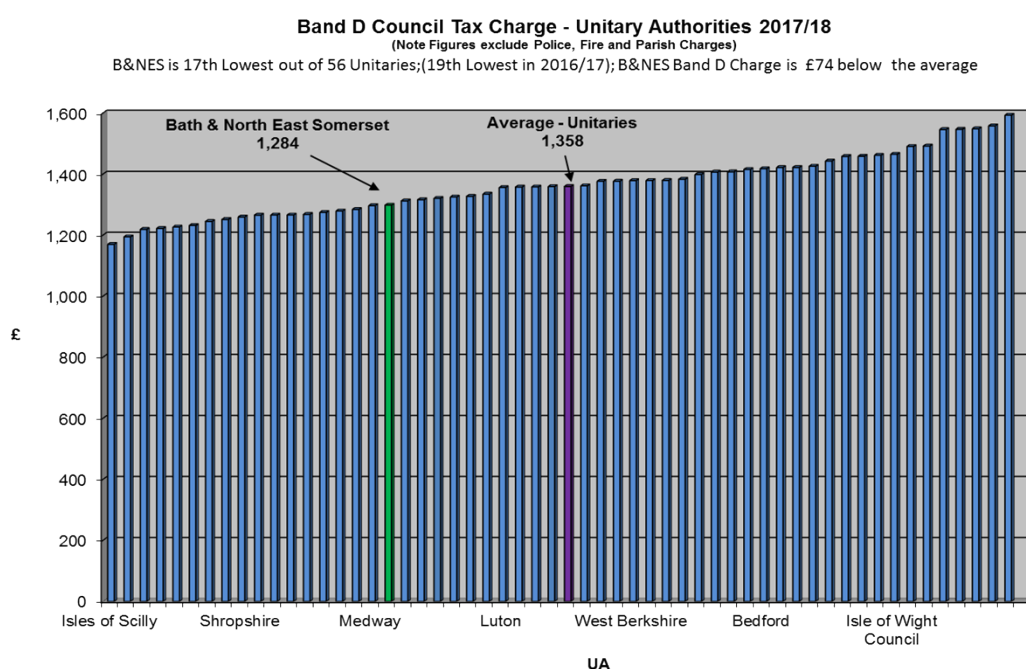
In addition funding for adult social care was announced in the 2017 budget with local allocations of one-off funding of £2.064m in 2018/19 and £1.029m in 2019/20, this funding is pre-committed through the 2017/18 Better Care Fund plan and is helping to protect current Social Care spending levels and meet the national conditions for the BCF plan including improving delayed transfers of care (DTC) performance.

From 2018/19 the government will make funding available incrementally to Local Authorities, £825m in 2018/19 and £1.5bn in 2019/20. For the Council, indicative allocations of the funding are £1.4m in 2018/19 and up to £3m in 2019/20 which is offset against demographic pressures.

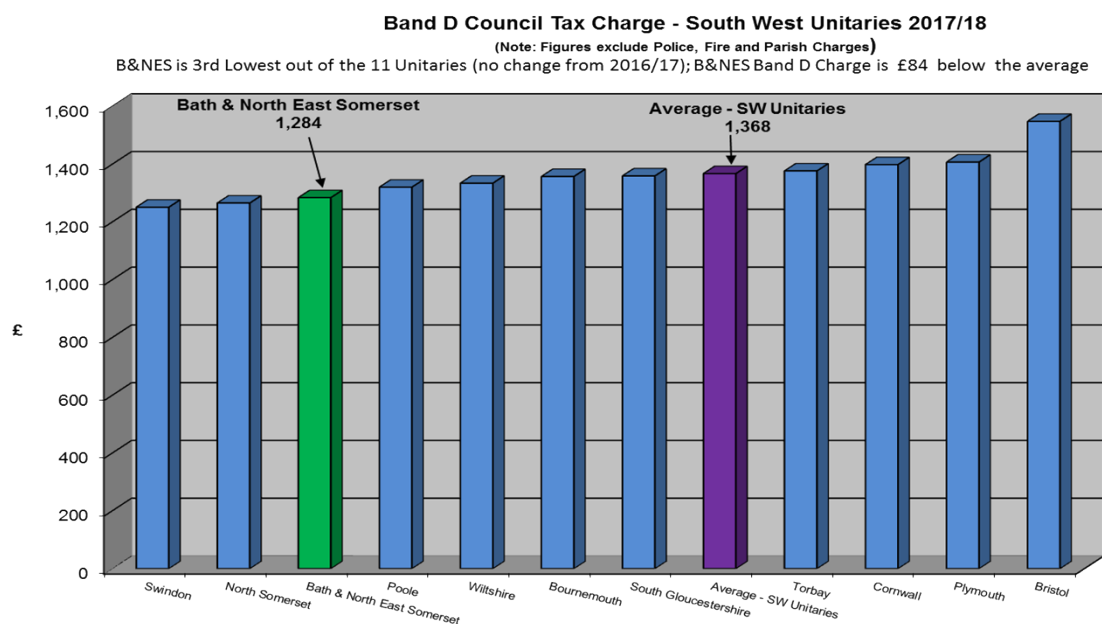
8. Council Tax

Comparison of 2017/18 Council Tax

The chart below shows how B&NES compares (17th lowest out of 56 authorities) to all other unitary authorities:-



If we then compare with unitary authorities in the South West B&NES has the third lowest Band D council tax within the group:-



Adult Social Care Precept

The Government has recognised some of the pressures facing Adult Social Care (ASC) authorities, providing for a continuation for a specific increase in the local council tax precept ringfenced to ASC. B&NES approved an increase of 2% in 2017/18 and the strategy currently estimates a further 2% increase in 2018/19 and 2019/20 to meet the increasing financial pressures on this service.

There is a further flexibility to increase 2018/19 by 3% which would bring forward an additional £0.8m (£2.4m in total) to meet the immediate financial need with a reduced increase of 1% 2019/20.

These costs pressures facing ASC have been identified by the Council as part of the financial planning process, and include:

- The ongoing impact of Government's national living wage and other wage pressures such as "sleep in" care;
- An increasingly challenged care market, struggling to recruit and retain staff, which is impacting on the quality and availability of care home placements, which, in turn is increasing the fee levels it is necessary to pay to secure placements; and
- Increasing demand and demographic pressures including Learning Disabilities care placements transitioning into working age;
- Transitional costs for the mobilisation and service transformation through the *your care, your way* contract;

Council Tax Precept

The current funding gap in the MTFS assumes **no increase** in council tax. Any increase would need to take into consideration the Government's referendum principles which are currently based on the requirement to hold a referendum for increases above 2%. An increase of 2% per annum would raise an additional £1.6m per annum and an ongoing £8m by 2022/23. The table below shows the impact on the funding gap if an additional 1% increase for Adult Social Care and the maximum 2% for Council Tax were to be implemented:-

Indicative Budget Forecast	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Annual Funding Gap	19.70	11.26	7.31	5.88	4.84	48.99
Planned Savings	-6.93	-7.87				-14.80
Further Savings to Find	12.77	3.39	7.31	5.88	4.84	34.19
Adult Social Care precept (3% then 1%)	-0.80	0.80	-			-
Income from a 2% increase in Council Tax	-1.60	-1.60	-1.60	-1.60	-1.60	-8.00
Annual Funding Gap	10.37	2.59	5.71	4.28	3.24	26.19

The Government has factored a 2% increase into each authority's "Spending Power" and funding figures.

9. Strategy for Savings

Current estimates are that £34.19m savings will be required over the next five years (if council tax is not increased other than for Adult Social Care). This is based on the assumption that the savings already approved of £14.8m can be delivered within the next two years.

The profile of savings shows that £16.16m will be required - £12.77m in 2018/19 followed by £3.39m in 2019/20. This strategy aims to smooth the savings required to increase the time needed for assessment and consultation of those savings plans.

The savings strategy can be delivered as part of the authority's assessment of its **long term delivery model**. This can be achieved through:-

- **Priority based resourcing** to develop options to reduce spend by:-
 - "Do better" – maintaining performance whilst reducing spend;
 - "Do differently" – reducing spend through a different delivery model;
 - "Do less" – reduce or stop the service.

- **Maximising commercial income;**

Review all income streams to:-

- Increase discretionary charges where appropriate;
- Ensure statutory charges are based on full cost recovery.

- **Shared services where appropriate/ right sizing:-**

- Review shared service opportunities (years 3 to 5) with the CCG, WECA, and other local authorities;
- Assess future staffing and management requirements to deliver the new delivery model.

- **Targeted capital spend:-**

- Ensure that capital spend is approved using the new approach outlined under Capital Programme below.

- **Managing Demand (and the processes surrounding demand)**

- E.g. signposting and investing in self-help and early intervention to reduce demand on specialist roles.

- **Contract Savings**

- Where efficiencies can be delivered.

In addition to this all Directorates may be asked to put forward proposals for a percentage reduction across the board to ensure that target savings can be met.

Capital Programme

A review of the capital programme is being carried out as part of preparing next year's budget with the following objectives:-

- To ease staffing capacity issues;
- Ease financial pressures;
- Review financial and delivery risks

The review outlined further recommendations for the current and future capital programme with the following principles requiring consideration:-

- All existing schemes to be reviewed and simplified, reduced, paused or stopped as necessary;

- Minimise new schemes except those that meet corporate priorities; and;
- Create additional income or savings;
- Address a statutory or health and safety imperative;
- Replace obsolete or inefficient assets/equipment;
- Part of a high priority government funded programme or WoE programme.

The Capital Programme will retain the clear separation of schemes for **Full Approval** and those which are for **Provisional Approval**.

Items gaining **Full Approval** are clear to proceed to full scheme implementation and delivery, subject to appropriate project management and governance.

Items for **Provisional Approval** will require further Officer and Member scrutiny, including a formal Executive decision for Full Approval. The budget numbers for schemes shown for Provisional Approval are therefore included on an indicative basis, and as an aid to planning.

Capital Risk Contingency

There are three levels of risk provision in relation to the capital programme.

- Individual major projects within the capital programme hold their own contingency in accordance with good project management practise to meet unavoidable and unforeseen costs;
- The capital programme includes a funded corporate risk contingency which will be maintained at £2m;
- The corporate risk assessment on which the general reserves target is based includes an element in the context of the capital programme based on the risks of the current programme.

As with all capital projects, relevant risks are being considered as part of the overall risk-assessed general reserves and the Corporate Risk Register.

Minimum Revenue Provision (MRP) Policy

The Council is required to make revenue provision to repay capital spend that is financed by borrowing (either supported or unsupported). This is called the Minimum Revenue Provision (MRP). The Department of Communities & Local Government has issued regulations that require full Council to approve a MRP Policy in advance each year, or if revisions are proposed during the year they should be put to the Council at that time. The policy was updated in February 2017 and there are currently no revisions proposed.

10. Releasing Capital Receipts to Fund Savings Projects

Central Government outlined in December 2015 that local authorities will be able under certain circumstances to utilise capital receipts for revenue expenditure for certain purposes. These include for example:-

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Sharing Chief-Executives, management teams or staffing structures;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or regional procurement hubs;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, selling services to others).
- Integrating public facing services across two or more public sector bodies to generate savings or to transform service delivery;
- Improving systems and processes to tackle fraud and corruption;

Further guidance was released in March 2016 which outlined a simpler approach to allow authorities to utilise receipts if the spend resulted in an ongoing saving. The guidance is clear however that expenditure should be once-off and the flexibility cannot be utilised for ongoing expenditure.

The Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming and subsequent years.

The strategy in future years will monitor the performance of projects approved in previous years. The Strategy as attached at Appendix A must be approved by Full Council. A revised strategy may be replaced by another during the year.

11. Funding Capital Investment

The current capital programme was approved in February 2017 and is funded as follows:-

	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Financing	£m	£m	£m	£m	£m	£m
Grant	40.742	16.269	5.357	5.906	5.758	74.032
Capital Receipts/RTB	9.993	6.590	0.590	0.635	0.605	18.413
Revenue	2.281	-	-	-	-	2.281
Borrowing (see note)	119.848	51.610	19.806	12.560	13.031	216.855
3 rd Party (inc S106/CIL)	9.803	5.375	0.519	0.188	0.180	16.065
Total	182.667	79.844	26.272	19.289	19.574	327.646
Provision for New Schemes		5.000	5.000	5.000	5.000	20.000
Revised Total	182.667	84.844	31.272	24.289	24.574	347.646

(Note that of the total borrowing £105m is linked to investments that will provide an income stream to the Council)

If the new approach to the capital programme is agreed less funding will be required.

As capital receipts will be used flexibly an adjustment has been made to the MTFS to replace some of the capital receipts funding of approximately £7m to borrowing of the £10m target. The current programme will continue to be reviewed to ease this financial impact.

The intention is to take a measured approach between borrowing in the current market climate and the utilisation of internal cash flow wherever possible. Borrowing has been factored into the strategy to ensure that the authority can meet its future borrowing obligations as well as taking advantage of current low interest rates. The decision on the timing of new borrowing will still be driven by market factors, particularly movements in interest rates to provide overall value for money to the Council

12. Earmarked and Non-Earmarked Reserves

Earmarked Reserves are set aside for specific purposes whereas Non-Earmarked Reserves are retained to meet unforeseen risks. A regular review of financial risks to assess the optimum levels of balances and reserves will be reported to members annually. This ensures that the authority has sufficient funds to meet its

key financial risks. The strategy remains that balances remain at a level that covers these key risks.

The current strategy for Non-Earmarked Reserves remains unchanged and will continue to be based on a financial risk assessment. The current target is to retain £13.5m of Non-Earmarked reserves. As this reserve is expected to reduce below this level but remain above the minimum £7.5m the reserve will be reviewed as part of the budget process to ensure it meets key financial risks.

A review has taken place of key reserves as part of the overall MTFS to assist with medium to long-term financial planning and to smooth the impact of the quantum of savings required in each year. The management of these reserves is fundamental to the delivery of this strategy. The following table shows each of those key reserves and the recommended future balance as at the beginning of the 2018/19 financial year and use:

Specific Reserve	Balance As at 31/7/17 £'m	Estimated Balance 31/3/18 £'m	Transfers Required by 31/3/18 £'m	Required Balance 1/4/18 £'m	Use of Reserve and Recommendation
Revenue Budget Contingency	2.4	0	1.5	1.5	Contingency for in-year mitigation and once-off issues – will need replenishing to meet risks in 2018/19 as the current sum may be required to meet 2017/18 overspend
Transformation Investment Reserve	4.6	2.9	-2.5	0.4	Either capitalise expenditure or fund from flexible capital receipts. Retain funds cover commitments that do not meet the criteria
Restructuring & Severance Reserve	2.5	2.5	0.5	3.0	Use capital receipts flexibility for redundancies in 2017/18 and 2018/19 but will need top up funding for 2019/20
Affordable Housing Reserve	3.0	3.0	-3.0	-	Transfer to Revenue Budget Contingency Reserve and replace with

					Capital regional funding or through increasing RTB receipts
Financial Planning Reserve	2.0	1.0	4.6	5.6	Can utilise in 2018/19 but may require further smoothing in 2019/20
Tax and Liabilities Reserve	0.6	0.6	-0.6	-	Assess as a risk for Non earmarked balances
ICT Reserve	1.7	1.7	-0.5	1.2	Fund from capital or flexible receipts

An estimate of the key reserves has then been made for future years using capital receipts flexibility mainly to fund restructuring and severance costs in 2017/18 and 2018/19.

	Estimated Balance 1/4/18 £'m	Estimated Balance 31/3/19 £'m	Estimated Balance 31/3/20 £'m	Estimated Balance 31/3/21 £'m	Estimated Balance 31/3/22 £'m
Revenue Budget Contingency	1.5	1.5	1.5	1.5	1.5
Financial Planning Reserve	5.6	1.7	1.0	0.5	-
Transformation Investment Reserve	0.4	0.1	-	-	-
Restructuring & Severance Reserve	3.0	3.0	-	-	-

Using Reserves to Smooth Savings Targets

The strategy requires flexibility around capitalising costs and the flexible use of capital receipts to fund redundancy, transformation, and ICT costs where appropriate to free up reserves.

If we take two scenarios - no increases in council tax:-

MTFP - 5 Year Estimate of Budget Shortfall	2018/19	2019/20	Total 2 Year	2020/21	2021/22	2022/23	Total 5 Year
	£m	£m	£m	£m	£m	£m	£m
Additional Savings to Find	12.77	3.39	16.16	7.31	5.89	4.83	34.19
Use of reserves	-4.69		-4.69				-4.69
Savings to be carried forward from previous year		4.69	4.69				4.69
Savings Delivered	8.08	8.08	16.16	7.31	5.89	4.83	34.19

The table shows the use of reserves to smooth the budget over the next two year period of the strategy. This would ensure that there was sufficient time to put the savings in place during 2018/19 and 2019/20.

The following illustrates the financial picture if Council Tax were to be increased to the referendum limit:-

MTFP - 5 Year Estimate of Budget Shortfall	2018/19	2019/20	Total 2 Year	2020/21	2021/22	2022/23	Total 5 Year
	£m	£m	£m	£m	£m	£m	£m
Additional Savings to Find	12.77	3.39	16.16	7.31	5.89	4.83	34.19
Council Tax Increases of 2% per annum	-1.60	-1.60	-3.20	-1.60	-1.60	-1.60	-8.00
ASC precept 3% 18/19 1% 19/20	-0.80	0.80	-				-
Savings Required	10.37	2.59	12.96	5.71	4.29	3.23	26.19
Use of reserves	-3.89		-3.89				-3.89
Savings to be carried forward from previous year		3.89	3.89				3.89
Savings Delivered	6.48	6.48	12.96	5.71	4.29	3.23	26.19

Using the same principles the target over the next two years would reduce and therefore would not require the same level of reserves.

13. Reviewing the Strategy

This strategy will naturally span the life of the Council Plan but will be reviewed annually to take into account changes within and external to the organisation. In more uncertain times the strategy will be reviewed more frequently.

14. Public/Stakeholder Consultation

Planned public consultation will take place in November 2017 and January 2018.

Planned scrutiny of the MTFS through the Policy Development and Scrutiny Panel is planned for November 2017 with savings being scrutinized in January 2018.

15. Risks to the Medium Term Financial Strategy

The Strategy and Plan make regular risk predictions. The key risks to the plan are currently seen as:

Risk	Likelihood	Impact	Risk Management
Further demands on service continue to escalate beyond current estimates	Possible	High	Ongoing monitoring of spend and controls. Ensure reserves are sufficient to manage in-year pressures
Pay awards will be higher than estimated	Possible	Medium	Ensure sufficient reserves are in place
Interest rates reduce further impacting on investment income	Unlikely	Low	A very prudent view has been taken within the MTFP and cash is being utilised for purchase of assets while rates are low
Interest rates increase	Likely	Medium	A reserve is available for borrowing to manage market risk and has also been factored into the longer-term MTFS
Volatility and uncertainty around business rates	Likely	High	Ensure business rate income and appeals are monitored and that specific reserve is sufficient to manage in-year volatility
The Business Rates 100% pilot ceases	Possible	High	Will need to monitor closely a return to 49% retention in 2020/21 adds an estimated £3.9m pressure
Anticipated savings not delivered	Possible	High	Ensure delivery plans are monitored and continue to assess on a regular basis. Ensure Budget Contingency Reserve sufficient to meet in-year issues.
Capital projects not delivered resulting in revenue reversion costs or liabilities from underwriting agreements	Likely	High	The Council has a number of projects within this category. These risks will continue to be monitored and reported. Ensure that revenue reserves are sufficient to meet these risks. The new capital programme methodology looks to de-risk projects wherever possible.
Changes to	Likely	High	Need to monitor and continue to

Government Policy that affects future funding			highlight impact
Economic downturn impacts on commercial income	Possible	High	Portfolio has been diversified to manage some of this risk
Brexit risks	Likely	Medium	Need to continue to highlight the demand pressures to central Government regarding Adult Social Care and Children's Services. Need to monitor any economic impact.
Funding pressures through WECA, CCG and other partners	Possible	Medium	Ensure good communication links with partner organisations
The additional income from Heritage may not be sustained	Possible	Medium	Continue to monitor income levels

The key risks will continue to be monitored throughout the budget setting process and subsequently outlined in each budget setting report to Council. A senior officer is identified to monitor and manage that risk and updates will be reported through regular budget monitoring to Cabinet.

16. Next Steps and Timetable for 2018/19 Budget Setting

The next steps will be to request Council to approve the Efficiency Strategy to utilize capital receipts. The outline timetable following this will be:-

- Prioritisation exercise mid-October;
- MTFS with savings themes presented to Cabinet in October;
- Scrutiny arrangements in place for November and January;
- Public engagement in November and January;
- Cabinet and Council approve budget in February.