

TO: THE EXECUTIVE
DATE: 11 FEBRUARY 2014

GENERAL FUND REVENUE BUDGET 2014/15
(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 2014/15 as the basis for consultation on 10 December 2013.
- 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 Provisional Settlement itself, to set out the basis of the Executive's final budget proposals for 2014/15. These will be submitted to the Council for approval on 26 February 2014.
- 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 2014/15 – 2016/17 and the re-provision of the Dementia Home Care Service. Changes to the proposals included within these reports may therefore necessitate revisions to the 2014/15 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 2014/15:

- 2.1 **Confirms the original budget proposals, subject to the revisions in section 7.4 and those decisions to be taken elsewhere on this agenda on the capital programme and the Dementia Home Care Service;**
- 2.2 **Agrees the provision for inflation of £1.875m (section 7.2);**
- 2.3 **Agrees the additional budget proposals as set out in Annexe A and Annexe D and in sections 6.2, 6.3 and 7.3;**
- 2.4 **Agrees that the Council should fund the Schools budgets at the level set out in section 8.1 subject to any amendments made by the Executive Member for Children, Young People and Learning;**
- 2.5 **Includes a general contingency of £1.000m, 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 (section 9.6);**
- 2.6 **Subject to the above recommendations, confirms the draft budget proposals;**
- 2.7 **Approves the Net Revenue Budget before allowance for loss of interest from any use of balances as set out in Annexe G;**

- 2.8 Agree a contribution from revenue balances (before loss of interest on use of balances) to support revenue expenditure as set out in paragraph 11.4;**
- 2.9 Recommends that the council tax requirement, excluding Parish and Town Council precepts, be set as £45.944m;**
- 2.10 Recommends no change in the Council Tax for the Council’s services. The Valuation Bands therefore remain as follows:**

Band	Tax Level Relative to Band D	£
A	6/9	729.30
B	7/9	850.85
C	8/9	972.40
D	9/9	1,093.95
E	11/9	1,337.05
F	13/9	1,580.15
G	15/9	1,823.25
H	18/9	2,187.90

- 2.11 Recommends that the Council approves the following indicators, limits, strategies and policies included in Annexe E:**
- **The Prudential Indicators and Limits for 2014/15 to 2016/17 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 2014/15 to 2016/17 and Treasury Management Limits on Activity contained in Annexe E(iv);**
- 2.12 Approves the virements relating to the 2013/14 budget as set out in Annexe H.**

3 REASONS FOR RECOMMENDATIONS

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.

5 SUPPORTING INFORMATION

- 5** Basis of Draft Budget Proposals

- 5.1 At its meeting on 10 December 2013, the Executive considered the overall position facing the Council in setting a budget for 2014/15. At the time the Executive agenda was published, the Provisional Local Government Financial Settlement had not been announced and therefore the report was based on a number of assumptions regarding 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 self evidently severely restricted. Many of the pressures accommodated in the budget package are simply unavoidable and respond only to changing demographic trends, particularly as they principally relate to increases in children and young people in care and increases in client numbers within Adult Social Care.
- 5.4 As in previous years, economies focused as far as possible on central and departmental support rather than on front line services. However, since it became a Unitary Authority the Council has successfully delivered savings of more than £58m in total. Against this background of continually bearing down on costs and driving to improve efficiency it is becoming increasingly difficult to find further savings in "back-office" areas, which would not compromise the Council's ability to function effectively.
- 5.5 The draft budget proposals suggested an approach for inflation. The draft proposals, which reflect the Council's current key objectives, are summarised in table 1.

Table 1: Draft Budget Proposals

Department	Commitment Budget 2014/15	Indicative Capital programme / Change in investment income	Inflation	Change in Contingency	Service Pressures / Economies	New Homes Bonus / Business Rates	Draft Budget 2014/15
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive / Corporate Services	6,884	0	0	0	-687	0	6,197
Children, Young People and Learning	24,195	0	0	0	40	0	24,235
Adult Social Care, Health and Housing	35,480	0	0	0	-1	0	35,479
Environment, Culture & Communities	33,126	0	0	0	-1,182	0	31,944
Non Departmental / Council Wide	-15,734	50	1,900	-1,000	0	-568	-15,352
Total	83,951	50	1,900	-1,000	-1,830	- 568	82,503

6 Local Government Finance Settlement

6.1 Overview

- 6.1.1 Historically the Provisional Local Government Settlement was published in late November, giving authorities adequate time to incorporate the funding allocations into their budget proposals. However over the last few years the timetable has slipped further and further into December. This adds to the uncertainties faced by Council's with respect to their funding streams and hampers the budget consultation process.
- 6.1.2 This year the Settlement was published on the 18th December 2013, with supporting information released over the following days. As such the budget proposals, agreed as the basis for consultation on 13th December 2013, were based on indicative funding figures provided in January 2013 as part of the 2013/14 Settlement and were expected to be revised following the actual announcement.
- 6.1.3 In the event, the figures eventually released in the Provisional Settlement result in a further reduction of £0.386m on the level of government funding to be received by the Council. The main reason for this further reduction relates to an additional 1% reduction in total local government funding announced by the Chancellor of the Exchequer in his 2013 Budget, aimed at reducing further the national deficit. Further reductions result from the initiatives announced by the Chancellor in the "Autumn Statement" in December to support business by capping the Business Rate Multiplier. The government have also taken the decision to roll into the Council's funding baseline the Council Tax Freeze Grant (CTFG) relating to 2011/12 and 2013/14 (-£1.71m) to encourage Councils to hold levels at that charged in 2013/14. Council's that qualify for CTFG in 2014/15 will also benefit from it being included in their base. Whilst this does complicate past comparisons of funding allocations, the base-lining of CTFG is to be welcomed.
- 6.1.4 As such the provisional Funding Assessment for Bracknell Forest in 2014/15 is £34.283m, with the Council experiencing a £3.021m reduction in funding from that received in 2013/14, representing an 8% fall.
- 6.2 Specific Grants
- 6.2.1 From 2013/14 almost all Specific Grants have been rolled into the Baseline Funding that Council's receive with only a minority administered outside of the formula mechanism. The only significant reduction announced for 2014/15 is the funding for Local Council Tax Support and Housing Benefit Administration Subsidy which will reduce by £0.063m from 2013/14 to 2014/15. There is also some uncertainty as to the level of funding that this will attract in 2015/16. A number of other minor reductions affecting 2014/15 total £0.018m.
- 6.2.2 Two of the largest Specific Grants received by the Council are the ring-fenced Public Health Grant (increasing from -£2.772m in 2013/14 to -£3.049m in 2014/15) and the NHS funding to support social care and benefit health (increasing from -£1.295m in 2013/14 to -£1.658m in 2014/15). It has been assumed that this additional funding will be used to support services and initiatives within the health and social care area.
- 6.2.3 The Council continues to benefit from the New Homes Bonus (NHB) and following the publication of the provisional figures for 2014/15 additional income of -£0.075m over and above that reported in the December Executive report can be budgeted for in 2014/15. The total income included within the budget proposals for 2014/15 from NHB is -£2.660m.
- 6.2.4 A Council Tax Freeze Grant equivalent to a 1% increase in Council Tax equates to -£0.501m in 2014/15 for Bracknell Forest. This grant will be provided until at least

2015/16. Any support beyond that date will be announced as part of the 2016 Spending Round following the General Election.

6.3 Business Rates

6.3.1 An important income stream for the Council is Business Rates, a proportion of which is retained locally following the Business Rates Retention reforms introduced in April 2013. The amount of Business Rates collected each year varies due to inflationary increases in the multiplier (capped at 2% for 2014/15) and due to 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. During 2013/14 a large multi-national company was transferred on to the Council's valuation list which has materially increased the level of business rates collected locally. This will have an impact on the Collection Fund for 2013/14 and both the Collection Fund and General Fund in future years, whilst this rate-payer remains on the Council's local list. The circumstances surrounding this change are unique and could in no way have been predicted, furthermore there are currently significant risks to this income, which means its retention is by no means certain and which are outside the control of the Council. Combined with the upheaval resulting from the Town Centre regeneration (the recent demolitions have resulted in both a reduction of rateable values and a large number of appeals for reduced rates), it is prudent to carefully manage any surplus in 2013/14 and 2014/15. As such a reserve will be maintained to smooth out the gains and losses as a result of these significant changes and levy payments, until more certainty and stability is predicted.

6.3.2 In summary, although the additional Business Rates is to be welcomed, there are risks attached to the long term sustainability of this income. It may assist but does not remove the need for identifying further budget reductions as the level of government support reduces. The additional income will result in a surplus on the Business Rates element of the Collection Fund in 2013/14 (-£6.322m). A levy will need to be paid on the income but due to the design of the scheme this will need to be reflected in the 2013/14 accounts rather than in the Collection Fund. It has been assumed that the additional income will continue to be received in 2014/15 and this is the main reason that additional business rates growth of -£4.610m can now be built into the budget proposals. The Council will also receive Section 31 grant to cover the loss of income resulting from capping the Business Rates increase to 2% and the continuation or introduction of a number of Business Rate Reliefs (-£0.908m). The National Non-Domestic Rates Return 1 (NNDR1) 2014/15 attached at Annexe J provides further details. All three elements can be used to support the 2014/15 budget but, given the high level of risk to the long term sustainability and the ongoing need to make reductions due to national financial policy, it is proposed instead that the full amount (£11.840m) is transferred into an earmarked reserve so that it can be used to support future budgets, levy payments (approximately £3m) and further refunds from appeals in a measured way over the medium term, should the current risks to its retention not materialise.

6.4 2015/16 Funding

6.4.1 Alongside the 2014/15 Provisional Settlement, the Government published indicative headline figures for 2015/16. This reflects further reductions in government support with cuts of £0.673m more than previously anticipated in the December consultation budget proposals, reflecting the knock on impact of the Chancellor's decisions in both Budget 2013 and the Autumn Statement. As such government grant will continue to decline with the Funding Assessment reducing from -£34.283m in 2014/15 to -£30.574m in 2015/16, representing a £3.7m (11%) reduction.

7 Developments since the Executive Meeting on 10 December 2013

7.1 Consultation

- 7.1.1 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.
- 7.1.2 The draft fees and charges for 2014/15 have also been considered by the Overview and Scrutiny Commission and Scrutiny Panels and no significant issues were raised.
- 7.1.3 The Schools' Forum considered the Executive's proposals relating to the Children, Young People and Learning department at its meeting on 17 January. The Schools Forum were concerned regarding all of the proposed budget cuts in services in relation to Children, Young People and Learning and the potential impact on education and children and young people in Bracknell Forest, but were particularly concerned with budget cuts affecting the most vulnerable children, including the Early Years Service, and looked after children. The Forum noted that economies needed to be made but were concerned about the impact on frontline services at the Council.
- 7.1.4 The draft budget proposals were published on the Council's web site and letters were sent to the Town and Parish Councils, voluntary organisations and business ratepayers drawing their attention to the consultation. A total of 9 responses were received including detailed responses from the Labour Group and Liberal Democrats. Although there was broad agreement on the Council's approach a number of specific concerns were expressed. A summary of the responses received are included at Annexe C.
- 7.1.5 The Executive are asked to confirm that there are no further budget proposals that they wish to change following the six week consultation period other than those outlined in section 7.4 below.

7.2 Inflation

- 7.2.1 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 and as a consequence the inflation provision has been reduced to £1.875m. The Departmental analysis is shown in Table 2.

Table 2: Inflation Allocations

Department	2014/15 £'000
Chief Executive/Corporate Services	274

Children, Young People and Learning (non schools)	283
Adult Social Care, Health and Housing	669
Environment, Culture and Communities	649
Non Departmental /Council Wide	0
Total	1,875

7.2.2 This is a saving of -£0.025m compared to the draft budget proposals. Inflation on schools' expenditure is provided for within the Dedicated Schools Budget expenditure, which is funded by the Dedicated Schools Grant.

7.3 Council Tax Collection Fund

7.3.1 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 2014/15 budget, is estimated to be -£0.597m.

7.3.2 The Business Rates element of the Collection Fund is discussed in section 6.3.

7.4 Other Revisions to the Draft Budget Proposals

7.4.1 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 a decrease in the net revenue budget for 2014/15 of -£0.096m. These changes have been reflected in the full budget proposals set out in Annex D and the Commitment Budget (Annexe A). The new proposals included in Annex D are shaded to distinguish them from the December proposals that formed part of the consultation process.

a) Corporate Services – discretionary Business Rates relief

Following the localisation of Business Rates, the budget set aside for discretionary relief is no longer required as the costs will be met from the Collection Fund (-£0.068m).

b) Corporate Services – vacating Seymour House

A reassessment of the savings arising from the move has led to -£0.010m of the savings being re-profiled from 2014/15 to 2016/17 (£0.010m).

c) Corporate Services - charges to Unions

Having received representations from Unison, their accounts have been reviewed and charging rent for the occupation of space at the Commercial Centre is now considered to be unaffordable (£0.005m).

d) Children Young People and Learning – Early Years, Childcare & Play

Funding for training and supporting volunteers that support vulnerable families in their homes (Home-Start). Home-Start is an important service that helps the Council to fulfil several of its strategic objectives. The proposed saving could, therefore, be deferred for 12 months whilst a thorough review of the future funding of Home-Start is undertaken in relation to its health functions (£0.020m).

e) Adult Social Care, Health and Housing - Long Term Conditions

In order to secure full social care funding from the NHS, the Council will need to provide match funding of £0.090m for the support of long term conditions.

- f) Environment, Culture and Communities – landfill tax/waste disposal PFI
The latest waste projections have resulted in a reduction in the projected costs included in the Commitment Budget (-£0.016m)
- g) All Departments – Carbon Reduction Commitment
The Council will be below the participation threshold for Phase 2 of the scheme and therefore the associated spend has been removed from the Commitment Budget (-£0.126m). The Government has indicated that formula grant will be adjusted downwards in 2015/16 to reflect the Council's reduced costs.
- h) Non Departmental / Council Wide – ceasing to pay pension fund contributions in advance
The Council is now expected to have sufficient cash balances available to make a prepayment on its Pension Fund contributions in 2014/15. The loss of income from ceasing to make the prepayment originally included in the Commitment Budget in 2014/15 has now been moved to 2015/16 (-£0.200m).
- i) Non Departmental / Council Wide – pension fund contributions
The Commitment Budget assumed that there would be a reduction in the employers Pension Fund contribution rate following the introduction of the new scheme. The draft actuarial valuation of the Pension Fund indicates that that the Council can expect no change in the rate in 2014/15 and a 0.5% increase in the rate year on year from 2015/16 onwards (£0.236m).
- j) Non Departmental / Council Wide – revenue impact of the 2013/14 capital programme
Changes to the forecast capital expenditure in 2013/14 have reduced the Minimum Revenue Provision and the loss of interest figures included in the Commitment Budget (-£0.077m). Two Invest to Save schemes will also generate revenue savings in 2014/15 (-£0.030m).
- k) Non Departmental / Council Wide – Council Tax Support to Parishes
The lower than forecast take-up of the Local Council Tax Benefit Support Scheme has enabled the support to Parishes to be reduced without impacting on their income levels (-£0.039m).
- l) Non Departmental / Council Wide – Insurance Reserve
Reduction in the annual drawdown from the reserve following the insurance re-tender and the re-assessment of insurance premiums (£0.099m).

8 Other Budget Issues

8.1 Schools Budget

- 8.1.1 Whilst spending on the Schools Budget is 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 and can also take account of any accumulated under or overspending on the Schools Budget from previous years.

8.1.2 From April 2013, the DSG was split into three notional blocks – schools (which includes delegated school budgets and a small number of centrally managed services) and early years, both of which have their own per pupil funding rate, and the high needs block for pupils with needs above £10,000 which is adjusted each year based on actual numbers of pupils, capped to the level of national DSG. The allocations are not ring-fenced to each block, so more or less can be planned to be spent within each element, but a ring-fence continues on the DSG as a whole so that it can only be spent on the functions defined within the School Funding Regulations.

8.1.3 The DfE has yet to provide an update on grant funding in the Early Years or High Needs Block, but with an increase in pupil numbers of 345, the Schools Block element is expected to increase by £1.352m making a total provisional DSG allocation for 2014/15 of £79.736m. The draft budget proposals assume the Schools Budget is set at the estimated level of DSG and that any accumulated deficit or surplus is managed to a nil balance by the end of the funding period.

8.1.4 Decisions around the 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. To ensure there is full involvement of the Schools Forum, and that the most up to date information on DSG income is used, final decisions on the Schools Budget are planned to be taken in March.

8.2 Pensions

8.2.1 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.

8.3 Investments

8.3.1 The Council generates interest each year from investing its accumulated cash reserves and working capital. The two factors that influence the amount of interest earned are interest rates and the average level of cash balances held over the year.

8.3.2 Until 2013, the economic recovery in the UK since 2008 had been the slowest in recent history. However, growth rebounded in the first three quarters of 2013 to surpass most expectations. Growth prospects remain strong looking forward, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. The US, the largest world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

8.3.3 Whilst the Bank Rate is not expected to change over the coming 12 months, there are a number of factors that will impact on the rate of return that can be expected to be earned by the Council. The Government's various "Help to Buy a Home" schemes are providing excess liquidity in the money markets, and combined with the continued Quantitative Easing policy of the Bank of England, short-to-medium term investment rates have fallen in the past 12 months to below the Bank Rate – with an

average yield currently available to the Council of approximately 0.4%. Given the Council's approach to managing risk and keeping investments limited to short maturities (majority of term deposits at a maximum of 3-months) with the exception of the part-nationalised UK Banks, the opportunity to achieve rates in excess of the Bank Rate is limited.

- 8.3.4 The 2014/15 budget is therefore based on an average rate of return of approximately 0.5% and reflects the lower cash balances as a result of the 2014/15 and proposed 2015/16 Capital Programme. The Council can once again make maximum use of the arrangement to make a pre-payment on its pension fund contributions and thus earn a higher discount than could be achieved through its own investment opportunities. The net impact of these is a £0.050m interest pressure, being £0.020m related to the Capital Programme and a loss of income of £0.030m from the fall in the expected yield on investments from the 1% included in the 2013/14 Budget and other cash-flow movements.
- 8.3.5 There is a risk, however, that the Council's cash-flow will differ from past years as a result of the reforms to Business Rates Retention which has a dramatic impact on the cash-profile of the Council. As such any change in interest rates or cash balances will clearly have an impact on the overall investment income generated by the Council with every 0.1% reduction in the average rate of return adding a £0.02m pressure to the General Fund.
- 8.3.6 The 2014/15 Treasury Management Report attached as Annexe E re-affirms the strategy adopted by the Executive in December 2013 that governs the amount, duration and credit worthiness of institutions that the authority will place investments with during 2014/15. 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. 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 28 January 2014, the Treasury Management Strategy remains unchanged from that consulted on in December.
- 8.3.7 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 require Council approval and are included at Annexe E (i) and within the Treasury Management Strategy Statement at Annexe E (iii).
- 8.3.8 The capital programme is being considered separately on tonight's agenda and proposes council funded capital expenditure of £8.428m and an externally funded programme of £15.637m in 2014/15. After allowing for projected receipts of approximately £5m in 2014/15 and carry forwards, but excluding the self-funding Invest to Save schemes, the additional revenue costs will be £0.020m in 2014/15 and £0.280m in 2015/16. These figures include on-going costs associated with the maintenance and support of IT capital purchases. The revenue costs are 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.
- 8.3.9 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 MRP policy was reviewed by the Governance and Audit Committee at its meeting on 28 January and no changes were proposed.

8.3.10 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. In practice the Council is unlikely to borrow externally as it has sufficient revenue investments, arising from the Council's reserves and balances to cover this expenditure. However it will still need to make a charge to revenue for this "internal borrowing".

8.3.11 The draft budget proposals included an estimate of £1.584m for the Minimum Revenue Provision required to be made in 2014/15. The revised estimate is £1.536m, a decrease of £0.048m relating to changes to the forecast capital spend in 2013/14. The actual charge made in 2014/15 will be based on applying the approved MRP policy to the 2013/14 actual capital expenditure and funding decisions.

8.4 Capital Charges

8.4.1 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 fixed 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.

8.4.2 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 2014/15 total £13.823m which is an increase of £0.849m compared to the current year. This is largely because of forecast capital expenditure in 2013/14 and annual revaluations.

8.4.3 Changes to capital charges do affect internal services recharges (see below) and have therefore 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.

8.5 Internal Services Recharges

8.5.1 Members' decisions on the capital programme may affect capital charges and this will determine the overall cost of services in 2014/15. 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.

8.5.2 The impact of changes in recharges for internal services is 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.

9 Statement by the Borough Treasurer

9.1 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

9.2 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 over the Spending Review period and beyond;
- 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 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;
- 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;
- impact of litigation and legislation;
- town centre regeneration.

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 external audit to ensure they remain fit for purpose.
 - Taking corrective action during the year to ensure the budget is delivered every year (as in 2009/10, 2006/07, 2005/06 and 2000/01).
 - Specific regular review by Group Accountants of particularly volatile budget areas.

9.3 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 2014/15 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 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, major school redevelopment proposals and the achievement of savings proposals;
- **Inflation** – the provision is based on estimates of inflationary pressures at the current time;
- **Treasury Management / Investments** – return on investments is affected by cashflow and the level of the Bank rate;
- **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 and renewal of major contracts;
- **Legislative Changes** – for example, the continuing impact of the personalisation agenda and the reorganisation of the NHS and its impact on Council funding and services (particularly public health), 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 and the changes to the youth justice system that have transferred responsibility for the volatile cost of remand arrangements to local authorities;

- **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.

9.4 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 9.2, 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

9.5 In setting the budget for 2013/14, the level of general contingency was increased to £2.000m. The draft budget proposals for 2014/15 allowed for a decrease in the contingency of -£1.000m to £1.000m as the previously identified risks associated with the part localisation of Business Rates, the localisation of Council Tax benefit support and the transfer of Public Health responsibilities have been fully evaluated and action has been taken to minimise their impact on the Council's long term financial position.

9.6 During the next year the Council will still face significant risks on its budget particularly in relation to:

- demand led services;
- Business Rates appeals;
- the continuing general economic uncertainty.

The level of risk and uncertainty, whilst still significant, has diminished compared to last year. In particular, the take up of Council Tax support has been significantly less than originally budgeted for in 2013/14. The Chief Executive and CMT have reflected upon the outlook for the economy as a whole and its impact on the Council and the risks contained within the proposed budget. As a result, the Borough Treasurer recommends that the contingency be set at £1.000m as per the draft proposals.

Earmarked Reserves

9.7 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 £18.378m in Earmarked Reserves at the start of 2013/14 which were approved by the Governance and Audit Committee in September 2013. The Borough Treasurer has undertaken a review of existing earmarked reserves and Annex 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 2013/14 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.

10 Net Revenue Budget

- 10.1 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 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 (Section 7.4)	Changes to Specific Grants (Section 6.3)	Total Changes Identified
		£'000	£'000	£'000
Chief Executive/Corporate Services	274	-85	3	192
Children, Young People and Learning	283	17	5	305
Adult Social Care, Health and Housing	669	85	72	826
Environment, Culture & Communities	649	-132	0	517
Non Departmental / Council Wide	-1,900	19	1,635	-246
TOTAL	-25	- 96	1,715	1,594

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 2014/15

Department	2014/15 Draft Proposals (Table 1)	Changes Identified (Table 3)	Change in Council Tax Freeze Grant (Section 6.3)	Revised Budget Proposals
	£'000	£'000	£'000	£'000
Chief Executive/Corporate Services	6,197	192	0	6,389
Children, Young People and Learning	24,235	305	0	24,540
Adult Social Care, Health and Housing	35,479	826	0	36,305
Environment, Culture & Communities	31,944	517	0	32,461
Non Departmental / Council Wide	-15,352	-246	-501	-16,099
Total	82,503	1,594	- 501	83,596

- 10.2 The Net Revenue Budget in 2014/15 if the Executive agreed all of these proposals would be £83.596m before the loss of interest on any revenue balances that might be used and the surplus on the Business Rates element of the Collection Fund. This compares with income of -£80.824m from Revenue Support Grant and Business Rates baseline funding (-£34.283m), the Council Tax Collection Fund surplus (-£0.597m) and Council Tax at the 2013/14 level (-£45.944m). The Net Revenue Budget is therefore £2.772m above the level of income for 2014/15.

11 Use of Balances

- 11.1 The Council needs to maintain reserves to aid cashflow and to protect itself from fluctuations in actual expenditure and income. An allowance for cashflow is

reasonably easy to calculate. However, an allowance for variations against planned expenditure is more difficult.

- 11.2 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 2014/15 is expected to be £8.6m. This is made up as follows:

Table 5: General Reserves as at 31 March 2014

	£m
General Fund	13.0
Planned use in 2013/14	(4.4)
TOTAL Estimated General Balances	<u>8.6</u>

The level of balances will increase should the Council under spend its revenue budget in 2013/14. Based on current forecasts an under spend in the region of £1.5m appears likely. Should this level of under spend be achieved, a further round of the Members' Initiative Fund could be implemented in 2014/15.

- 11.3 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. On this basis it is recommended that the Council makes a contribution of £2.772m from revenue balances to support expenditure in 2014/15.
- 11.4 If the changes to the Dementia Home Care Service covered elsewhere on the agenda are approved then the savings that will result (-£0.150m) will reduce the Net Revenue Budget from £83.596m to £83.446m, before the loss of interest and the surplus on the Business Rates element of the Collection Fund. Use of balances will reduce from £2.772m to £2.622m.

12 Preceptors' Requirements

- 12.1 On the 31 January 2014 the Police and Crime Panel met to determine the 2014/15 budget for the Thames Valley Police and Crime Commissioner (TVPCC). Confirmation of the outcome is still awaited. The tax for a Band D property for the TVPCC was £157.38 in 2013/14. The Royal Berkshire Fire Authority (RBFA) will not determine its budget and precept for 2014/15 until 19 February. The tax for a Band D property for RBFA in 2013/14 was £60.66. The Parish Councils have yet to set their precepts for 2014/15. These totalled £2,641,977 in 2013/14 with an average tax of £64.25 for a Band D property. The Parish Council and RBFA precepts will be reported to the Council meeting on 26 February 2014.

13 Summary of Matters for Decision

- 13.1 The table in 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 2014/15. 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 2014/15:

- (a) confirmation of the draft budget proposals, taking account of issues raised during the consultation period (section 7.1) and revisions identified to reflect current information (sections 6.2, 6.3, 7.2, 7.3, 7.4), set out in detail in Annexe A and D;
 - (b) confirmation of the impact of changes in investment rates on the budget (section 8.3);
 - (c) the level of the corporate contingency (section 9.6);
 - (d) subject to (a) to (c) 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 2014/15 (sections 10 and 11).
- 13.2 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.
- 13.3 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 sent to all members.

14 Budget Monitoring - Virement requests

- 14.1 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 for approval. They have been included in the Quarterly Service Reports. Details of the virements are set out in Annexe H.

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

Borough Solicitor

- 15.1 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

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

Equalities Impact Assessment

- 15.3 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.
- 15.4 Equality impact assessments are attached at Annexe I.

Strategic Risk Management Issues

- 15.5 The Borough Treasurer's Statement in Section 9 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.

16 CONSULTATION

- 16.1 Details of the consultation process and responses received are included in section 7.1.

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