APPENDIX 1

Ealing Council

February 2019

Medium Term Financial Strategy

2019/20 to 2022/23

CONTENTS

EALING COUNCIL
MEDIUM-TERM FINANCIAL STRATEGY (MTFS)
2019/20 to 2022/23

1. BACKGROUND

1.1 In July 2018 the council agreed the medium term financial strategy based on the objectives of the Corporate Plan, the latest resource projections and estimates of expenditure. This document refreshes and updates the strategy.

1.2 The MTFS flows from the council's Corporate Plan 2018 - 2022 and sets out how it will ensure a stable and sustainable financial position to allow the Council to achieve its strategic objectives. The MTFS also takes into account the significant on-going funding reductions confirmed in the local government financial settlement for 2019/20 published December 2018.

1.3 The strategy highlights that the council expects to continue to face ongoing reductions in funding over the medium to longer term given the current position on public finances.

1.4 In the face of one of the most challenging financial periods ever faced by local government, the council's financial standing is sound and it has responded well to the pressures it faces. The council again spent within its budget for 2017/18 with a balanced budget position at year-end and is undertaking management actions to control overspends and deliver a balanced outturn in 2018/19, providing a strong base for the council to face the challenges in 2019/20 and beyond. The most recent Statement of Accounts for 2017/18, received an unqualified external audit opinion.

1.5 Despite these achievements, the MTFS is being produced at what continues to be a challenging time for all authorities, there is little room for manoeuvre on finances and continuous delivery of savings is required to maintain financial stability.

1.6 **Council Priorities**

At a time when household budgets continue to be under pressure Ealing remains committed to keeping council tax at an affordable level. However continued social care and general inflation budget pressures mean that future increases are likely to be unavoidable.

1.7 **Delivering the Administration's Manifesto**

The budget process is designed to ensure that it is priority-led so that resources are aligned with the priorities of the Administration.

There are three key priorities for Ealing as set out in the Administration's manifesto for 2018/19 to 2021/22:

- Good, genuinely affordable homes
- Opportunities and living incomes
- A healthy and great place

These are supported by nine priority areas which have been agreed with local partners in health, education, policing, employment, housing, local businesses and voluntary and community organisations via the Future Ealing programme. The nine ways to make the borough better are:

1. A growing economy creates jobs and opportunities for Ealing residents to reduce poverty and increase incomes
2. Children and young people fulfil their potential
3. Children and young people grow up safe from harm
4. Residents are physically and mentally healthy, active and independent
5. Ealing has an increasing supply of quality and affordable housing
6. Crime is down and Ealing residents feel safe
7. The borough has the smallest environmental footprint possible
8. Ealing is a clean borough and a high-quality place where people want to live
9. Ealing is a strong community that promotes diversity with inequality and discrimination reduced

The budget for 2019/20 has been prepared in line with the Administration's principles for the budget process as follows:

- The council must set a balanced budget, we must act responsibly with local people's money. We will focus the money the council spends on delivering our principles. They are;
- We must be responsible and balance our budget and to do this we must find savings from within our budgets. Whilst doing this we promise to prioritise the following principles;
- We will make every effort to protect elderly, disabled, children and young people who are the most vulnerable residents of the borough;
- We will make every effort to protect front line services by seeking to cut out waste, we will also seek to share services and share procurement;
- We will consult on difficult decisions;
- We will seek to mitigate the impact any savings will have on employment within the council and the borough by reducing the use of agency staff and contractors and offering voluntary redundancy to our staff; and
- We will seek to distribute any cuts as equally as possible so that no one group has to unfairly bear the burden.

Whilst implementing these principles we will see to it that public money is used as efficiently as possible by cutting out waste, using new technologies to make services more efficient and seeking to work collaboratively with all our partners in the public sector and beyond.

2. OBJECTIVES OF THE FINANCIAL STRATEGY

- Prioritise resources to align spending plans with the council's vision and strategic objectives and resident priorities
- Maintain council tax as low as possible
- Maintain a balanced budget position, and to set a medium term financial plan maintaining and strengthening that position
- Provide a robust framework to assist the decision-making process
- Undertake a prudent level of capital investment to meet the council's strategic priorities and remain within prudential borrowing limits
- Manage council finances within the context of a forward looking three year rolling business planning framework
- Deliver value for money to local taxpayers
- Exercise probity, prudence and strong financial control
- Manage risk, including holding reserves as appropriate & sustainable levels of debt Continually review budgets to ensure resources are targeted on key objectives

The MTFS 2019/20 to 2022/23 contains 9 strategic objectives set by members that underpin the annual budget setting process as set out above

2.1 The financial strategy covers the period 2019/20 to 2022/23 and sets out the resource issues and principles that shape the council budget; it identifies current issues and considers potential developments / related issues that are likely to provide the basis for future revenue and capital budgets. The Housing Revenue Account (HRA) is not included, as a separate revenue budget, business plan and capital programme was approved by Cabinet on 11 December 2019.

2.2 The council remains in a strong financial position, general fund balances were at the target level of £15.473m (6.2% of net budget) in March 2018 and are forecast to remain at this level as at March 2019. This is despite the council delivering a significant savings programme over the past five years. The target level of £15.473m will remain unchanged over the MTFS due to the current economic volatility and significant uncertainty around local government funding and additional burdens.

2.3 The MTFS supports all other council strategies, such as the Corporate Plan and the Asset Management Strategy. In particular, it acts as a linchpin linking the council's more detailed service plans, asset management plans and capital plans with the longer term to show that the council's plans are financially achievable.

3. NATIONAL CONTEXT – UPDATE ON THE ECONOMY

3.1 Ealing’s financial and service planning takes place within the context of the national economic and public expenditure plans and the financial strategy has been formulated within the context of the current UK economic position.

3.2 The Chancellor of the Exchequer presented his Autumn 2018 Budget to the House of Commons on 29 October 2018.

3.3 **Fiscal Outlook**

The UK’s public finances have performed more strongly than expected in 2018, reflecting stronger than expected tax receipts and lower than expected spending on welfare and debt interest. This is despite the wider real economy performing more weakly than expected this year.

Alongside updated economic forecasts, the independent Office for Budget Responsibility (OBR) publishes an updated assessment of progress towards the government’s fiscal targets. The government remains on track to meet three out of four fiscal objectives:

1. bringing the structural deficit below 2% in 2020/21 (‘fiscal target’);
2. ensuring debt falls as a percentage of GDP by 2020/21 (‘supplementary target’); and
3. keeping welfare spending below its cash limit (‘welfare cap’).

The fourth objective of delivering a balanced budget by 2025/26 remains “challenging”

Table 1 below provides a summary of the key economic and fiscal indicators of relevance to local government, which have been published by the Office of Budget Responsibility (OBR) as part of the Budget.

Table 1: Key Economic and Fiscal Indicators

	2017	2018	2019	2020	2021	2022
Gross domestic product growth (%)	1.7	1.3	1.6	1.4	1.4	1.5
Public sector net borrowing (£bn)	39.8	25.5	31.8	26.7	23.8	20.8
Public sector net borrowing (% of GDP)	1.9	1.2	1.4	1.2	1.0	0.9
Public sector net debt (%)	85.0	83.7	82.8	79.7	75.7	75.0

LFS unemployment (% rate)	4.4	4.0	3.7	3.8	3.9	3.9
Employment (millions)	32.1	32.4	32.7	32.9	33.0	33.1
CPI Inflation (%)	2.7	2.6	2.0	2.0	2.1	2.1

Source: Office for Budget Responsibility - Economic & Fiscal Outlook, October 2018

3.4 **Government Spending**

The Chancellor announced that the Government was continuing to produce the Budget against the background of preparing for exiting the EU, and to help ensure a smooth transition, an additional £0.5 billion would be set aside for Government preparations, bringing the government's investment in EU exit preparations to over £4 billion since 2016.

The Chancellor also stated that the level of public sector net borrowing is now forecast to be £25.5bn in 2018, reduced from £45.2bn in the March 2018 Budget. Whilst there has been a short-term reduction in public sector net borrowing, additional funding for the NHS and new Budget policy announcements will offset this improvement in the medium-term. In 2022/23, forecast public sector net borrowing will be 0.9 per cent of GDP, unchanged from the OBR's March forecast.

Listed below are the key announcements of funding and measures from the 2018 Autumn Budget:

1. Social Care
   - ASC Green Paper – the budget committed to "putting social care on fairer and more sustainable footing" in the forthcoming ASC green paper – although the date for the green paper is yet to be announced.
   - Adult Social Care: a further £240m was made available for adult social care in 2019/20 in addition to the £240m for 2018/19 winter pressures.
   - Additional Funding: a further £410m was awarded to local government in 2019/20 to be spent on Adults and Children's Social Care.
   - Disabled Facilities Grant (DFG): An additional £55m of DFG funding was allocated in 2018/19, to provide home aids and adaptations for disabled children and adults on low incomes
   - Children's Social Care: An additional £84m will be awarded over 5 years for up to 20 local authorities to enable children to stay at home with their families safely.
2. Business Rates
   - Local authority compensation: in line with previous Budgets, local government will be "fully compensated" for the cost of all new business rates reliefs. The Treasury estimated that the small business rates relief measure will cost £490m in 2019/20 and £450m in 2020/21.
3. Housing and Planning
   - HRA borrowing cap: the HRA borrowing cap was confirmed as being abolished in England from 29 October 2018. The government estimated that this will enable councils to build 10,000 additional homes a year at a cost of £1.3bn a year by 2022/23.
   - Community Infrastructure Levy: the government will simplify the system of developer contributions, including removing all restrictions on section 106 pooling for single pieces of infrastructure and simplifying the process for setting a higher zonal CIL in areas of high value uplift . A new Strategic Infrastructure Tariff will also be made available to Combined Authorities.
4. Welfare
   - Implementation period for Universal Credit: Implementation of Universal Credit will take place from July 2019 to December 2023.
   - National Living Wage: to increase from £7.83 to £8.21 an hour in April 2019.
5. Infrastructure Investment
   - Local Roads – £420m was allocated in 2018/19 to local government to tackle potholes, repair damaged roads and invest in maintaining bridges. £150m of NPIF funding will

also be made available to local authorities for small improvement projects such as roundabouts.
- Crossrail 2 – The government is considering the recommendations of the Independent Affordability Review of Crossrail 2 and will consider the case for the project at the Spending Review.

6. Education and Skills
   - School equipment – £400m was made available in 2018/19 for schools in England to spend on their equipment and facilities this year.
   - Apprenticeships – Up to £450m will be made available to enable levy paying employers to pay for apprenticeship training in their supply chains and up to £240m to halve the co-investment rate for apprenticeship training to 5%.
7. Health
   - Budget increase: NHS budget will increase by £20.5bn per annum in real terms by 2023/24 at an average real growth rate of 3.4% per year.
   - Mental Health: Funding for mental health services will grow as a share of the overall NHS budget over the next 5 years with up to £250m a year invested into mental health crisis services across the country.

3.5 **Economic Forecasts**

Growth (GDP)
The table shows the GDP growth forecasts against over the period 2017 to 2022. The OBR forecasts a "relatively stable but unspectacular trajectory for economic growth" in the medium-term.

The OBR stresses that its forecasts are based on the assumption of a "relatively smooth exit from the EU next year" and that there would be "severe short-term implications" of a "disorderly" exit.

Table 2: GDP Growth Forecasts (%)

GDP Forecast	2017 (Outturn)	2018 (Forecast)	2019 (Forecast)	2020 (Forecast)	2021 (Forecast)	2022 (Forecast)
Autumn Budget 2018	1.70	1.30	1.60	1.40	1.40	1.50
Autumn Budget 2017	1.50	1.40	1.30	1.50	1.50	-

Inflation – CPI
CPI inflation forecasts have been revised slightly upwards in each year from 2018. Inflation is expected to return to the Bank of England target rate of 2% in 2019.

Table 3: CPI Inflation Forecasts (%)

CPI Forecast	2017 (Outturn)	2018 (Forecast)	2019 (Forecast)	2020 (Forecast)	2021 (Forecast)	2022 (Forecast)
Autumn Budget 2018	2.7	2.6	2.0	2.0	2.1	2.1
Autumn Budget 2017	3.0	2.2	1.8	2.0	2.0	-

Inflation – RPI
RPI inflation forecasts follow a similar trend as the CPI showing a slight increase from 2017 of between 0.4% and 0.3%. Overall the trends show RPI to come down but not at the same level as those indicated in Budget 2017.

Table 4: RPI Inflation Forecasts (%)

RPI Forecast	2017 (Outturn)	2018 (Forecast)	2019 (Forecast)	2020 (Forecast)	2021 (Forecast)	2022 (Forecast)
Autumn Budget 2018	3.6	3.5	3.1	3.1	3.2	3.1
Autumn Budget 2017	3.8	3.1	2.8	2.9	2.9	-

Projected Receipts from Council Tax Receipts for England

Table 5 below shows the forecast projected receipts from Council Tax for England, published as part of the supplementary fiscal tables, against those published in previous announcements. For the Autumn Budget 2018, the updated figures show increases of between £4.5bn and £6.1bn per annum between 2018/19 and 2022/23 compared to the Autumn 2017 budget. From 2019/20 the autumn 2018 budget shows an £1.1bn council tax receipt increase for each year up to 2022/23.

Table 5: Projected Receipts from Council Tax (England)

Council Tax Receipts Forecast	2017/18 £bn	2018/19 £bn	2019/20 £bn	2020/21 £bn	2021/22 £bn	2022/23 £bn
Autumn Budget 2018	32.1	34.2	35.9	37	38.1	39.2
Autumn Budget 2017	27.6	29.1	30.2	31.1	32.0	-

Projected Receipts from Business Rates for England

Table 6 below shows the forecast projected receipts from business rates published as part of the supplementary fiscal tables, against those published in previous announcements. For the Autumn Budget 2018, although income is shown to increase between £0.2bn to £.1.0bn higher over the period, forecast receipts in 2019/20 and 2020/21 are lower than those projected in the Autumn Budget 2017.

Table 6: Projected Receipts from Business Rates (England)

Business Rates Receipts Forecast	2017/18 £bn	2018/19 £bn	2019/20 £bn	2020/21 £bn	2021/22 £bn	2022/23 £bn
Autumn Budget 2018	30.2	30.7	30.9	31.4	33.2	33.9
Autumn Budget 2017	29.3	30.5	31.3	31.7	32.2	-

4. THE ECONOMY AND THE COUNCIL'S INVESTMENTS

4.1 One of the most significant possible on-going impacts of the wider economy for Ealing is in the area of its treasury management investments.

4.2 The interest rate forecasts provided by our treasury management advisers Link Asset Services are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

4.3 There are still significant imbalances in global financial markets and counterparty risk remains high. This therefore requires the council to continue to monitor and restrict lending to much higher quality counterparties over shorter duration. European markets are expected to remain volatile in the run up to the final Brexit negotiations and beyond.

4.4 The council continues to regard security of the principal sum it invests as the key objective of its treasury management activities on investments. The council also continues to minimise risks, with the rate of return on the investments remaining lower as a result. The separate and detailed annual Treasury Management Strategy document presented to members for approval as part of the budget setting process goes into this in greater detail.

5. OTHER IMPLICATIONS OF THE NATIONAL ECONOMIC SITUATION

5.1 The other potential implications for Ealing of the wider economic situation include:

- The council may find it harder to collect sums due to it, for example for council tax and business rates. Despite the increased pressures, to date the performance on income collection has been strong.
- The council will face increased demand for its services to assist residents falling into hardship.
- Government funding is tighter with public spending reduced even further than forecast.
- The council may find its suppliers and contractors at risk of liquidation, potentially affecting delivery of services.
- Inflation pressures may be greater than assumed.
- Impact of UK Brexit is still unknown but the financial impact of Brexit is not yet fully known but impacts driven through supply chain can have an impact on Council finances i.e. price increases, impact on operational delivery of capital schemes.

6. FUNDING FROM GOVERNMENT

6.1 Business Rates Retention

The Business Rates Retention scheme was implemented from April 2013. Under the scheme, for the year to 31 March 2018, Ealing retained 30% of business rates income with the remainder paid to GLA and to Central Government.

The 2013/14 Local Government Finance Settlement was the first under the business rates retention scheme and provided each local authority with a starting position (funding baseline). This included the following calculations, which were to be fixed until the planned reset of the system in 2020, but have since been adjusted for the London Business Rates Pool Pilot (incepted in 2018/19) and the 2017 business rates revaluation.

- Individual authority Settlement Funding Assessment;
- Baseline funding level;
- Individual authority business rates baseline;
- Tariffs and top-ups (uprated annually by RPI) and
- Safety net guaranteed funding level.

Where a council's individual business rates baseline is less than their baseline funding (like Ealing), they receive a Top-Up payment to ensure they are not unfairly penalised.

Following the decision to participate in the London Business Rates Pilot Pool from 2018/19 Ealing's Settlement Funding Allocation is comprised of retained business rates (which includes a pooled top-up grant and section 31 grant allocation) as outlined in the table below.

Table 7: Settlement Funding Allocation 2019/20

	2018/19 - Adjusted Final	2019/20 - Settlement
	£M	£M
Retained Business Rates	100.336	93.036
Funding Reduction		(7.300)
Percentage Reduction		-7.28%

6.2 **London Business Rates Pilot Pool**

On 16 January 2018 Cabinet approved recommendations to proceed with implementation of the London Business Rates Pilot Pool in 2018/19 and on 11 December 2018 Cabinet approved recommendations to continue participation in the Pilot Pool for 2019/20, noting that the Central Government (MHCLG) were expected to change the terms of the pilot scheme to be on a 75% retention basis and without a “no detriment” clause as opposed to the existing 100% pilot scheme for 2018/19. This was confirmed in the Local Government Finance Settlement in December 2018 and London has since confirmed its agreement to continue the Pilot Pool.

The changes to the pilot scheme to move to 75% retention (from 100% retention) are not expected to fundamentally change the Pool’s key principles. The key implications for 2019/20 overall are:

- London authorities will retain 75% of their non-domestic rating income;
- the aggregate tariff paid to the government and individual authorities baselines (set by the inclusion of top up and tariffs within the Pool) have been adjusted to reflect the change.
- RSG continues to not be paid to participating authorities.
- The no detriment clause removal means that government will not intervene if a fall in business rates in 2019/20 means that London as a whole will be worse off as a result of participating in the Pilot Pool. This is not anticipated to be an issue due to the continuing forecast for collected rates across London to remain above the funding baseline.

The MTFS assumes that there will be a one-off benefit to Ealing resulting from the extension to the London Business Rates Pilot Pool to 2019/20 of £3.3m. This is based on scenario modelling which has been made available to London Pool members prior to all authorities setting their business rates income forecasts for 2019/20.

7. COUNCIL TAX POLICY

7.1 Each year the Government determines the limit at which council tax increases would be excessive and therefore require a referendum. The limit for 2019/20 remain same as 2018/19

- 3.0% for core Council Tax; and
- Up to 6% for the Adult Social Care Precept (ring-fenced to social care) over the 3 years to 2019/20 (which means a 1% limit for Ealing in 2019/20).

7.2 Final decisions on the budget and council tax will be taken on 26 February 2019 by Full Council. The level of council tax is a matter of political judgment, having due regard to the professional advice of officers, and in particular to the advice of the Section 151 Officer on the robustness of the budget and on reserves and balances.

7.3 Over the last decade the council has successfully delivered low council tax levels significantly below both the national and outer London average and high quality services with 2018/19 being the first rise in Ealing’s element of Council Tax in eight years. However, for 2019/20, in order to deliver a balanced budget, the Medium Term Financial Strategy is based a recommended increase of 1.0% for the Social Care Precept and an increase of 2.99% for Council Tax. This increase is necessary to mitigate the impacts of ongoing social care pressures and inflationary increases. The council tax income that will be generated estimated to be around £4.8m is not sufficient to replace lost government funding.

8. DELIVERING THE COUNCIL'S PRIORITIES

8.1 The role of the council's financial planning process is to support the achievement of the council's strategic goals, Corporate Plan and Community Strategy.

8.2 There are three key priorities for Ealing as set out in the Corporate Plan for 2018-22:

- Good, genuinely affordable homes
- Opportunities and living incomes
- A healthy and great place

8.3 Link to Corporate Plan
https://www.ealing.gov.uk/info/201033/council_and_local_decisions/300/corporate_plan

8.4 This MTFS contains the most up to date information at the time of drafting but the council's financial position is dynamic. The council faces a number of financial uncertainties that could affect the council's financial position over the medium term, including:

- Central Government policies, including legislative change, which may require additional expenditure in areas that would not otherwise be council priorities and changes to funding baselines (which are expected in 2020 under the Fair Funding Review).
- Changes in interest rates.
- The impact of market forces on costs, particularly with regard to major contracts and the local employment market.
- The raising of community expectations, leading to additional demand for services or improved services.
- The growth in population, leading to additional demand for services.

9. BUDGET REVIEW PROCESSS

9.1 The proposals to deliver a balanced budget have been driven through the council's Future Ealing programme. This is principally a programme of service outcome reviews, developed in partnership with an external delivery partner to identify options both to deliver priority outcomes in new ways and to identify savings options to present to Cabinet as part of the 2019/20 budget process.

9.2 By using these outcomes as the framework for the budget process the Council aims to prioritise and focus delivery, improve community outcomes and inform the difficult budget choices that the council will face.

9.3 The Future Ealing Outcomes are:

1. A growing economy creates jobs and opportunities for Ealing residents to reduce poverty and increase incomes.
2. Children and young people fulfil their potential.
3. Children and young people grow up safe from harm.
4. Residents are physically and mentally healthy, active and independent.
5. Ealing has an increasing supply of quality and affordable housing.
6. Crime is down and Ealing residents feel safe.
7. The borough has the smallest environmental footprint possible.
8. Ealing is a clean borough and a high-quality place where people want to live.
9. Ealing is a strong community that promotes diversity with inequality and discrimination reduced.

9.4 These outcomes have been consolidated into a number of bundles for forming the budget proposals. These are:

- All Age Disability.
- Housing & Homelessness.
- Independent & Healthy.
- Safe and Achieving Young People.
- Skills and Employment.
- Neighbourhoods.

9.5 Service outcome reviews are not the sole method by which the Council is looking to close the forecast 2019/20 budget gap, other significant programme of activities include;

a) Modern Council programme which is focusing on areas such as Continued Improvement & Efficiency, Digital, Assets;
b) The Better Lives programme for adult social care transformation, which has multiple workstreams aimed at containing expenditure to realise spend reductions from 2018/19;
c) The Future Working programme to redevelop the Council's headquarters delivering housing and a more efficient operating environment for staff; and
d) The Brighter Futures programme which has succeeded in sustaining a reduction in the number of looked after children, delivering better outcomes for the children concerned.

10. BUSINESS AND FINANCIAL PLANNING TIMETABLE

Date	Activity
29 October 2018	• Autumn Budget by Chancellor of the Exchequer
December 2018	• Budget Strategy Update Report to Cabinet reflecting updated savings proposals and funding position, and continuing participation in the London Business Rates Pool Pilot • Cabinet approved HRA budget for 2019/20, 5 year MTFS and 30 year business plan (including capital programme) • Provisional Local Government Finance Settlement • Full council decision to approve updated Flexible Use of Capital Receipts policy
January 2019	• S151 officer agrees Tax Base and forecast Collection Fund surplus under delegated authority • Final Local Government Finance Settlement
February 2019	• Consultation with Ealing Business Partnership • Budget proposals to Cabinet and Overview & Scrutiny Committee • Cabinet considers final budget proposals and makes recommendations to Full Council • Council approves Budget & Council Tax for 2019/20.

11. FORECAST SPENDING LEVELS – THE MEDIUM TERM FINANCIAL MODEL

11.1 The financial implications of the MTFS are set out in this section, which summarises the revenue budget projections over the medium term. Ealing faces a period of funding restraint and in the MTFS model the council, like other councils, is forecasting on this basis. The model provides the latest indication of the council's financial position for 2019/20 to 2022/23.

11.2 The council reported a balanced outturn for 2017/18 and the latest forecasts for the 2018/19 revenue budget being reported to Cabinet on 26 February 2019 as at period 8 indicates that spending will again be within the agreed budget despite pressures within Education (school deficit pressures following academisation) and Adults and Children's Social Care after the approved use of corporate reserves and in-year compensating actions. Work is ongoing to seek to reduce these pressures and recovery plans are monitored bi-monthly to ensure a balance position by year end.

11.3 The MTFS is intended to set out a sustainable and affordable financial plan that addresses the council's priorities over the next four years. It should provide for realistic levels of spending, not dependent upon the use of one-off reserves. It should provide for a prudent level of reserves for contingencies.

11.4 The settlement set out the funding allocation for the council for 2019/20. It is the view within local government finance, based on Government announcements to date, that overall local government funding is likely to continue to fall over the medium term, however no medium term estimates have been provided by Government. An estimate of funding for 2019/20 to 2022/23 has been included in this MTFS.

11.5 The overall net budget proposed for 2019/20 is £247.708m which can be funded through the Retained Business Rates of £104.679m, council tax income (based on a 1% increase for the social care precept and 2.99% for council tax) of £137.619m and the collection fund surplus of £5.410m. A summary of the proposed budget is set out in Annex 1.

12. SENSITIVITY ANALYSIS

12.1 A small change in key underlying assumptions can produce a significant change in the budget. The key sensitivities are outlined below:

Sensitivity	Change	Approximate annual impact £M
Business Rates Income	1.00%	1.030
Pay Award	0.25%	0.275
Interest Rates	0.25%	0.500

12.2 For each budget adjustment of +/-£1m, the impact on council tax is +/-£8.66 per annum for Band D council tax.

12.3 For every 1% increase in the 2019/20 council tax, an additional £1.2m council tax revenue is raised and therefore for every 1% variation in the proposed council tax increase, further savings of £1.2m would be required.

12.4 **Allowances in the budget model**

Within the budget model is an annual allowance for inflation (£3.5m for 2019/20) which takes into account the following:

(i) **Pay inflation** – The inflation allowance is primarily needed to cover pay inflation. The National Employers, who negotiate with the recognised National Trade Union on pay on behalf of 350 local authorities, agreed a pay award of 2% for the period 1st April 2018 to

31st March 2019, with a further 2% taking effect from 1st April 2019 to 31st March 2020. The agreement also introduced a new national pay spine on 1st April 2019. The total increase to the national pay bill is 5.6% over the two years (covering the period 1st April 2018 to 31st March 2020). Those workers on lower salaries receive higher increases. A 1% pay award broadly equates to an increase in costs of £1.1m.

(ii) **General inflation** – The general assumption is that services should first seek to cover inflation from their existing budgets, unless the council is tied contractually to increases that require additional funding. Contractual inflation is included within specific budget proposals where necessary.

12.5 **Employer Pension Contribution**

The latest actuarial review of the pension fund was as at 31 March 2016, the outcome has been profiled into the budget for the three years to 2019/20. The next actuarial review will be at 31 March 2019.

13. CAPITAL PROGRAMME

13.1 The Capital Strategy (updated in February each year and set out in its own separate document for approval by members) sets out a clear framework for funding and investment decisions in respect of capital assets, in the context of the council's vision and priorities and its financial resources. All new projects are assessed in terms of their contribution to the Corporate Plan objectives and their priority in terms of scarce resources.

13.2 The council reviews its capital spending plans each year and sets a Capital Programme. Revenue expenditure is concerned with the day-to-day running of services and capital expenditure is a key element in the development of the council's services concerned with investment in the assets required to deliver services. Decisions on the capital programme have an impact on the revenue budget, for example, in relation to:

- The revenue costs of financing capital, including prudential borrowing;
- The ongoing running costs and upkeep of new assets such as buildings.

13.3 The council's revenue and capital budgets are integrated with the financial impact of the proposed capital programme, which is reflected in the revenue estimates.

13.4 The council will only invest as long as its capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment by the council is the scope to afford the financial implications in terms of acceptable council tax levels and, in the case of the housing revenue account, acceptable rent levels.

14. VALUE FOR MONEY

14.1 The council assesses and challenges the value for money provided by each service through the annual budget setting process. The budget setting process addresses the Council's performance in delivering national and local priorities and focuses on the needs of its communities. The budget process has required services to demonstrate this through budget proposals submissions. Where possible, savings proposals have been made that impact minimally on service delivery despite the challenges presented by the budget pressures outlined above.

15. RISK MANAGEMENT

15.1 The current funding settlement only provides certainty for 2019/20, beyond this there remains a great deal of uncertainty. The MTFS therefore includes various assumptions on future funding which is based on Government announcements made to date.

15.2 The MTFS model will continue to be updated as greater clarity is provided by the Government on their medium term funding plans.

15.3 Given the uncertainties of the economic environment and the anticipated scale of the expenditure reductions required, there are inevitably significant risks involved in delivering balanced budgets over the medium term. Key strategic risks are regularly reported to Audit Committee and the Annual Budget setting report contains a detailed review of the risks to the MTFS.

15.4 Since 2013/14, the balancing of the budget in-year depends upon the council achieving its business rates projections. Business rates income continues to be closely monitored by the Financial Strategy Group.

15.5 The area of highest risk is represented by the continuing need to deliver significant cuts and efficiencies over the next four years. Robust and detailed plans will be required at an operational level to ensure that this risk is mitigated and savings are duly delivered. The risks on delivery of savings of the magnitude required will be mitigated by robust monitoring and financial control through the budget monitoring process, with action plans being required to find compensating savings for any overspendings identified.

15.6 The council is faced with an uncertain financial climate over the medium to long term which presents a high risk to the authority and there remains potential for further, as yet unrecognised, risks. For this reason, a prudent approach to the level of reserves held by the council remains sensible and necessary. The Executive Director of Corporate Resources, as the council's Chief Finance Officer, is required to state whether the reserves are adequate as part of the annual budget setting process.

15.7 As with any plan spanning a number of years it is prudent to consider all associated risks. The council, in common with most local authorities, continues to be at risk from many financial pressures. They include:

- Deliverability of existing savings against forecast timescales
- Demographic and demand-led pressures
- Uncertainty regarding funding baselines for future years, caused by the Far Funding Review and Business Rates Retention. Central Government are fundamentally reviewing funding baselines and allocation formulae for all local authorities for implementation in April 2020.
- Business rate income forecasts and forecast of any benefit share from being in the London Business Rates Pilot Pool.
- Fluctuations in school places and the outcome of the new National Funding Formulae for Schools
- School Deficits – pressures caused by Schools who are required to move to Academy status and the resultant financial liability upon transfer being the responsibility of the Council.
- Inflation differing from assumptions – the MTFS currently forecasts pay inflation of 2%, each 1% increase in pay costs the General Fund c£1.2m.
- Pay inflation and associated oncosts – resulting in additional pressures on schools' budgets
- Social care demand pressures on budgets
- Interest Rates – variations due to economic factors
- Changes in legislation affecting the scope of services and the cost of carrying them out
- Reduction in fees & charges income
- Contract risks e.g. contractor viability, non-delivery
- Levies charged upon the Council, such the Freedom Pass levy, the cost of which is out of the Council's control.
- Legal Challenge over backdated pay relating to Sleep-ins (for Social Care residential settings).
- Brexit – the financial impact of Brexit is not yet fully known but impacts driven through supply chain can have an impact on Council finances i.e. price increases, impact on operational

delivery of capital schemes, impact on providers delivering services on Council's behalf.

16. GENERAL FUND BALANCE

16.1 As well as holding specific earmarked reserves, the council holds the general fund balance to cushion the impact of any unexpected events/emergencies. The forecast on the balance over the period of the MTFS is shown as follows:

	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M
Brought Forward	(15.473)	(15.473)	(15.473)	(15.473)
Contribution to/from General Fund	0.000	0.000	0.000	0.000
Carried Forward	(15.473)	(15.473)	(15.473)	(15.473)

16.2 The Section 151 Officer reviews the level of the balance annually in relation to the overall financial position of the council and the CIPFA guidance on Local Authority Reserves and Balances 2003 does not recommend any % level. The advice of the Section 151 Officer is that the working balance of £15.473m is considered the minimum level required as at 31 March 2019. This represents 6.2% of the net budget for 2019/20.

16.3 For 2019/20, as in 2018/19, the council does not plan to use any of the general fund balance to support the budget. Using the balance to avoid making budget reductions would have the effect of delaying the requirement to deliver sustainable savings.

16.4 There is an opportunity cost of holding a balance of £15.473m in terms of investing in services or limiting the council tax and this is offset by the flexibility that it allows the council to deal with risk and adverse expenditure variations. Each £1m drawn from reserves would reduce Band D council tax by £8.66.

17. CONTINGENCY

17.1 The council needs to hold an adequate level of central contingency in the base budget as well as appropriate levels of reserves and balances. Each year when assessing the level of contingency the following are examples of the factors that are considered:

- Budget risks (e.g. delivery of savings over the MTFS period)
- Financial risks arising from the recent welfare reform changes
- Inflationary pressures
- Demographic pressures
- In year budget pressures on volatile and demand led budgets (e.g. social services placements)
- Unexpected events
- Current economic climate
- New burdens

17.2 For 2019/20 there has been no automatic inflationary increase of budgets except where directorates have concluded that they are unable to contain specific inflationary pressures (e.g. on a number of our contracts where services are tied into specific contractual arrangements) and have submitted growth bids through the Future Ealing budget process.

18. MONITORING AND REVIEW

18.1 Cabinet receives regular budget update reports during the year on how the council is progressing against its MTFS. All processes and procedures relating to the monitoring of the budget are set out in the council's Financial Regulations.

18.2 The strategy is published on the council's website and communicated to staff and stakeholders, for example, by publishing it on the council's website.

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ANNEX 1 – Summary of the Medium Term Financial Forecast

Assuming a 1% (social care precept) increase and a 2.99% (Ealing share) council tax increase from 2019/20 and continued operation of the London Business Rates Pilot Pool.

The MTFS shows a balanced position for 2019/20.

Annex 1 - MTFS Summary Forecast 2019/20 - 2022/23

	£M	£M	£M	£M
Budget Totals	**2019/20 Draft Budget**	**2020/21 Forecast**	**2021/22 Forecast**	**2022/23 Forecast**
Departmental base budgets	201.200	187.946	183.970	179.394
Savings:				
Approved in previous years	(3.953)	(0.468)	(0.809)	0.000
Future Ealing Process - December 2018	(3.725)	(3.109)	(3.438)	(1.553)
Future Ealing Process - February 2019 (proposed)	(2.770)	0.466	(0.210)	(0.064)
Other Approved Savings	(2.626)	(0.865)	(0.119)	(0.134)
Growth:				
Approved in previous years	(0.180)	0.000	0.000	0.000
Net Services Expenditure	**187.947**	**183.970**	**179.394**	**177.643**
Levies				
Levies base budget	29.356	29.621	29.677	29.836
Savings Approved in previous years	(0.144)	(0.144)	0.000	0.000
Other Adjustments	0.409	0.200	0.159	0.000
Total Levies	**29.621**	**29.677**	**29.836**	**29.836**
Treasury Management				
Treasury Management base budget	30.144	34.507	40.380	43.760
Future Ealing Process - February 2019 (proposed)	(1.528)	0.441	0.671	0.433
Other Adjustments	5.891	5.432	2.709	1.495
Total Treasury Management Budgets	**34.507**	**40.380**	**43.760**	**45.688**
Centrally held budgets				
Centrally held budget base	3.675	14.485	22.032	35.966
Savings Approved in previous years	2.494	0.000	0.000	0.000
Inflation	3.500	3.000	5.000	4.000
Contingency	(0.500)	2.000	0.000	0.000
Pensions Contribution	0.000	1.000	0.250	0.000
Service Growth Held Centrally	5.317	1.500	8.267	7.267
Other Service budget adjustments held centrally	0.000	0.046	0.426	0.146
Total Centrally held	**14.486**	**22.032**	**35.976**	**47.389**
Grants Held Centrally				
Grants held centrally budget base	(13.511)	(18.853)	(15.289)	(15.010)
New Homes Bonus	0.463	(0.278)	0.280	0.000
Improved Better Care Fund (including Winter Pressures for 2019/20)	(3.383)	1.418	0.000	0.000
Other grants	(2.422)	2.423	0.000	0.000
Total Grants Held Centrally	**(18.853)**	**(15.289)**	**(15.010)**	**(15.010)**
Transfers to/(from) reserves	**0.000**	**0.000**	**0.000**	**0.000**
Net Budget Requirement	**247.708**	**260.770**	**273.956**	**285.546**
Retained Business Rates including Section 31 and Top-Up Grant	(104.679)	(102.500)	(102.500)	(102.500)
Council Tax Income	(137.619)	(138.995)	(140.385)	(141.789)
Collection Fund Surplus/Deficit	(5.410)	0.000	0.000	0.000
Total Funding	**(247.708)**	**(241.495)**	**(242.885)**	**(244.289)**
Budget Gap - Cumulative	**0.000**	**19.275**	**31.071**	**41.257**
Budget Gap - Incremental	**0.000**	**19.275**	**11.796**	**10.186**

GLOSSARY OF TERMS

Actuarial Valuation
An independent report of the financial position of the pension fund carried out by an actuary every three years. The actuary reviews the pension fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the council.

Baseline Funding Level
The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top- ups are calculated.

Budget Requirement
The council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. (Excluding council tax, RSG and business rates).

Capital Expenditure
Spend on assets that have a lasting value, for example, land, buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

Capital Programme
The council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts
These are proceeds from the disposal of land or other assets and can be used to finance new capital expenditure but cannot be used to finance revenue expenditure.

Capping
This is the power under which the Government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the Government to restrain increases in council tax. The council tax cap, currently at 3% excluding the social care precept, means that any local authority in England wanting to raise council tax by more than 3% on prior years must consult the public in a referendum, councils losing a referendum would have to revert to a lower increase in their bills. From 2016/17 councils have had the flexibility to raise council tax by an additional 3% (capped at 6% in total over the period) in respect of a social care precept that is ring-fenced for social care.

CIPFA
The Chartered Institute of Public Finance and Accountancy is one of the UK accountancy institutes. Uniquely, CIPFA specialises in the public sector. Consequently, CIPFA holds the responsibility for setting accounting standards for local government.

Collection Fund
A statutory account maintained by the council recording the amounts collected from council tax and business rates and from which it pays the precepts to the Greater London Authority (GLA) and the Ministry for Housing, Communities and local Government (MHCLG).

Collection Fund Surplus (or Deficit)
If the council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authority, in Ealing's case this is the GLA, in proportion to the respective council taxes. These surpluses or deficits have to be returned to the council taxpayer

in the following year through lower or higher council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the council tax base, a surplus or deficit will arise. The council generally achieves a surplus, which is shared with the GLA. From 2013/14 onwards the collection fund has included business rates income. Business rates surplus or deficit is shared with the London authorities (including GLA through the London Business Rates Pool) and CLG.

Contingency
This is money set-aside centrally in the council's base budget to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or new responsibilities.

Council Tax Base
The council tax base for a council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To calculate this, the council counts the number of properties in each band and works out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

The Council Tax Calculation
The formal calculation of Ealing's council tax as presented in the Council Tax Resolution.

CPI and RPI
The main inflation rate used in the UK is the CPI (Consumer Price Index), the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, one that removes mortgage interest payments.

Dedicated Schools Grant (DSG)
This is the ring-fenced specific grant that provides most of the Government's funding for schools. This is distributed to schools by the council using a formula agreed by the schools' forum.

Earmarked Reserves
These balances are not a general resource but earmarked for specific purposes.

Financial Regulations
These are a written code of procedures set by a local authority, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.

Financial Year
The local authority financial year commences on 1 April and finishes on the following 31 March.

General Fund
This is the main revenue fund of the local authority, day-to-day spending on services is met from the fund. Spending on the provision of housing however, must be charged to the separate housing revenue account (HRA).

General Fund Balance
This is the main unallocated reserve of the council that is set aside to meet any unforeseen pressures.

Gross Domestic Product (GDP)
GDP is defined as the value of all goods and services produced within the overall economy.

Gross Expenditure
The total cost of providing the council's services, before deducting income from Government grants, or fees and charges for services.

Housing Revenue Account (HRA)
A separate account of expenditure and income on housing that Ealing must keep. The account is kept ring-fenced from other council activities. The Government introduced a new funding regime for social housing within the HRA from April 2012.

Individual Authority Business Rates Baseline
This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Levies
A levy is an amount of money a local authority is compelled to collect (and include in its budget) on behalf of another organisation. Ealing is required to pay levies to a number of bodies such as the West London Waste Authority and the London Pensions Fund Authority.

Local share
This is the percentage share of locally collected business rates that will be retained by local government. Until 2017 this was 50% (of which Ealing’s share was 30%). Since 2017 the share has been adjusted for increased business rates retention with 100% retention in London in 2018/19 and 75% retention in London in 2019/20, of which Eailng’s share is determined through the London Business Rates Retention Pilot Pool.

Net Expenditure
This is gross expenditure less income, but before deduction of government grant.

National Non-Domestic Rates (NNDR)
Also known as ‘business rates’, National Non-Domestic Rates are collected by billing authorities such as Ealing and, up until 31 March 2013 were all paid into a central national pool, then redistributed to authorities according to resident population. From 2013/14 local authorities have retained a “Local Share”, see above, the aim of which is to provide an incentive to help businesses set up and grow.

New Homes Bonus
Under this scheme councils receive a New Homes Bonus (NHB) per each new property built in the borough for the first four years following completion. Payments are based on match funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ring-fenced grant. From 2017/18 the scheme was amended to no longer provide for the first 0.4% of growth to “sharpen the incentive”.

Better Care Fund
Together with the additional council tax flexibility for social care, the Government is providing £1.5bn for authorities to spend on social care by 2019/20 to be included in an improved Better Care Fund. Allocations commenced in 2017/18, with the £1.5bn only fully allocated in 2019/20.

Precept
The precepting authority’s council tax, which Ealing collects on behalf of the preceptor, the Greater London Authority (GLA).

Prudential Borrowing
Set of rules governing local authority borrowing for funding capital projects under a professional code

of practice developed by CIPFA to ensure the council's capital investment plans are affordable, prudent and sustainable.

Revenue Expenditure
The day-to-day running expenses on services provided by council.

Revenue Support Grant (RSG)
All authorities receive Revenue Support Grant from Central Government in addition to its baseline funding level under the local government finance system. An authority's Revenue Support Grant amount plus its baseline funding level together comprises its Settlement Funding Assessment.

Section 151 Officer
Legally councils must appoint under section 151 of the Local Government Act 1972 a named chief finance officer to give them financial advice, in Ealing's case this is currently the post of Executive Director of Corporate Resources.

Settlement Funding Assessment (SFA)
A local authority's share of the local government spending control total which comprises its baseline funding level (in 2013/14 this was called the start-up funding allocation).

Specific Grants
As the name suggests funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. Education.

Spending Review
The Spending Review is an internal Government process in which the Treasury negotiates budgets for each Government department. The 2015 Spending Review set Government spending for the four financial years up to 2019/20. The next Spending Review is expected in 2020.

Tariffs and Top-Ups
These are calculated by comparing an individual authority business rates baseline against its baseline funding level. Tariffs and top-ups were fixed at the start of the scheme in 2013/14 then adjusted in 2017/18 for the 2017 business rates revaluation and will continue to be index linked to inflation in future years. Ealing is a 'top-up' authority.

Treasury Management
The process of managing the council's cash flows, borrowing and cash investments to support Ealing's finances. Details are set out in the Treasury Management Strategy which is approved by Cabinet and Full Council in February each year.

Virement
This is the transfer of budget provision from one budget head to another. A virement must be properly authorised by the appropriate committee (Cabinet) or by officers under delegated powers.