

TO: THE EXECUTIVE
DATE: 11 FEBRUARY 2020

GENERAL FUND REVENUE BUDGET 2020/21
(Chief Executive/Director: Finance)

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 2020/21 as the basis for consultation on 17 December 2019.
- 1.2 Over the course of the last two months a number of issues have also become clearer, in particular the details of the Local Government Financial Settlement. This report therefore builds on the draft budget proposals agreed by the Executive in December and sets out the Executive's final budget proposals for 2020/21. Once determined, these will be submitted to the Council for consideration on 26 February 2020.
- 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 2020/21 - 2022/23. Changes to the proposals included within that report may therefore necessitate revisions to the 2020/21 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 2020/21:

- 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 £1.998m (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, 8.3, 9.1, 9.3 and 10.6;**
- 2.4 **Agrees that the Council should make additional funding available for distribution to schools through the local funding formula at the level set out in section 9.1 subject to any minor 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 contingencies totalling £2.250m (section 10.6), use of which are to be authorised by the Chief Executive in consultation with the Director of Finance 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 the contribution of £>.>>>m to be made from revenue balances (before additional interest from the use of balances) to support revenue expenditure;**
- 2.9 Recommends a >.>>% increase in the Council Tax for the Council’s services and that the Council Tax requirement, excluding Parish and Town Council precepts, be set as £>>.>>>m;**
- 2.10 Recommends that 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	>>>>.>>
B	7/9	>>>>.>>
C	8/9	>>>>.>>
D	9/9	>>>>.>>
E	11/9	>>>>.>>
F	13/9	>>>>.>>
G	15/9	>>>>.>>
H	18/9	>>>>.>>

- 2.11 Recommends that the Council approves the following indicators, limits, strategies and policies included in Annexe E:**
- **The Prudential Indicators and Limits for 2020/21 to 2022/23 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 2020/21 to 2022/23 and Treasury Management Limits on Activity contained in Annexe E(iv);**

- 2.12 Approves the virements relating to the 2019/20 budget as set out in Annexe H;**

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 26 February.

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 17 December 2019, the Executive considered the overall position facing the Council in setting a budget for 2020/21. At the time the Executive agenda was published, the Provisional Local Government Financial Settlement had not been announced. The budget proposals assumed that funding would be in line with the announcements contained within the Spending Round 2019 and the Technical Consultation on the Local Government Finance Settlement 2020/21 which followed in October.
- 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, town and parish councils, business ratepayers, the Schools Forum and voluntary organisations.
- 5.3 In the face of significant pressures on Local Government expenditure and grant funding, the scope to invest in new service provision is severely restricted. Many of the pressures accommodated in the budget package are simply unavoidable as they relate to current levels of demand or legislation changes.
- 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, it is almost inevitable that further savings will have some impact on services, although the aim is to minimise this.
- 5.5 The draft budget proposals, which reflect the priorities in the Council Plan and included a suggested approach for inflation, are summarised in Table 1.

Table 1: Draft Budget Proposals

Directorate	Commitment Budget (CB) Excl. Transformation	CB Transformation	Capital programme	Inflation	Service Pressures / Economies	Social Care Transition Reserve	New Homes Bonus & Social Care Funding	Future Funding Reserve – 18/19 Collection Fund Deficit	Draft Budget 2020/21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Central	17,710	-20	0	0	-1,027	0	0	0	16,663
Delivery	15,362	-75	0	0	-11	0	0	0	15,276
People	69,420	0	0	0	5,050	0	-1,281	0	73,189
Non Departmental / Council Wide	-27,589	-309	0	2,300	-1,702	-1,424	441	4,942	-23,341
Total	74,903	-404	0	2,300	2,310	-1,424	-840	4,942	81,787

6 Local Government Finance Settlement

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6.1 Overview

6.1.1 The Council's budget is set within the context of a one year settlement based on the 2019 Spending Round. The paragraphs below set out the key issues included in the Provisional Settlement for 2020/21 and this is followed by a section that draws together the likely implications for the Council's medium term funding position.

6.1.2 The Provisional Settlement was published on 20 December 2020. The overall quantum of funding provided in government grant remained as expected except for the New Home Bonus. An unexpected, additional year of incentive funding was awarded for 2020/21 only and due to a significant increase in the Council Tax Base and a reduction in empty properties, approximately £1m of additional income was received (see paragraph 6.2.2).

6.1.3 The final settlement has still to be published.

6.2 Specific Grants

6.2.1 Since 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 The technical consultation on the 2020/21 Finance Settlement confirmed that there would be a new round of New Homes Bonus (NHB) allocations for 2020/21, however, as there will be a 2020 Spending Review including potential new proposals, these additional payments would be for one year only. The Government decided not to increase the baseline below which no NHB is paid in 2020/21. This, combined with significant increases in the Council Tax Base and reductions in the number of empty homes resulted in a substantial increase in grant compared to the December proposals (-£1.006m). The total receivable has increased to -£1.917m for 2020/21 (-£1.356m in 2019/20). As this increase is one-off it will not reduce the budget gap in future years but will help protect our reserves during 2020/21. It was also announced that the Government would consult on the future of NHB in the spring. The intention is to move to a more targeted approach aligned with other measures around planning performance.

6.2.3 Some of the largest specific grants received by the Council are for Public Health and Social Care. The ring-fence on Public Health will be retained in 2020/21 and, following two years of grant cuts, national grant levels will increase in real terms. Indicative figures have yet to be provided at an individual council level. The figures included in the settlement for the Better Care Fund and social care in general were as expected and included the additional -£1.282m of social care funding announced as part of the Spending Round 2019. There are therefore no further changes to the draft budget proposals in this area

6.2.4 Information on a number of smaller Specific Grants has now been received. Any changes in these grants will be managed by the Directorates and will therefore not impact on the budget proposals.

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

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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. It has been confirmed this will increase in line with the increase in the small business non-domestic rating multiplier (1.6%).

- 6.3.2 The Government has announced that the introduction of a new system will now be delayed until 2021/22 which will be based on 75% retention of Business Rates growth locally. To coincide with this a fair funding review is currently underway which will calculate the new baseline funding levels for individual local authorities based on an up-to-date assessment of their relative needs and resources. Under the new system existing grants including Revenue Support Grant and the Public Health Grant are expected to be incorporated into the baseline and more responsibilities are likely to be transferred to Local Government.
- 6.3.3 Bracknell Forest is in a virtually unique position in terms of its current Business Rates income. The transfer of a large multi-national company on to the Council's valuation list in 2013/14 significantly increased the level of Business Rates collected locally. This transfer represented a significant windfall for the Council, creating both a significant opportunity and risk at the time and has been a key factor in providing resources to balance the Council's budget since then.
- 6.3.4 Around half of the additional income was used to support the base budget with the remainder set aside in an earmarked reserve to mitigate against the risk of the additional income reducing or being withdrawn. This prudent approach meant that the Council was not immediately impacted by a successful appeal by the company against the rateable value, which resulted in it being reduced by 28% in 2016/17. Several other appeals have since been successful resulting in a further 7% reduction in rateable value. There are still appeals outstanding on the 2010 valuation and further multiple appeals were lodged following the 2017 valuation which are still outstanding. It is also anticipated that the company will join the Central Rating List when the new Business Rates system is introduced in 2021/22. Due to changes at the company's key site in Bracknell there is also a possibility that we could see the loss of this income earlier than expected, sometime in 2020/21.
- 6.3.5 As the timing and outcome of all these events are uncertain, broad assumptions have had to be made in calculating future income levels. An unavoidable consequence of this has been significant volatility in the Collection Fund balance each year. This continues to represent a considerable risk to the Council's current and future Business Rates income. In 2018/19 a significant deficit of £4.942m was projected on the Business Rates element of the Collection Fund which was met by a transfer from the Future Funding Reserve in 2019/20. There is now a projected surplus on the Business Rates element of the Collection Fund for 2019/20 (-£8.241m). This has arisen from a combination of the final income figure for 2017/18 being more than estimated in January 2019 and less income being projected for 2019/20. Due to its one-off nature, £7.5m of the surplus will be transferred into a Business Rates Revaluation Reserve and used to mitigate the risk of a further loss in income from the multinational company referred to above. The balance will be transferred to the Future Funding Reserve.
- 6.3.6 In addition to these specific issues, the move to the new funding system in 2021/22 will be accompanied by a re-set of the current 50% business rates retention arrangement. This will most likely mean that all or a large part of the additional business rates that the Council has secured through the company referred to above and from the town centre opening in 2017 will no longer directly benefit Bracknell Forest.

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- 6.3.7 The Council has benefitted considerably from being part of a Berkshire Wide Business Rates pilot area for the last two years, receiving 99% and then 74% of business rates growth respectively, although a significant proportion of the additional growth was passed onto the Thames Valley LEP. The Government has confirmed that except for the devolution areas and London, all other business rates retention pilots agreed for 2019/20 will finish at the end of the financial year and there will be no further pilot arrangements for 2020/21. This will affect the amount of Business Rates income that the Council can retain with income from growth being reduced back to approximately 30% (49% less a levy payment on growth above baseline) for 2020/21. As the Council took the prudent decision not to use any of the additional pilot income to immediately support the revenue budget, the only impact this will have is to reduce the amount that can be transferred into reserves to support future budgets.
- 6.3.8 Business Rates growth is forecast to be -£4.615m after the levy payment is taken into account (-£12.090m in 2019/20 after the payment to the LEP). No longer being part of a pilot will also have an impact on the level of Section 31 grant receivable to cover the loss of income resulting from capping the Business Rates increase to 2% in 2014/15 and 2015/16 and CPI in 2019/20, and several Business Rate Reliefs. However, any potential loss has been more than compensated for by the increase in the Business Rates multiplier and changes to reliefs. The grant is estimated to be -£2.302m in 2020/21 (-£2.166m in 2019/20).
- 6.3.9 The 2019/20 budget included a net transfer of £4.434m into reserves (-£0.266m Future Funding Reserves and +£4.700m other reserves). As a result of the funding changes and a continuation of the approach taken to business rates income growth, £10.335m will be transferred into reserves in 2020/21 (+£7.500m into the Business Rates Revaluation Reserve from the 2019/20 surplus on the Business Rates element of the Collection Fund, £0.335m into the Future Funding Reserve and +£2.500m into other reserves).
- 6.4 Medium Term Financial Situation
- 6.4.1 There is significant uncertainty for the period from 2021/22 due to the potential impact of a number of issues, in particular:
- Fair Funding Review
 - Business Rates system re-set
 - 2020 Spending Review which will determine the overall quantum of resources available to local government
 - Final Brexit arrangements
- 6.4.2 This hampers meaningful financial planning at a time when central government grant funding is the lowest it has been for decades and demand pressures are increasing significantly. Given the relative prosperity of Bracknell Forest, it is unlikely that the impact of these changes will increase our local resources overall.
- 6.4.3 The most likely consequence of all of these factors combining is an additional recurring budget gap of around £4.5m in 2021/22. The Future Funding Reserve has deliberately been created and supplemented through the additional income from Business Rate Pilot status in order to help manage the transition to the new funding arrangements. It is estimated that there will be a balance of approximately £17.8m available on the Future Funding Reserve at the end of 2019/20 and £18.1m at the end of 2020/21.

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6.4.4 The impact of these factors will be a greater reliance on Council Tax income as an on-going source of funding to support essential front-line services. The current level of Council Tax in Bracknell Forest is still one of the lowest of any Unitary Authority in England. While a high level of increase in any year is unlikely to be universally welcomed by residents, the council's financial plans assume the maximum level of increase permitted is applied, as this is what the Government has assumed and provides the greatest level of protection possible for essential services in the period from 2021/22.

7 Council Tax and Collection Fund

7.1 The Council Tax Base for 2020/21 has been calculated as 46,816 (Band D equivalents) which at current levels would generate total income of -£61.040m in 2020/21.

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 Government has set a core referendum limit of 2% plus the option for councils with responsibility for adult social care, such as Bracknell Forest, to set an adult social care precept of up to a further 2%. Every 1% increase in Council Tax in Bracknell Forest would generate approximately -£0.610m 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 higher level of growth in new properties than expected. The Council's share of this one-off surplus is -£0.509m. This will be used to support the 2020/21 budget.

8 Developments since the Executive Meeting on 16 December 2020

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. Several points were considered and clarified but no changes were proposed. An extract from the minutes of the meeting is attached as Annexe B.

8.1.2 The Schools' Forum considered the Executive's proposals relating to the schools' element of the People's Directorate at its meeting on 16 January. Several points were clarified at the meeting.

8.1.3 The draft budget proposals were published on the Council's web site and emails were sent to business ratepayers drawing their attention to the consultation. Eighteen responses were received to the public consultation via the web site plus a separate detailed response from the Labour Party. All responses are included at Annexe C. A number of general responses were received as well as a very specific comment not directly related to the budget proposals. A slightly higher number of responses were supportive of the proposals than against them.

8.2 Inflation

8.2.1 The Executive established a framework for calculating an appropriate inflation provision at its December meeting. Inflation allowances have now been finalised within this framework. The actual inflation allocation required is £1.998m which is £0.302m less than the £2.3m included in the draft budget proposals as inflation rates in general have been lower than anticipated. The Directorate analysis is shown in

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Table 2. The allocation assumes pay awards of 2%, however, an allowance has been included in the Contingency for potential pay increases in excess of 2%.

Table 2: Inflation Allocations

Directorate	2020/21 £'000
Central	404
Delivery	574
People (excluding schools)	1,020
Total	1,998

8.2.2 Inflation on schools' expenditure is provided for within the Dedicated Schools Budget expenditure, which is funded mainly by the Dedicated Schools Grant, with an additional top up from the Council (section 9.1).

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 l) below, with the net impact being an increase in the net revenue budget for 2020/21 of £2.733m, with £1.424m of this representing a change in funding, recognising additional income received from the New Homes Bonus and the collection fund surplus.. These changes have been reflected in the full budget proposals set out in Annex D and the Commitment Budget (Annexe A).

- a) Central – Residents Survey
The residents survey has been delayed from the current financial year and will now take place in 2020/21 (£0.020m).
- b) Central Transformation – Parks and Open Spaces
Residual costs will reduce the ongoing saving included in the Commitment Budget by £0.005m.
- c) Central – Travel Planning Service
The move to a fee based service, where developers are charged per unit, will be delayed until 2021/22 (£0.015m).
- d) Central – Revenues Assistant
In order to maintain the high level of collection rates within Revenue Services it is necessary to increase the establishment by one additional full time Revenues Assistant. This cost has been covered in the current year by one-off savings. (£0.032m).
- e) Central – Graduate Development Programme
The National Graduate Development Programme will be supported by creating two posts. Due to the pressure across the Council, funding could not be found from existing staffing budgets (£0.064m).
- f) Delivery – Waste Management

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A decrease in the cost of the Waste Disposal PFI based on the latest waste projections (-£0.044m).

- g) Delivery – Bracknell Town Neighbourhood Plan Referendum
The Council, as the local planning authority, has a statutory duty to provide advice and assistance and to carry out certain parts of the neighbourhood planning process, including organising the consultation, holding and arranging an independent examination and a referendum. The referendum is due to take place in 2020/21 and as such budget is required to allow the elections team to run this event (£0.060m).
- h) Delivery – Greening Waste Collection Arrangements
The Executive has agreed to introduce a food waste collection service and change refuse collection frequency to once every three weeks (currently every two weeks) from 5 October 2020. This will result in additional costs in 2020/21, primarily as a result of a programme of communications to maximise the participation of residents and business, but will reduce the Council's impact on Climate Change and generate savings over the life of the contract (£0.033m).
- i) Delivery – Coroner's Service
The latest information recently received from Reading Borough Council on the cost of the Coroner's Service Joint Arrangement shows a total pressure of £0.090m for Bracknell Forest. This is an increase of £0.036m compared to the draft budget proposals.
- j) People – Children Looked After
Due to changes in the number and cost of placements since the December report, this pressure has increased by £0.358m. The approach in previous years has been to adjust the Children's calculation for known children who will reach 18 during the year. For the first time in 2020/21 a related figure has been added to the Adults budget calculation. In order to ensure the budget is felt to be realistic, CMT has also recommended allocating £0.500m from the Corporate Contingency to allow for new children entering care as the budget is being set, rather than holding centrally until it is shown to be required.
- k) Non Departmental / Council Wide – transfer from reserves to meet one-off staffing pressures
It will no longer be necessary to meet the one-off staffing pressures in the People Directorate from earmarked reserves due to the receipt of additional New Homes Bonus (paragraph 6.2.2) and the surplus on the Council Tax element of the Collection Fund (paragraph 7.3). Both increases in income are also one-off in nature (£1.424m).
- l) Non Departmental / Council Wide – pension fund contributions
The Commitment Budget assumed that there would be a £0.330m increase in employers Pension Fund contributions following the triennial valuation. The latest information from the Pension Fund indicates that this will be inadequate to cover ongoing costs (£0.230m).

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.

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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.
- 9.1.2 The DSG comprises 4 funding Blocks, each with a separate calculation of funding and intended purpose; the Schools Block (SB); the Central School Services Block (CSSB); the High Needs Block (HNB); and the Early Years Block (EYB). The SB and CSSB directly support mainstream schools and are generally delegated to governors. The HNB and EYB are centrally managed by local authorities with most of the funding ultimately being paid directly to providers, including schools. The HNB supports pupils whose educational needs are above £10,000 with the EYB mainly funding the cost of the 30 hours a week free entitlement to childcare and early years education for working families.
- 9.1.3 To date, the DfE has confirmed SB funding at £74.995m with the CSSB at £0.939m. Other elements of the DSG have yet to be confirmed, with the current estimate for the HNB at £17.008m and the EYB at £7.560m. Therefore, at this stage, total DSG income for 2020/21 is estimated at £100.502m.
- 9.1.4 Within the DSG allocation, funding for SEND pupils will increase by 8% (£1.472m) next year. Whilst a substantial increase, with the number of children receiving additional support through high needs budgets in Bracknell Forest expected to increase by 17.7% from April 2018 to March 2020 and costs by 27.3%, this is insufficient to fund the forecast cost increase next year of £4.389m. This represents the no action outcome and would result in a predicted in-year over spending of £2.917m.
- 9.1.5 This is a national issue, and not just limited to Bracknell Forest with many councils having to set deficit HNB budgets. Working in partnership with the Schools Forum, an initial action plan has been agreed that focuses on maintaining more children in schools through the development of additional in-house provisions. It has identified a significant number of changes that can be made to improve the range and effectiveness of support for relevant children as well as lowering costs. Overall, forecast reductions of £1.240m have been identified which will mean a deficit budget of £1.677m will need to be set. This deficit will be balanced in the Council's budget by a contribution from school reserves as the deficit will need to be met from the DSG over the medium term. Both the deficit and the contribution from Schools reserves have been included in the Commitment Budget. Officers are meeting monthly with a sub group of the Schools Forum to identify further options for change in service deliver and reduction in costs.
- 9.1.6 In terms of general school budgets, the policy of the Council for many years has been to fund up to the level of relevant annual DSG Block grant income plus any accumulated surplus balances held in the retained Schools Budget. Following a request from the Schools' Forum, the Executive agreed to contribute to £1m from council reserves over the four years to March 2023, specifically to support the additional cost arising from new schools. In recommending the budget requirement next year for schools, as well as utilising the DSG, £0.253m of additional funding will be drawn down from the Council's reserves. This is a reduction of £0.085m compared to the £0.338m required in 2019/20 and included in the Base Budget. This

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reduction is included in the Commitment Budget and has increased by £0.055m since the draft budget proposals.

- 9.1.7 Setting the overall level of the Schools Budget and the operation of the funding formula that distributes the money to schools is a statutory council function. Agreeing how much is centrally managed is a decision for the Schools Forum. To meet these deadlines, council statutory decisions around the Schools Budget are delegated by the Full Executive to the Executive Member for Children, Young People and Learning. Recommendation 2.4 sets the parameters for the formal decision to be made. The Executive Member also endorses the decisions of the Schools Forum when these are undertaken in its statutory decision making role.
- 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 26 February. This will not impact upon the Council's net overall budget or the level of Council Tax.
- 9.3 Investments
 - 9.3.1 Now that the Council is in no longer debt-free and is reliant on external borrowing to fund its capital investments, returns on surplus cash are likely to remain relatively low during 2020/21 and beyond. As such the impact of interest rates on borrowing rates are of greater significance to the Council.
 - 9.3.2 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty had a dampening effect on UK GDP growth in 2019, especially around mid-year. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty was likely to have on growth.
 - 9.3.3 During the first half of 2019/20, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts. However, the timing of this and how strong the correlation is likely to be is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.
 - 9.3.4 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of

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their government's bonds and so create a potential doom loop. In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

9.3.5 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

9.3.6 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 1% to 1.8% on loans to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities);
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates);
- Municipal Bonds Agency (no issuance at present but there is potential).

The degree to which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

9.3.7 Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

9.3.8 The 2020/21 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 2020/21. 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 29 January 2020, the Treasury Management Strategy remains unchanged from that consulted on in December.

9.3.9 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. They are included at Annexe E (i) and within the Treasury Management Strategy Statement at Annexe E (iii).

9.3.10 The capital programme is being considered separately on tonight's agenda and proposes Council funded capital expenditure of £5.315m and an externally funded programme (including self-funding schemes) of £13.910m for 2020/21. After allowing for projected receipts of approximately £6.2m (including CIL) in 2020/21 and carry forwards, the additional revenue costs will be zero in 2020/21 and £0.291m in 2021/22. These figures have now been reflected in the Commitment Budget and the

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impact on 2020/21 is unchanged from the draft proposals. Costs will need to be revised at the meeting if the Executive decides on a different level of capital spending.

- 9.3.11 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 Ministry of Housing, Communities and Local Government's (MHCLG) 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 Annex 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.
- 9.3.12 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".
- 9.3.13 The draft budget proposals included an estimate of £1.827m for the Minimum Revenue Provision required to be made in 2020/21 and £0.512m for a Voluntary Revenue Provision relating to commercial property purchases. These figures have been reviewed based on the latest capital projections and remain unchanged. The actual charge made in 2020/21 will be based on applying the approved MRP policy to the 2019/20 actual capital expenditure and funding decisions.

9.4 Capital Charges

- 9.4.1 Capital charges are made to service directorates 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 directorate 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 2020/21 total £14.659m which is an increase of £1.148m compared to the current year and results from new additions and revaluations. There will be no 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 26 February.

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 2020/21. Due to their corporate nature, some services do not relate to a single service directorate, e.g. finance, IT, building

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surveyors, health and safety advisers etc. The budgets for these services are changed only by the specific proposals impacting on the directorates responsible for providing them (Central & Delivery). 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 Statement by the Director: Finance

- 10.1 Under the Local Government Act 2003, the Director: Finance (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:

- significant pressures on the Council's ability to balance its finances whilst maintaining satisfactory service standards;
- maintaining business as usual whilst delivering significant savings through the transformation programme and service re-design;
- the impact of the high use of long term locums and agency workers for key posts on finances and business resilience;
- uncertainty around the impact of Brexit, the financial and operational implications for services such as social care, contingency planning requirements and the potential impact for businesses located in the Borough;
- providing local school places for local children and the consequences if provision is not correct;
- the impact of demand led services and the need to plan for and respond to future and in-year demographic changes and national policy initiatives;
- sustaining adult social care services where there is insufficient external provision available;
- effective safeguarding of children and vulnerable adults when there are external factors outside the Council's control;
- potential budget reductions may reduce the effectiveness of measures to maintain highways and assets.
- delivery of an IT Strategy and digital infrastructure that meets business needs, compliance, information accuracy, greater reliance on end users and the threat of cyber attacks;
- maintaining adequate Business Continuity plans and procedures;

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- maintaining an adequate internal control environment:
- the impact of changes in Continuing Health Care funding on finances.

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, both for the immediately following and future years.
- **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 Finance Business Partners of particularly volatile budget areas.

10.3 The Director: Finance receives regular updates from Business Partners 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 2020/21 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, Car Parks, Commercial Property, Land Charges and Continuing Health 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, Waste Management PFI, the implementation of savings proposals and managing down additional staffing costs once the People Directorate has transitioned to a new operating model;
- **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.

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- **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.

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 with the exception of demand pressures in Children's and Adults' Social Care services which, are increasing both locally and nationally. The measures in place, set out in paragraph 10.2, lead the Director of Finance 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 2019/20, the level of general contingency was maintained at £2.5m. Within the draft budget proposals for 2020/21 the Contingency remained unchanged, although it was recognised that this would need to be reviewed.

10.6 The Director of Finance, 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. The Contingency has been reduced by £0.250m to £2.250m in the final budget proposals. This is a net reduction reflecting the change in approach for the Children's Social Care budget (paragraph 8.3.1) plus an allowance for pay increases in excess of 2%.

Earmarked Reserves

10.7 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 £49.763m in Earmarked Reserves at the start of 2019/20 which were approved by the Governance and Audit Committee in July 2019. The Director of Finance has undertaken a review of existing earmarked reserves and Annexe F sets out each reserve considered. The Director of Finance will review again the earmarked reserves considering the changing risks facing the Council as part of the 2019/20 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.

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11 Net Revenue Budget

11.1 Table 3 summarises the budget changes for each directorate, 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 directorate budgets.

Table 3a: Summary of budget changes

	Inflation (Section 8.2)	Revisions to draft budget proposals (Sections 6.3, 7.3, 8.3, 9.1, 9.3 and 10.6)	Changes to Specific Grants (Section 6.2)	Total Changes Identified
	£'000	£'000	£'000	£'000
Central	404	136	0	540
Delivery	574	83	0	657
People (excluding schools)	1,020	2,480	0	3,500
Non Departmental / Council Wide	-2,300	8,025	-1,006	4,719
TOTAL	-302	10,724	-1,006	9,416

Table 3b: Non Departmental / Council Wide – revisions to draft proposals included above

Non Departmental / Council Wide	Revisions to draft budget proposals
	£'000
Transfer to Business Rates Revaluation Reserve (paragraph 6.3.5)	7,500
Changes in Business Rates Growth and S31 income (6.3.8)	7,339
Transfer from Future Funding Reserve (5.5 and 6.3.9)	-4,398
Reversal or reduction of transfers to other Earmarked Reserves (6.3.9 and 9.1.6))	
Regeneration of Bracknell Town Centre Reserve	-1,000
Transformation Reserve	-200
New Schools Reserve	-945
Commitment Budget – pension fund contributions (8.3.1)	230
Economies - staff and members parking moved to Delivery (8.3.1)	2
Transfer from Earmarked Reserves to meet one-off staff costs in People no longer required (8.3.1)	1,424
Unused Schools Budget Balance Reserve (9.1.5)	-1,677
Change in Contingency (paragraph 10.6)	-250
TOTAL	8,025

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

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Table 4: Draft Budget Proposal 2020/21

Department	2020/21 Draft Proposals (Table 1)	Changes Identified (Table 3)	Revised Budget Proposals
	£'000	£'000	£'000
Central	16,640	540	17,180
Delivery	15,276	657	15,933
People (excluding schools)	73,189	3,500	76,689
Non Departmental / Council Wide	-23,318	4,719	-18,599
Total	81,787	9,416	91,203

11.2 The Net Revenue Budget in 2020/21 if the Executive agreed all proposals would be £91.203m before allowing for additional interest resulting from the use of balances. This compares with income of -£88.393m from Revenue Support Grant (-£1.771m), Business Rates baseline funding (-£16.832m), Council Tax at 2019/20 levels (-£61.040m), the Collection Fund – Council Tax surplus (-£0.509m) and the Collection Fund – Business Rates surplus (-£8.241m) The Net Revenue Budget is therefore now £2.810m above the level of income for 2020/21.

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 position;
- identifying further expenditure reductions.

12.2 Council Tax Increase

12.2.1 Each 1% increase in Council Tax in 2020/21 will generate approximately -£0.610m of additional revenue towards the budget gap. The maximum amount the Council could increase Council Tax by is 3.99%.

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 is expected to be £6.5m at 31 March 2020, if spending in the current year matches the approved budget.

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Table 5: General Balances as at 31 March 2020

General Fund as at 01 April 2019	£m 9.1
Planned use in 2019/20	(2.6)
TOTAL Estimated General Balances	<u>6.5</u>

12.3.3 The Council has for many years planned on maintaining a minimum prudential balance of £4m, which indicates that a sum of up to £2.5m is potentially available for use. However, given that these resources are one-off, it is important 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 will also have an estimated £17.8m in the Future Funding Reserve as at 31 March 2020, which has been deliberately established to help manage the expected additional budget gap of £4.5m per year from 2021/22.

13 Preceptors' Requirements

13.1 The Thames Valley Police and Crime Panel will meet on the 14 February 2020 to determine the 2020/21 budget for the Thames Valley Police and Crime Commissioner (TVPCC). Provisional information indicates a £10 increase in the tax for a Band D property from £206.28 to £216.28 (4.85%) in 2020/21. The Royal Berkshire Fire Authority (RBFA) will not determine its budget and precept for 2020/21 until 24 February. The tax for a Band D property for RBFA in 2019/20 was £66.28. The Parish and Town Councils have yet to set their precepts for 2020/21. These totalled £3.335m in 2019/20 with an average tax of £73.17 for a Band D property. All precepts will be reported to the Council meeting on 26 February 2020.

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 26 February regarding the budget and Council Tax level for 2020/21. 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 2020/21:

- (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, 8.3 and 9.1), set out in detail in Annexes A, D and G;
- (b) confirmation of the impact of changes in investments and 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 2020/21 (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 directorates 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 for approval. They have been included in the Quarterly Service Reports. Details of the virements are set out in Annexe H.

16 **ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

- 16.1 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.

Director: Finance

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

Equalities Impact Assessment

- 16.3 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.
- 16.4 Equality impact assessments are attached at Annexe I.

Strategic Risk Management Issues

- 16.5 The Director of Finance'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.

17 CONSULTATION

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

Contacts for further information

Timothy Wheadon – 01344 355609
timothy.wheadon@bracknell-forest.gov.uk

Stuart McKellar – 01344 352180
Stuart.mckellar@bracknell-forest.gov.uk

Arthur Parker – 01344 352158
Arthur.parker@bracknell-forest.gov.uk