TO: THE EXECUTIVE
DATE: 14 FEBRUARY 2017

GENERAL FUND REVENUE BUDGET 2017/18
(Chief Executive/Borough Treasurer)

1 PURPOSE OF REPORT

1.1 As part of the Council's financial and policy planning process, the Executive agreed draft revenue budget proposals for 2016/17 as the basis for consultation on 13 December 2016.

1.2 Over the course of the last two months a number of issues have also become clearer, in particular the details of the Provisional Local Government Financial Settlement. This report therefore builds on the draft budget proposals agreed by the Executive in December, in the light of the consultations and the details of the Settlement itself, to set out the basis of the Executive's final budget proposals for 2017/18. These will be submitted to the Council for consideration on 1 March 2017.

1.3 The recommendations of this report are, in part, dependent upon proposals to be considered elsewhere on this agenda in respect of the Capital Programme 2017/18 – 2019/20. Changes to the proposals included within that report may therefore necessitate revisions to the 2017/18 General Fund revenue budget proposals set out below. Should this happen a short adjournment of the meeting might be required.

2 RECOMMENDATIONS

That the Executive, in recommending to Council a budget and Council Tax level for 2017/18:

2.1 Confirms the original budget proposals, subject to the revisions in section 8.3 and those decisions to be taken elsewhere on this agenda on the capital programme;

2.2 Agrees the provision for inflation of £1.553m (section 8.2);

2.3 Agrees the additional budget proposals as set out in Annexe A and Annexe D and in sections 6.2, 6.3, 7.3 and 7.4;

2.4 Agrees that the Council should fund the Schools budgets at the level set out in section 9.1 subject to any amendments made by the Executive Member for Children, Young People and Learning following the receipt of definitive funding allocations for Early Years and High Needs pupils;

2.5 Includes a contingency of £2.000m (section 10.6), use of which is to be authorised by the Chief Executive in consultation with the Borough Treasurer in accordance with the delegations included in the Council's constitution;

2.6 Subject to the above recommendations, confirms the draft budget proposals;

2.7 Approves the Net Revenue Budget before allowance for additional interest from any use of balances as set out in Annexe G;

2.8 Agrees a £2.542m contribution from revenue balances (before additional interest from the use of balances) to support revenue expenditure;

2.9 Recommends that the Council Tax requirement, excluding Parish and Town Council precepts, be set as £53.247m;

2.10 Recommends a 4.99% increase in the Council Tax for the Council's services and that each Valuation Band is set as follows:

Band	Tax Level Relative to Band D	£
A	6/9	796.26
B	7/9	928.97
C	8/9	1,061.68
D	9/9	1,194.39
E	11/9	1,459.81
F	13/9	1,725.23
G	15/9	1,990.65
H	18/9	2,388.78

2.11 Recommends that the Council approves the following indicators, limits, strategies and policies included in Annexe E:

- **The Prudential Indicators and Limits for 2017/18 to 2019/20 contained within Annexe E(i);**
- **The Minimum Revenue Provision (MRP) Policy contained within Annexe E(ii);**
- **The Treasury Management Strategy Statement, and the Treasury Prudential Indicators contained in Annexe E(iii);**
- **The Authorised Limit Prudential Indicator in Annexe E(iii);**
- **The Investment Strategy 2017/18 to 2019/20 and Treasury Management Limits on Activity contained in Annexe E(iv);**

2.12 Approves the virements relating to the 2016/17 budget as set out in Annexe H.

2.13 Approves the write-off of the Business Rates debt referred to in paragraph 16.1.

3 REASONS FOR RECOMMENDATIONS

3.1 The recommendations are designed to enable the Executive to propose a revenue budget and Council Tax level for approval by Council on 1 March.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 Background information relating to the options considered is included in the report.

SUPPORTING INFORMATION

5 Basis of Draft Budget Proposals

5.1 At its meeting on 13 December 2016, the Executive considered the overall position facing the Council in setting a budget for 2017/18. At the time the Executive agenda was published, the Provisional Local Government Financial Settlement had not been announced. Because the Council had signed up to the Government's offer of a Four Year Settlement last autumn, the report was based on a number of assumptions regarding no significant changes to government funding.

5.2 In this broad context, the Executive published its draft budget proposals and these have been consulted on with the public, the Council's Overview & Scrutiny Commission and Scrutiny Panels, with town and parish councils, business ratepayers, the Schools Forum and voluntary organisations.

5.3 In the face of significant reductions in public expenditure in general and in grants to Local Government in particular, the scope to invest in new service provision was severely restricted. Many of the pressures accommodated in the budget package are simply unavoidable and respond only to changing demographic trends.

5.4 As in previous years, economies have focused as far as possible on increasing efficiency, income generation and reducing central and departmental support rather than on front line services. However, since it became a Unitary Authority in 1998 the Council has successfully delivered savings of around £70m in total. As a result it is inevitable that there will be some impact on services, although the transformation programme being put in place by the Council is seeking to minimise this.

5.5 The draft budget proposals, which reflect the new Council Plan and included a suggested approach for inflation, are summarised in Table 1.

Table 1: Draft Budget Proposals

Department	Commitment Budget 2017/18	Capital programme & Changes in investment income	Inflation	Service Pressures / Economies	Change in Contingency	New Homes Bonus	Business Rates transfer from Reserve	Draft Budget 2017/18
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care, Health and Housing	35,834	0	0	41	0	0	0	35,875
Children, Young People and Learning	28,371	0	0	1	0	0	0	28,372
Corporate Services / Chief Executive's	7,405	0	0	-357	0	0	0	7,048
Environment, Culture & Communities	32,243	0	0	-1,137	0	0	0	31,106
Non Departmental / Council Wide	-36,865	486	1,200	-2,300	1,000	255	11,803	-24,421
Total	**66,988**	**486**	**1,200**	**-3,752**	**1,000**	**255**	**11,803**	**77,980**

6 Local Government Finance Settlement

6.1 Overview

6.1.1 Last year the Government announced an indicative Four Year Settlement for Local Government, with promises made to councils to deliver the four year funding plans if they published an Efficiency Plan that the Government deemed acceptable. Bracknell Forest published such a plan and was deemed to have accepted the Four Year Settlement.

6.1.2 However as part of the overall 2016/17 Settlement, the Government announced plans to consult on a range of changes to the New Homes Bonus (NHB), a specific grant that recognises the additional service delivery costs associated with housing growth throughout the country. As one of the more rapidly growing councils in the country, Bracknell Forest had received a significant income stream through this funding mechanism. Consultation took place through the Summer and it became apparent that there was potential for some longer-term reductions in the funding available to the Council through the NHB, and this was reflected in the budget proposals submitted in December.

6.1.3 The Provisional Settlement was published on 15 December 2016 and included a number of significant changes from the Four Year Settlement that the Council had signed up to. The most significant change was the proposals for the NHB. In addition to moving the grant funding from six cumulative years to four (i.e. each year's grant used to be payable for six years, the proposals are for it to be tapered to five in 2017/18 and then finally four in 2018/19), the Government also announced that a national baseline for growth would be established. Any growth in properties below this national target (0.4%) would not benefit from any grant. Furthermore these changes and the resulting cut in funding would be removed from the total pot available to fund the NHB and redistributed to councils via a new specific grant, as a one-off grant for 2017/18, aimed at alleviating some of the financial pressures in Adult Social Care.

6.1.4 These changes went significantly further than the Government had consulted on and will leave a large swathe of Councils worse off, including Bracknell Forest. Based on the figures available to the Council the loss of NHB in 2017/18 compared with what had been expected will be £0.875m, with a further loss of approximately £0.4m in 2018/19 and £0.6m in 2019/20.

6.1.5 The redistribution via the one-off Adult Social Care grant of the reduction to NHB will be based on a relative needs formula, with the result that Bracknell Forest will receive a one-off specific grant of £0.363m in 2017/18. As such Bracknell Forest Council, along with 56 other councils, will see an overall reduction in funding as a result of this policy change.

6.1.6 We do not yet know when the final settlement will be published by the Department for Communities and Local Government although the LGA has confirmed that it will not be debated until some time after Parliament returns from recess on Monday 20 February. As such the budget has been constructed on the assumption that there will no material changes from the Provisional Settlement published in December.

6.2 Specific Grants

6.2.1 From 2013/14 almost all Specific Grants have been rolled into the Baseline Funding that councils receive with only a minority administered outside of the formula mechanism.

6.2.2 As noted above the Government have introduced changes to the NHB from 2017/18 onwards, with £2.796m of funding expected (compared to £3.934m in 2016/17 and an estimated £3.671m in the December budget consultation). A new one-off grant for Adult Social Care of £0.363m was announced alongside these changes to the NHB.

6.2.2 Two of the largest Specific Grants received by the Council are the ring-fenced Public Health Grant and the NHS funding to support social care and benefit health. The Public Health Grant for 2017/18 has been confirmed at £4.157m, a reduction of 2.5% compared to 2016/17. With regards to NHS funding, it has been assumed that the pooling of health and social care services budgets under the Better Care Fund will have a neutral impact on the Council's revenue budget.

6.2.3 The Department for Education has confirmed that Education Services Grant, which is paid to fund education support services which local authorities provide centrally to maintained schools but for the most part academies must secure independently, is being withdrawn. However, one-off transitional grant of -£0.401m will be received in 2017/18 which is -£0.146m more than the figure included in the draft budget proposals. Local authorities will also be able to retain some of their schools block funding to cover the statutory duties that they carry out for maintained schools which were previously funded through ESG (-£0.252m). In addition "retained' duties, which local authorities must deliver for both maintained and academy schools, will continue to be funded but via the Schools Block element of the DSG (-£0.260m). A new School Improvement Grant will also be payable from 2017/18 onwards (-£0.038m). Further details can be found in section 9 of this report.

6.2.4 Information on a number of smaller Specific Grants is still awaited. The only significant allocation that has been confirmed relates to Housing Benefit Administration Subsidy grant which has been reduced by £0.027m to -£0.319m in 2017/18.

6.3 Business Rates

6.3.1 A third important stream of income for the Council is Business Rates, a proportion of which is retained locally following the introduction of the Business Rates Retention reforms in April 2013. The level of Business Rates changes each year due to inflationary increases (set by central government), the impact of appeals and local growth or decline as local businesses and economic conditions expand or contract. The Government sets a baseline level of funding against which any growth or reduction is shared between local and central government.

6.3.2 The Government has announced that by 2020, local government will be able to retain 100% of Business Rates and RSG will be phased out. In order to achieve overall fiscal neutrality, local government will be expected to take on new responsibilities. The Government will give councils the power to cut Business Rates to boost economic activity in their areas and to increase them to fund specific infrastructure improvements. The latter power at this stage will only apply to Combined Mayoral Authority areas.

6.3.3 The DCLG has embarked on consultation regarding changes to the local government finance system to facilitate the implementation of 100% Business Rates retention and has published a draft Bill paving the way for future changes. Currently the Council collects significantly more Business Rates than it is allowed to keep and only receives approximately a quarter of any Business Rates growth.

6.3.4 It is known that any new system will include an assessment of need and that there will be a re-distribution of resources between authorities to reflect this. The Government has also stated that it will transfer more responsibilities to local authorities, to ensure that the new system is fiscally neutral across the public sector. All of these issues suggest that, until the finer details of the scheme are announced, any potential benefits need to be viewed with caution. A re-set when the new system is introduced will also most likely mean that all or a large part of the additional business rates that the Council has secured through growth in recent years and from the town centre opening in 2017 will no longer directly benefit Bracknell Forest.

6.3.5 Taking into account the baseline funding level published in December and factoring in the impact of the 2017 revaluation and local circumstances, the budget projections assume income of -£29.845m (-£18.938m after tariff and levy payments). There is a risk associated with these projections due to the impact of appeals, a request by a multi-national company to re-join the Central Rating List, the Town Centre regeneration and changes in the local economic conditions; however officers monitor total yield, revaluations, changes-in-circumstances, appeals and refunds on a monthly basis. The main uncertainty around the Town Centre regeneration will be the timing with which additional Business Rates income is received as it is dependant on the Valuation Office agreeing rateable values over the coming months and the speed with which the remaining Town Centre units are let. The Council will also receive Section 31 grant to cover the loss of income resulting from capping the Business Rates increase to 2% in 2014/15 and 2015/16 and a number of Business Rate Reliefs (-£0.925m after tariff adjustments).

6.3.6 The Government published a bill in January that is seen as the start of the enabling process for introducing the changes required to move to 100% Business Rates retention. The Government maintains its timetable of introducing the changes by the end of the current Parliament in 2020/21. This will result in fundamental changes to the mechanism by which local government is funded. Such complex and involved changes have the potential for unforeseen impacts. The Council will engage with the consultation process working alongside the LGA and other councils to ensure the best possible outcome for Bracknell Forest.

6.3.7 As a consequence of the different factors set out above, Bracknell Forest faces a level of potential volatility in the level of business rates it can expect to collect and benefit from over the coming years that is almost unique in local authorities. It is therefore important to take a prudent approach to the projection of likely income, which has been done. An unavoidable consequence is that there may be significant surpluses or deficits in the collection fund each year, depending on the timing of key events and the scale of changes experienced.

6.4 Future Funding

6.4.1 The 2017/18 Settlement represents the 2nd year of a four year Settlement announced in 2016/17. However as noted above, the Settlement has been significantly impacted by the change in the NHB regime and underlines the underlying risk of assuming that future figures will not change. The Council's Medium Term Financial Strategy has been updated to reflect the changes proposed for the NHB.

7 Council Tax and Collection Fund

7.1 The Council Tax Base for 2017/18 has been calculated as 44,581 (Band D equivalents) which at current levels would generate total income of -£50.715m in 2017/18.

7.2 The Government limits Council Tax increases by requiring councils to hold a local referendum for any increases equal to or in excess of a threshold percentage which is normally included in the Local Government Financial Settlement. The threshold percentage has been set at 2% for 2017/18. As a council with social care responsibilities, it will now also be possible for Council Tax to be raised by a further 3% to support social care pressures providing certain criteria are met. The Government's financial modelling assumes that all Councils with adult social care responsibilities will raise a 6% precept over the next three years. Every 1% increase in Council Tax in Bracknell Forest would generate approximately -£0.507m of additional income.

7.3 A surplus will be generated on the Council Tax element of the Collection Fund in the current year, primarily due to a lower than expected take up of the Local Council Tax Benefit Support Scheme. The Council's share of this surplus which can be used to support the 2017/18 budget is -£0.613m. This figure is -£0.363m higher than in the draft budget proposals.

7.4 During 2013/14 a large multi-national company transferred on to the Council's valuation list which materially increased the level of Business Rates collected locally. However, this company successfully appealed against the rateable value of its business and an allowance was made for the outcome of the appeal when the 2016/17 budget was set. The outcome of the appeal has now been confirmed by the Valuation Office. The refund required and the ongoing reduction in Business Rates income are significant, but lower than budgeted. This is the primary reason that a large surplus has been generated on the Business Rates element of the Collection Fund for 2016/17, the Council's share of which has been declared as £9.113m. While this surplus could potentially be used to support the 2017/18 budget, it would be inadvisable to do so due to the uncertainty surrounding the impact of the 2017 valuation exercise on appeals, a request by the same multi-national company to re-join the Central Rating List and the general uncertainty regarding the introduction of 100% Business Rates retention. This income will therefore be transferred into the Business Rates Equalisation Reserve to mitigate against future funding risks.

8 Developments since the Executive Meeting on 13 December 2016

8.1 Consultation

8.1.1 The Executive's draft budget proposals have been subject to a process of public consultation since their publication in December. During the consultation period, the draft proposals have also been scrutinised by the Council's Overview & Scrutiny Commission and Scrutiny Panels. Extracts from the minutes of these meetings are attached as Annexe B and show the Commission broadly supported the draft proposals presented.

8.1.2 The draft fees and charges for 2017/18 have also been considered by the Overview and Scrutiny Commission and Scrutiny Panels and no significant issues were raised.

8.1.3 The Schools' Forum considered the Executive's proposals relating to the Children, Young People and Learning department at its meeting on 12 January and, again, no significant issues were raised.

8.1.4 The draft budget proposals were published on the Council's web site and letters were sent to business ratepayers drawing their attention to the consultation. Only 2 responses were received including a detailed response from the Labour Group. The responses are included at Annexe C.

8.2 Inflation

8.2.1 The Executive established a framework for calculating an appropriate inflation provision at its December meeting. Inflation allowances have been reviewed further by the Borough Treasurer and the Corporate Management Team within this framework. As a consequence, the inflation provision has been increased to £1.553m.The Departmental analysis is shown in Table 2.

Table 2: Inflation Allocations

Department	**2016/17 £'000**
Adult Social Care, Health and Housing	558
Children, Young People and Learning (excluding schools)	233
Corporate Services / Chief Executive's Office	194
Environment, Culture and Communities	568
Non Departmental / Council Wide	0
Total	**1,553**

8.2.2 This is an additional cost of £0.353m compared to the draft budget proposals. Higher contract inflation and significant increases in gas and electricity prices compared to last year are the main reasons for the increase. Inflation on schools' expenditure is provided for within the Dedicated Schools Budget expenditure, which is funded by the Dedicated Schools Grant.

8.3 Other Revisions to the Draft Budget Proposals

8.3.1 As outlined above, in the two months since the Executive published the draft budget proposals more information has inevitably become available. Details of the suggested amendments to the draft budget proposals are set out in paragraphs a) to h) below with the net impact being an increase in the net revenue budget for 2017/18 of £0.368m. These changes have been reflected in the full budget proposals set out in Annexe D and the Commitment Budget (Annexe A).

a) Children, Young People and Learning – Looked After Children
Due to an increase in the number and cost of placements since the December report, this pressure has increased by £0.410m to £0.650m. Should any additional placement costs be incurred during 2017/18 that cannot be accommodated within the approved budget, a request will be made for support from the contingency.

b) Children, Young People and Learning – Childcare Solicitor Service
Significant cost increases have arisen in 2016/17 through greater use of the Childcare Solicitor service (operated by Reading Borough Council as a Berkshire Joint Arrangement Shared Service). The increase in cases is a national phenomenon driven by increases in the number of looked after children and, at this time, is expected to continue in future years (£0.220m).

c) Children, Young People and Learning – School Improvement Service
Changes to the School Improvement Service form part of the School Support Services Transformation Project. Restructuring of the service will deliver savings of -£0.140m in 2017/18.

d) Children, Young People and Learning/Council Wide – changes to Education Services Grant and the funding of associated duties.
One off transitional ESG will be higher than originally forecast (-£0.146m) and per pupil contributions will now be received towards general and retained statutory and regulatory duties previously funded from ESG (-£0.252m and -£0.260m). The latter contributions have been included in Council Wide services as the split between Children, Young People and Learning and Corporate Services will need to be established during the year. These are estimated figures as the actual number of pupils taken into account will be subject to in-year recalculation. Further details are included in section 9.

e) Non Departmental / Council Wide – Bracknell Forest Supplement and National Living Wage
On the 14 December 2016 the Employment Committee agreed to increase the Bracknell Forest Supplement by 20p to £8.45 per hour from 1 April 2017. The additional cost of this and the increase in the National Living Wage (from £7.20 to £7.50 per hour for casual workers) have been built into the Commitment Budget (£0.025m).

f) Non Departmental / Council Wide - 2017/18 Capital Programme
For consistency, the impact of the 2017/18 Capital Programme on interest has now been reflected in the Commitment Budget. As outlined in section 9.3, interest on borrowing has increased by £0.011m to £0.497m since the draft proposals.

g) Non Departmental / Council Wide – pension fund contributions
The Commitment Budget assumed that there would be a £0.300m increase in the employers Pension Fund contributions following the triennial valuation. The draft actuarial valuation of the Pension Fund indicates that that the Council can expect as a minimum a 0.7% increase in 2017/18 and similar increases thereafter (£0.100m). There is a risk when the result of the revaluation is finalised that the scale of increases may need to be higher in order to more quickly address the scheme's underlying funding position, which will need to be closely monitored.

h) Non Departmental / Council Wide – Citizen and Customer Contact Transformation Project
Savings are no longer anticipated to be delivered in 2017/18 following changes to the service redesign pilots required for the Business Case and the rescheduling of the corresponding gateway review to March 2017 (£0.400m).

8.3.2 The Executive are asked to confirm that there are no further budget proposals that they wish to change following the consultation period.

9 Other Budget Issues

9.1 Schools Budget

9.1.1 Whilst spending on the Schools Budget is generally funded by the ring fenced Dedicated Schools Grant (DSG), and therefore outside of the Council's funding responsibilities, councils retain a legal duty to set the overall level of the Schools

Budget. In deciding the relevant amount, councils must plan to spend at least to the level of estimated DSG. The policy of the Council is to fund the Schools Budget up to the level of grant income, with the Executive Member for Children, Young People and Learning responsible for agreeing individual service budgets.

9.1.2 Funding for the Schools Block element of the Schools Budget has now been confirmed by the Department for Education (DfE) at -£66.395m. Once again, this is a "cash flat" settlement, with funding only adjusted to reflect changes in pupil numbers, meaning schools will need to make savings to cover the increases that will arise from unavoidable cost pressures such as pay awards. The DfE has yet to provide a complete update on grant funding in the Early Years or High Needs Block elements of the Schools Budget as some of the key data used for the calculations has yet to be validated. However, based on current information, grant income of -£5.729m and -£14.67m respectively are expected for these elements, making an initial total DSG estimate of -£86.794m.

9.1.3 In addition to the revised estimated for DSG income, the DfE has also now confirmed the Education related revenue grants that will be provided in 2017/18. As highlighted in the December budget report, whilst all the responsibilities on councils in various Education Acts will remain in place, the DfE are withdrawing funding relating to the delivery of 'general' education related statutory and regulatory duties to maintained schools. These duties include School Improvement, Finance, Human Resources, Health and Safety, Legal Services, Education Welfare and Asset Management. After allowing for one-off transitional funding of -£0.401m, this represents a loss in income of £1.096m.

9.1.4 Whilst the 'general' education related statutory and regulatory duties grant income has been completely withdrawn, an element the DfE term 'retained' duties, which councils must deliver for both maintained and academy schools will continue to be funded. However, rather than being delivered directly to councils through the Education Services Grant, this has been transferred into the Schools Block element of the DSG (-£0.260m), where subject to annual agreement of the Schools Forum, relevant expenditure will be charged, rather than to the General Fund.

9.1.5 The DfE "recognise that councils will need to use other sources of funding to pay for education services once the general funding has been removed" and will "allow local authorities to retain some of their schools block funding to cover the statutory duties that they carry out for maintained schools which were previously funded through the ESG." The amount to be retained by councils will need to be agreed annually by the maintained schools members of the Schools Forum and will be determined through a single rate per pupil deduction from all maintained schools. Following a formal consultation with schools, a per pupil deduction of £20 has been agreed for 2017/18 which will generate around -£0.252m.

9.1.6 Despite earlier announcements, the DfE has now confirmed that there will be a continued role for councils in aspects of School Improvement and that a new grant will be introduced to fund the responsibilities. The funding will be available to support maintained schools, and is expected to be in place for at least two financial years. A provisional allocation for September 2017 to March 2018 has been estimated at -£0.038m.

9.1.7 As a number of these funding streams are determined by the number of pupils or schools in the maintained sector, they will be subject to in-year re-calculation and reduction should more schools convert to academy status.

9.1.8 Decisions around the final balance of the budget between spending by schools and that on services managed by the Council is the responsibility of the Executive Member for Children, Young People and Learning, although the Schools Forum must be consulted and, in certain circumstances, agree to budget proposals.

9.2 Pensions

9.2.1 Accounting standards on the treatment of pension costs (IAS19) require the inclusion within the total cost of services of a charge that represents the economic benefits of pensions accrued by employees. To simplify the presentation of the budget proposals the IAS19 adjustment has not been incorporated at this stage, although it will be included in the supporting information to the Council meeting on 1 March. This will not impact upon the Council's net overall budget or the level of Council Tax.

9.3 Investments

9.3.1 Investment returns on any surplus cash are likely to remain relatively low during 2017/18 and for some time to come compared to historic averages rates. The immmediate impact of the BREXIT vote was a further cut in interest rates to 0.25% in early August as the Monetary Policy Committee (MPC) took action to stimulate economic growth based on the risk of a sharp economic downturn. However, economic statistics since August have indicated stronger growth than the MPC expected in August. In addition, inflation forecasts have risen substantially as a result of the sharp fall in the value of sterling since early August. This reduces the possibility that Bank Rate may be cut again, though another cut cannot be ruled out. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects already adversely impacted by the uncertainties of what form Brexit will eventually take.

9.3.2 Accordingly, a first increase to 0.50% is not tentatively pencilled in, as above, until quarter 2 of 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in the Bank Rate could be brought forward.

9.3.3 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. The overall balance of risks to economic recovery in the UK remains to the downside. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that are highly correlated to geo-political, sovereign debt crisis and emerging market developments.

9.3.4 Given the Council's approach to managing risk and keeping investments limited to a maximum of 6 months maturity with the exception of the part-nationalised UK Banks, the opportunity to achieve rates in excess of the Bank Rate is limited.

9.3.5 Given the significant capital investment programme embarked on by the Council in previous years (Binfield Learning Village, Coral Reef and Town Centre) the Council is highly likely to be borrowing externally before the end of 2016/17. As such the 2017/18 Programme will require external borrowing. This position has been exacerbated by the Business Rates revaluation appeal by a large multi-national company early in 2016/17, which saw a significant cash outflow of approximately £16m. This has in effect reduced the ability of the Council to support the 2016/17 Capital Programme from internal borrowing and over the long-term will add to the borrowing costs of the Council. This has been reflected in the Council's Medium Term Financial Strategy and the 2017/18 Budget.

9.3.6 With short-term investment rates expected to remain below 0.5% throughout 2017/18, any surplus cash due to the treasury management activities of the Council will earn a minimal return of approximately 0.3%. Maximum use of internal cash will be used in the first instance before going to the external market for borrowing, the timing of which will depend largely on the progress made on completing the major capital projects.

9.3.7 Long-term interest rates are at historical lows with 10-year and 25-year Public Works Loan Board rates in the region of 2.2% to 2.5% compared to an internal investment return of 0.3%. Short-term maturities are in the region of 1.5% offering a much smaller cost of carry (this being the difference between the cost of borrowing and the potential re-investment rates). As such, given a mix of borrowing maturities the average interest rate on borrowing assumed in the Council's 2017/18 revenue budget is 2%

9.3.8 With borrowing rates at historical lows, the borrowing strategy of the Council will be to minimise the impact on the revenue account by, in the first instance, borrowing at shorter maturities whilst recognising that any short-term benefit may be undone should longer-term interest rates begin to rise. As such the Council, in close co-ordination with its Treasury Management advisers, will monitor medium and long-term interest rates and take any necessary decisions based on the information available to effectively and efficiently fund the capital programme committed to by the Council.

9.3.9 The 2017/18 Treasury Management Report attached as Annexe E re-affirms the strategy adopted by the Executive in December 2016 that governs the amount, duration and credit worthiness of institutions that the authority will place investments with during 2017/18. As such the Council will only place deposits with the most highly rated UK Banks and Building Societies, alongside the part-nationalised UK Banks, up to a limit of £7m and for a maximum period of 364 days (for part-nationalised UK Banks). Additionally the Council will be able to invest up to £7m with AAA Money Market Funds and other UK Local Authorities and an unlimited amount through the Government Debt Office Management Deposit Facility. The Annual Investment Strategy is shown in part (iv) of Annex E. Following the review by the Governance and Audit Committee on the 25 January 2017, the Treasury Management Strategy remains unchanged from that consulted on in December.

9.3.10 The Local Government Act 2003 introduced a revised framework for capital expenditure and financing, underpinned by CIPFA's Prudential Code for Capital Finance in Local Authorities. The Code requires the Council to set a number of prudential indicators and limits relating to affordability, capital investment and treasury management. These take account of the Commercial Property Investment Strategy agreed by the Executive on 15 November 2016 and require Council approval. They are included at Annexe E (i) and within the Treasury Management Strategy Statement at Annexe E (iii).

9.3.11 The capital programme is being considered separately on tonight's agenda and proposes Council funded capital expenditure of £50.075m and an externally funded programme of £18.491m in 2017/18. After allowing for projected receipts of approximately £14m in 2017/18 and carry forwards, the additional revenue costs will be £0.497m in 2017/18 (an additional £0.011m compared to the draft proposals reflecting changes to the capital programme) and £1.480m in 2018/19. These figures include on-going costs associated with the maintenance and support of IT capital purchases. Costs will need to be revised at the meeting if the Executive decides on a different level of capital spending.

9.3.12 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision or MRP), although it is also allowed to undertake additional voluntary payments. The regulations issued by the Department for Communities and Local Government (DCLG) require full Council to approve an MRP Policy in advance of each year. The Council is therefore recommended to approve the MRP Policy set out in Annexe E (ii) to the Treasury Management Strategy. The MRP policy has been drawn up to ensure the Council makes prudent provision for the repayment of borrowings (in accordance with the Regulations) and at the same time minimises the impact on the Council's revenue budget. The annuity method will be used to calculate the annual charge where this is based on the life of the asset. The MRP policy was reviewed by the Governance and Audit Committee at its meeting on 25 January 2017 and no further changes were proposed.

9.3.13 As capital expenditure is incurred which cannot be immediately financed through capital receipts or grant, the Council's borrowing need (its Capital Financing Requirement) and its MRP will increase. The Council also needs to make a charge to revenue for "internal borrowing".

9.3.14 The draft budget proposals included an estimate of £1.950m for the Minimum Revenue Provision required to be made in 2017/18. This figure remains unchanged. The actual charge made in 2017/18 will be based on applying the approved MRP policy to the 2016/17 actual capital expenditure and funding decisions.

9.4 Capital Charges

9.4.1 Capital charges are made to service departments in respect of the assets used in providing services and are equivalent to a charge for depreciation. The depreciation charges are included in the base budget figures and are important as they represent the opportunity cost to the Council of owning non-current assets. They must therefore be considered as part of the overall cost of service delivery, particularly when comparisons are made with other organisations. It is also important that these costs should be recognised when setting the level of fees and charges.

9.4.2 Capital charges do, however, represent accounting entries and not cash expenditure. The Council is therefore able to reverse the impact of these charges "below the line", i.e. outside service department costs, thereby reducing the net revenue budget whilst not directly affecting the overall cost of each individual service. This means that the charges do not affect the level of Council Tax. The capital charges in 2017/18 total £18.954m which is an increase of £5.111m compared to the current year. This increase primarily relates to the move to valuing infrastructure assets on a depreciated replacement cost basis rather than a depreciated historic cost basis. This will result in a material increase in values and therefore depreciation charges but won't impact on the charge to the General Fund which is based on the MRP not depreciation.

9.4.3 Changes to capital charges do affect internal services recharges (see below). Changes to these have not been incorporated into the budget proposals in this report at this stage, although they will be included in the supporting information to the Council meeting on 1 March.

9.5 Internal Services Recharges

9.5.1 Members' decisions on the capital programme may affect capital charges and this will determine the overall cost of services in 2017/18. Due to their corporate nature, some services do not relate to a single service department, e.g. finance, IT, building surveyors, health and safety advisers etc. The budgets for these services are changed only by the specific proposals impacting on the departments responsible for providing them (mainly Corporate Services). However, all such costs must be charged to the services that receive support from them.

9.5.2 The impact of changes in recharges for internal services is entirely neutral across the Council as a whole, since the associated budgets are also transferred to the services receiving them. The overall level of recharges is dependent upon the Executive's budget proposals being approved.

10 <u>Statement by the Borough Treasurer</u>

10.1 Under the Local Government Act 2003, the Borough Treasurer (as the Council's Section 151 Officer) must report to Members each year at the time they are considering the budget and Council Tax on:

a) The robustness of estimates; and
b) The adequacy of reserves.

In addition, CIPFA guidance on Local Authority Reserves and Balances states that a statement reporting on the annual review of earmarked reserves should be made to Council at the same time as the budget. The statement should list the various earmarked reserves, the purpose for which they are held and provide advice on the appropriate level.

Robustness of estimates

10.2 The annual statement on the robustness of the estimates formalises the detailed risk assessments that are undertaken throughout the year and which are a standard part of the budget preparations and are included in the Council's Strategic Risk Register.

This identifies a number of key risk areas including:

- financial and economic factors, in particular the need to maintain services whilst achieving significant savings and to promote economic activity in the Borough;
- the impact of demand led services and the need to forecast changes and reshape service delivery to meet changing needs;
- staffing and the need to recruit, train and retain staff with the relevant skills and expertise;
- IT infrastructure availability, compliance and information accuracy;
- potential for the Information Commissioner to impose fines if personal sensitive data is misused or stolen;
- failure to design, monitor and control the implementation of major programmes and projects including the transformation programme;
- business continuity incidents;
- effective safeguarding of children and vulnerable adults;
- effective maintenance of assets including the highways infrastructure;
- working effectively with partners, residents, service users, the voluntary sector and local businesses;
- economic development within the Borough;
- impact of litigation and legislation;

- town centre regeneration:
- cyber attacks.

The budget includes resources sufficient to enable the Council to monitor these key risks and where possible to minimise their effects on services in accordance with the strategic risk action plans. Specific risk reduction measures that are in place include the following:

- Budget Setting Process
  - Production and regular monitoring of a robust medium-term financial strategy.
  - Regular analysis of budgets to identify legislative, demographic, essential and desirable service pressures / enhancements.
  - Detailed consideration of budgets by officers and Members to identify potential budget proposals.
  - Robust scrutiny of budget proposals prior to final agreement.
  - Ensuring adequacy and appropriateness of earmarked reserves.

- Budget Monitoring
  - Robust system of budgetary control with regular reporting to the Corporate Management Team (CMT) and through the Quarterly Service Reports (QSRs) to Members.
  - Exception reports to the Executive.
  - Regular review of the Councils' budget monitoring arrangements by both internal and external audit to ensure they remain fit for purpose.
  - Taking corrective action where necessary during the year to ensure the budget is delivered.
  - Specific regular review by Group Accountants of particularly volatile budget areas.

10.3 The Borough Treasurer receives regular updates from Group Accountants on the largest and most volatile budget areas which could place the overall budget most at risk and makes arrangements to report these through the regular monthly budget monitoring process. The most significant risks in the 2017/18 budget have been identified as the following:

- **Demographics –** the number of "demand" led adult and child client placements, the rising cost and numbers of looked after children, increasing support pressures resulting from people living longer, the impact of new housing developments and changing service provision of social care encouraging people to seek support;
- **Income** - specifically in Planning and Building Control Fees, Leisure Facilities, Car Parks, Commercial Property, Land Charges and Continuing Heath Care funding. Significant income streams are reliant on customer demand and physical infrastructure remaining operational, placing a heavy reliance on planned and reactive maintenance being adequate;
- **Major schemes / initiatives –** progress with the Town Centre redevelopment, Coral Reef improvements, Waste Management PFI, major school redevelopment proposals (Binfield Learning Village in particular) and the implementation of savings proposals in particular the significant savings arising from the Transformation Programme;
- **Inflation –** the provision is based on estimates of inflationary pressures at the current time;
- **Treasury Management –** return on investments is affected by cash flow and the level of the Bank rate. There is also a high degree of uncertainty around the timing at which the Council will commence borrowing;

- **Uninsured losses** – the Council's insurances cover foreseeable risks. However, some risks are uninsurable, including former County Council self-insured liabilities and mandatory excesses;
- **Contractual Issues –** disputes, contract inflation (in particular rates for care providers which are increasing due to rising demand and reducing supply) and renewal of major contracts:
- **Legislative Changes** – for example, the transference of risks resulting from the retention of Business Rates by councils and the localisation of Council Tax support, the introduction of the Better Care Fund and its impact on funding and the way services will be delivered in the future, the implementation of responsibilities under the Care Act 2014 and Children and Families Act 2014, and the transition to universal credit;
- **Independent external providers** – changes in provision by independent service providers may result in increased costs to the Council;
- **Service interdependencies** – the potential impact of service reductions in one area on the demand for other services provided by the Council;
- **External inspections** –improvements identified through external inspection;
- **Safeguarding** – failure to adequately safeguard vulnerable people could result in cost pressures.
- **Schools Budget** – the impact of schools becoming academies on school support services, income generated from selling services and grant income that is calculated on the basis of the number of maintained schools and pupils within.

10.4 The probability of some of the above risks occurring is high. However it is unlikely that all will occur at the same time as has been evidenced in the demand led budgets over the past few years. The measures in place, set out in paragraph 10.2, lead the Borough Treasurer and CMT to conclude that the budget proposals have been developed in a sound framework and are therefore robust. However, it needs to be recognised that not all adverse financial issues can be foreseen looking almost fifteen months ahead, e.g. the impact of changes in demand led services or severe weather conditions. It is therefore prudent to include, as in previous years, a contingency sum within the budget proposals.

Contingency

10.5 In setting the budget for 2016/17, the level of general contingency was reduced to £1.000m. Within the draft budget proposals for 2017/18 the Contingency was increased to £2.000m, although it was recognised that this would need to be reviewed.

10.6 The Borough Treasurer, Chief Executive and CMT have reflected upon the outlook for the economy as a whole, the impact of demographic changes and the resulting pressures on services and other risks contained within the proposed budget. In this respect, while the Transformation Programme is currently broadly on track to complete the first phase reviews over the coming months, it is not possible to state with absolute confidence at this time that the full level of target savings will be achieved through these complex reviews, in the timescales originally envisaged.

10.7 Given the overall level of risk from both spending pressures and significant savings, a £2.000m contingency is felt to be appropriate for 2017/18. This figure includes an earmarked sum of £0.500m to cover a specific known risk in Adult Social Care.

Earmarked Reserves

10.8 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure. The Council had £30.139m in Earmarked Reserves at the start of 2016/17 which were approved by the Governance and Audit Committee in July 2016. The Borough Treasurer has undertaken a review of existing earmarked reserves and Annexe F sets out each reserve considered. The Borough Treasurer will review again the earmarked reserves in light of the changing risks facing the Council as part of the 2016/17 closedown process and any changes will be presented to the Executive and the Governance and Audit Committee as part of the closure of the accounts.

11 Net Revenue Budget

11.1 Table 3 summarises the budget changes for each Department, assuming that all items outlined above and detailed in Annexes A to F are agreed, but before changes to capital charges, pension costs and internal services recharges are incorporated within service department budgets.

Table 3: summary of budget changes

	Inflation (Section 7.2)	**Revisions to draft budget proposals (Sections 8.3, and 7.4)**	**Changes to Specific Grants (Section 6.2)**	**Total Changes Identified**
	£'000	**£'000**	**£'000**	**£'000**
Adult Social Care, Health and Housing	558	3	-336	225
Children, Young People and Learning (excluding schools)	233	275	-38	470
Corporate Services / Chief Executive's	194	0	0	194
Environment, Culture & Communities	568	18	0	586
Non Departmental / Council Wide	-1,200	9,185	875	8,860
TOTAL	**353**	**9,481**	**501**	**10,335**

These figures are added to the draft proposals to produce a final budget proposal for each department. This is summarised in Table 4.

Table 4: Draft Budget Proposal 2017/18

Department	**2017/18 Draft Proposals (Table 1)**	**Changes Identified (Table 3)**	**Revised Budget Proposals**
	£'000	**£'000**	**£'000**
Adult Social Care, Health and Housing	35,875	225	36,100
Children, Young People and Learning (excluding schools)	28,372	470	28,842
Corporate Services / Chief Executive's	7,048	194	7,242
Environment, Culture & Communities	31,106	586	31,692
Non Departmental / Council Wide	-24,421	8,860	-15,561
Total	**77,980**	**10,335**	**88,315**

11.2 The Net Revenue Budget in 2017/18 if the Executive agreed all of these proposals would be £88.315m before allowing for additional interest resulting from the use of balances. This compares with income of -£83.241m from RSG and Business Rates baseline funding (-£22.800m), the Collection Fund – Council Tax surplus (-£0.613m), the Collection Fund – Business Rates surplus (-£9.113m) and Council Tax at the 2016/17 level (-£50.715m). The Net Revenue Budget is therefore £5.074m above the level of income for 2017/18.

12 Funding the Budget Proposals

12.1 Members can choose to adopt any or all of the following approaches in order to bridge the remaining gap:

- an increase in Council Tax;
- an appropriate contribution from the Council's revenue reserves, bearing in mind the Medium Term Financial Strategy;
- identifying further expenditure reductions.

12.2 Council Tax

12.2.1 Each 1% increase in Council Tax in 2017/18 will generate approximately -£0.507m of additional revenue towards the budget gap. It is recommended that the Council increase Council Tax by 4.99%; a general increase of 1.99% plus a further 3% increase to support Social Care pressures. These are the maximum increases permissible under the current guidance without a referendum and, significantly, are the increases factored in to the Governments spending power calculations to 2019/20. This will generate additional income of -£2.532m and reduce the budget gap to £2.542m.

12.3 Use of Balances

12.3.1 The Council needs to maintain reserves to aid cash flow and to protect itself from fluctuations in actual expenditure and income. An allowance for cash flow is reasonably easy to calculate. However, an allowance for variations against planned expenditure is more difficult.

12.3.2 In deciding the level of any contribution from balances, the Executive will wish to have regard to the level of balances available. The Council's General Fund balance at the start of 2017/18 is expected to be £10.9m. This is made up as follows:

Table 5: General Balances as at 31 March 2017

	£m
General Fund	12.7
Planned use in 2016/17 (adjusted for in-year savings)	(1.8)
TOTAL Estimated General Balances	**10.9**

12.3.3 The Council has, in the past, planned on maintaining a minimum prudential balance of £4m. It is prudent when considering the use of reserves to not only consider the current year's budget but also future years' pressures.

12.3.4 The Council's share of the Business Rates surplus for 2016/17 will be transferred into the Business Rates Equalisation Reserve at the year end. It is estimated that there will be a balance of £7.5m available on the reserve at the end of 2017/18, which provides protection against future volatility in business rates income.

12.3.5 It is recommended that the Council makes a contribution of £2.542m (before additional interest from the use of balances) from General Reserves to bridge the remaining budget gap in 2017/18. This approach is set out in Annexe G.

13 Preceptors' Requirements

13.1 On the 3 February 2017 the Thames Valley Police and Crime Panel met to determine the 2017/18 budget for the Thames Valley Police and Crime Commissioner (TVPCC). The tax for a Band D property for the TVPCC will increase by 1.99% to £170.28 in 2017/18. The Royal Berkshire Fire Authority (RBFA) will not determine its budget and precept for 2017/18 until 27 February. The tax for a Band D property for RBFA in 2016/17 was £61.27. The Parish Councils have yet to set their precepts for 2017/18. These totalled £2.956m in 2016/17 with an average tax of £67.54 for a Band D property. The Parish Council, Police and RBFA precepts will be reported to the Council meeting on 1 March 2017.

14 Summary of Matters for Decision

14.1 Annexe G outlines the Council's Council Tax Requirement based on the draft budget proposals. The outcome of the Executive's deliberations will be recommended to the Council meeting on 1 March regarding the budget and Council Tax level for 2017/18. These will be incorporated in the formal Council Tax resolution required by the Local Government Finance Act 1992 as amended. However, the following matters need to be determined at this stage in order to allow the Executive to recommend a budget to the Council for 2017/18:

(a) confirmation of the draft budget proposals, taking account of issues raised during the consultation period and revisions identified to reflect current information (sections 6.2, 6.3, 7.3, 7.4), set out in detail in Annexes A and D;

(b) confirmation of the impact of changes in investment rates on the budget (section 9.3);

(c) the level of the corporate contingency (section 10.6);

(d) the level of Council Tax increase (section 12.2);

(e) subject to (a) to (d) above and decisions considered elsewhere on the agenda, to determine the appropriate level of revenue reserves to be retained and the consequent use of balances to support the budget in 2017/18 (section 12.3).

14.2 As outlined above, dependent upon the decisions made by the Executive concerning these issues, it may be necessary to adjourn the meeting to enable officers to calculate the appropriate figures to include in the recommendations.

14.3 A detailed budget book will be prepared during March exemplifying the budget at the level of detail required to support the scheme of virement. This will be made available to all members.

15 Budget Monitoring - Virement requests

15.1 A virement is the transfer of resources between two budgets but it does not increase the overall budget approved by the Council. Financial Regulations require formal approval by the Executive of any virement between £0.050m and £0.100m and of virements between departments of any amount. Full Council approval is required for virements over £0.100m. A number of virements have been made since the December Executive meeting which require the approval of the Executive. These have been previously reported to the Corporate Management Team who recommends them to the Executive and the Council for approval. They have been included in the Quarterly Service Reports. Details of the virements are set out in Annexe H.

16 Write-off request

16.1 Ascot Cable Limited was liable for the property 1 Eastern Road, Bracknell, RG12 2UP from 14 July 2015 until 19 October 2016. No payments towards Business Rates were made and the account was issued to the Enforcement Agent for recovery action to be taken. The Company made contact on a number of occasions and negotiated repayment arrangements that were not adhered to. The company entered Administration on 19 October 2016 and as a result of this the debt became uncollectible. It is therefore necessary to write off a total value of £166,049.79 in unpaid Business Rates. The impact of this has been built into the calculation of the collection fund year end position. However, Executive approval is required for any write-off in excess of £0.050m.

17 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

17.1 In carrying out all of its functions, including the setting of the budget, the Council must comply with the Public Sector Equality Duty set out in the Equality Act 2010. That duty requires the Council to have due regard to the need to:-

a) eliminate discrimination , harassment, victimisation and any other conduct that is prohibited by the Act;

b) advance equality of opportunity between persons who share a "relevant protected characteristic" and persons who do not share it;

c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

"Relevant protected characteristics" are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. As to (b) above due regard has to be had in particular to the need to:-

- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
- encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The Equality Impact Assessments annexed to this report have been prepared in order to assist the Council to meet the Equality Duty in considering the budget.

Borough Treasurer

17.2 The financial implications of this report are included in the supporting information.

Equalities Impact Assessment

17.3 The Council's budget proposals impact on a wide range of services. A detailed consultation was undertaken on the draft budget proposals published in December to provide individuals and groups the opportunity to provide comments.

17.4 Equality impact assessments are attached at Annexe I.

Strategic Risk Management Issues

17.5 The Borough Treasurer's Statement in Section 10 sets out the key risks facing the Council's budget and the arrangements in place to manage these risks, including maintaining an appropriate level of reserves and contingency.

18 CONSULTATION

18.1 Details of the consultation process and responses received are included in section 8.1.

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