

TO: EXECUTIVE
22 JULY 2014

COMMITMENT BUDGET 2015/16 – 2017/18
Borough Treasurer

1 PURPOSE OF DECISION

- 1.1 This report updates the Executive on the significant issues that are likely to impact upon the Council's budget in future years and represents the first step towards setting a budget for the 2015/16 financial year and beyond.

2 RECOMMENDATIONS

- 2.1 **That the Commitment Budget for the period 2015/16 to 2017/18, summarised in Table 1 of the report be approved.**
- 2.2 **That the proposed budget process for 2015/16 as set out in paragraphs 5.18 to 5.21 of the report be approved.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The recommendations are designed to allow the Executive to develop its Medium Term Financial Strategy and to start to consider an appropriate budget strategy for 2015/16 and beyond.

4 ALTERNATIVE OPTIONS CONSIDERED

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

5 SUPPORTING INFORMATION

Commitment Budget 2015/16-2017/18

- 5.1 The preparation of the Commitment Budget for the coming three year period brings together the Council's existing expenditure plans and is the first formal stage in planning for the revenue budget for 2015/16. The Council's Commitment Budget is shown in detail in Annexe A and summarised in Table 1.

Table 1: Commitment Budget 2015/16-2017/18

Department Plans	Base Budget	Planned Expenditure		
		2014/15 £m	2015/16 £m	2016/17 £m
Base Budget	87,058	87,058	88,052	89,522
Movements in Year	-	994	1,470	504
Adjusted Base	87,058	88,052	89,522	90,026

This table illustrates the Council's current planned spending. The Commitment Budget is based upon the 2014/15 budget approved by Council in February adjusted to exclude the effects of drawings from balances, and takes account of approved existing commitments, including the full-year effect of pressures and economies approved for the 2014/15 budget.

- 5.2 Savings identified for future years within the revenue proposals for 2014/15 have been included in the commitment budget. Significant changes to the Commitment Budget submitted include:

- Revenue impact of ICT schemes implemented in 2014/15 Capital Programme (+£0.054m)
- The impact of the indicative 2014/15 Capital Programme (MRP and Interest Costs) are now included in the Commitment Budget (+£0.214m) along with impact of future year's capital programmes.
- Cost of increase in Employers Pension fund contributions (+£0.140m)
- Pre-paying Pension Fund contributions in advance curtailed (-£0.100m)

5.3 As part of the process for building the 2015/16 budget, all commitments will be reviewed over the coming months to ensure that they remain valid and have been accurately costed.

Resources

5.4 There are a number of inherent difficulties in medium-term financial planning, in terms of accurately estimating both available resources and spending needs. The Commitment Budget covers a very uncertain period with a General Election in 2015 and a new Spending Review covering the years 2016 onwards to be set by the incoming Government. However with a 2-year Local Government Financial Settlement (LGFS) announced this year covering 2014/15 to 2015/16 there is at least some certainty on Government Funding for the first year of the Commitment Budget.

5.5 For planning purposes the reduction in central government support included in the 2014/15 LGFS has been incorporated within these Budget Projections reflecting a further reduction of £4.3m in 2015/16. For the remaining period of the Commitment Budget a reduction of 8% overall in government support has been assumed. This may be conservative given past reductions, however recent history shows that local government has delivered substantially more, in terms of relative savings, than nearly all other central government departments, and as such there is support for a reduced level of cuts.

5.6 The Council also receives substantial external funding through a number of specific grants for which the following assumptions have been included within the latest budget projections.

Council Tax Freeze Grant (CTFG)

As part of the 2014/15 LGFS the Government announced that CTFG would be payable to those qualifying authorities until at least 2015/16. As such for planning purposes the CTFG attributable to 2014/15 and 2015/16 have been built into the Council's base line funding. Any support beyond that date is likely to be announced as part of the 2016 Spending Round following the General Election in 2015.

Other Specific Grants

Some of the largest specific grants received by the Council are the ring-fenced Public Health, NHS funding streams and Better Care Fund, totalling over £11m in 2015/16. It has been assumed that these funding streams will be used to support services and initiatives within the health and social care area and as such are financially neutral for planning purposes at this early stage in the budget cycle.

New Homes Bonus

This non-ringfenced grant is designed to reward and encourage development of new properties in local communities and will generate £2.7m for Bracknell Forest Council in 2014/15. Each year's bonus is payable for 6 years. Increases of £0.5m are forecast for each of the years covered by the Commitment Budget based on the assumption of approximately 300-400 new properties being built each year in the borough. Whilst past bonuses are guaranteed, future levels of funding will depend on both delivering the number of new properties in the time scales expected and the potential changes that may arise from changes to the scheme as part of the new Spending Round.

Inflation and Interest Rates

- 5.7 Forecasting future levels of inflation and interest rates is fraught with considerable risk as the outlook for global economy continues to recover from the economic shocks of 2008. The greatest risk faced by the UK and the USA is the "unwinding" of the monetary easing that has been in place for many years. Historically low interest rates and never-before attempted quantitative easing now represent challenges to be overcome as both economies start to grow. Whilst the EU Central Bank finds itself in a different position having to cut interest rates below zero to address deflationary concerns, there continues to be great uncertainties in financial markets.
- 5.8 Based on the most up-to-date information and commentary from respected economists and the Governor of the Bank of England himself, UK interest rates may see an increase in the next 18 months, however any changes are likely to be minimal given the level of private sector debt (in particular personal levels of mortgage debt) and as such are unlikely to have a material impact on the Council's investment income over the period. The ability to pre-fund the Council's Pension payments, and the discount thus offered, is likely to reduce over the next 3 years and this has been reflected in the Commitment Budget.
- 5.9 Based on the current levels of surplus cash (generated mainly from cash flow and reserves) the Council should remain debt free for the next 24 months at least, however with investment returns expected to remain below 1% for the next 18 months to two years, this surplus cash will deliver minimal income. Any external borrowing, based on these planning assumptions, over the next three years is as such likely to be minimal and not significant in terms of the revenue budget.
- 5.10 The outlook for inflation, over the period covered by the Commitment Budget, remains benign and is not expected to increase beyond the 2% target set by the Monetary Policy Committee. In the short-term, expectations are for inflation to remain below target and only approach this level nearer to the end of the timeframe under review. An increase of 1% in the general rate of inflation translates into higher costs of up to £600,000.
- 5.11 In terms of pay inflation, it has been assumed that there will be a 1% increase in public sector pay in 2015/16, but an increase of 2% should be factored in to following years reflecting the potential rise in inflation and the pressure to close the gap between public sector earnings and prices. An increase of 1% in pay represents an additional cost of £0.46m

Fees and Charges

- 5.12 Increases in fees and charges are determined by the overall economic conditions, the willingness of customers to pay the higher charges and continued demand for Council services. For planning purposes it has been assumed that income from fees and charges will increase by an average of 2.2% over the three year planning period. The Council's long term average rate of increase in fees and charges is between 3.25% and 3.75%. If the market will bear increases of this magnitude in 2015/16 this will have a

positive impact on the budget forecasts. As a guide, a further 1% increase in fees and charges could be expected to yield an additional £0.18m in 2015/16.

Business Rates

- 5.13 Following the transfer of a significant business ratepayer on to the Council's local valuation list it is estimated that approximately £6m of additional business rate income will be generated annually. In addition to this there is a surplus of £11.8m as at 31 March 2015 as a consequence of additional business rate income in 2013/14 and 2014/15. Both the ongoing business rate income and the previous year's surplus are available to support future year's budgets, although regard must be paid to the likely future capital commitments (see next section) which are not currently included in the forecasts. As such this additional income has not been included in the Budget Overview below.

Capital Programme

- 5.14 The indicative Council funded three year General Fund capital programme included with the budget assumptions are £8m each year, with estimated capital receipts of £2m per annum. With the scope for generating income from capital receipts limited by the availability of surplus land/assets the capital programme has a significant impact on the revenue account with accounting regulations requiring resources to be set aside to cover underlying borrowing costs. Therefore the Council will need in due course to consider whether the indicative capital programme is affordable as part of its overall budget strategy.
- 5.15 At this stage no allowance is made for the investments in school places and Blue Mountain in particular, Coral Reef or Town Centre works, other than those already included in the Council's draft three year capital programme.

Budget Overview

- 5.16 Drawing together the above projections for future commitments and resources provides a starting point for considering the budget strategy for 2015/16 and beyond.

Table 2: Preliminary Budget Overview 2015/16 to 2017/18

	2015/16 £m	2016/17 £m	2017/18 £m
Base Budget	87.058	89.837	93.592
Known Commitments	0.994	1.470	.504
Capital Programme/Interest Rates	0.085	0.085	0.085
Inflation	1.700	2.200	2.200
Budget Requirement	89.837	93.592	96.381
Government Support (incl New Homes Bonus and Council Tax freeze grant)	34.081	33.052	32.681
Council Tax (at current rate with assumed growth in number of properties)	46.344	46.744	47.144
Funding	80.425	79.796	79.825
Funding Gap	9.412	13.796	16.556

- 5.17 The table above indicates, based on currently available information, that the Council faces an underlying funding gap of around £16.556m by 2017/18. However, it should be noted that this is before considering service pressures and developments. At this stage it is not possible to quantify the precise impact but experience has shown that the Council typically needs to add around £1.5m per annum to the budget for essential

service pressures. This would arise, for example, as a result of demographic change and an increase in some demand led services. This therefore suggests that the total budget gap over the next three years may be £21m (i.e. approximately 25% of the budget requirement in 2014/15).

Budget Strategy

- 5.18 When reporting on the financial outturn for 2013/14 general balances were £9.621m at 31 March 2014. The 2014/15 budget includes plans to spend £2.624m of this reserve on the assumption that the Council is able to spend within budget for the seventeenth consecutive year. Historically £4m has been considered to be the minimum prudent level for revenue balances. There is therefore £2.997m available to support future expenditure.
- 5.19 The focus over the coming months will be on the challenge posed by the likely funding gap in 2015/16. The Council has a track record of delivering efficiency savings and reducing back office costs in order to protect front line services although it is becoming increasingly difficult to achieve similar types of savings year-on-year. This will not be sufficient to bridge the anticipated funding gap so the Council will also need to consider:
- a) taking a firm line to limit future year's pressures
 - b) utilising available balances
 - c) increasing the Council Tax. For planning purposes it has been assumed that the Council will accept the council tax freeze grant (equivalent to a 1% increase) in 2015/16. Each 1% increase above this level will generate £450,000 additional income, although the need to hold a referendum for excessive increases (previously regarded as 2%) will severely limit this as an option
 - d) identifying savings to front line services which may result in service reductions or closures.
 - e) utilising some, or all, of the additional business rate income and the surplus from previous years.
- 5.20 In practice it is likely that a combination of approaches will be required.

Budget Timetable

- 5.21 Preparatory work at officer level has already been instigated by the Corporate Management Team to allow greater time to explore options. Within this context the key milestones for budget preparation are set out below:

Service Planning Process identifying key work streams	Jul 14 – Feb 15
Development of savings proposals	Jul 14 – Nov 14
Provisional settlement	Late December 14
Executive agree proposals for consultation	16 Dec 14
Overview and Scrutiny Commission reviews budget proposals	29 Jan 15
Executive considers responses to consultation and agrees final budget proposals	10 Feb 15
Council agrees budget and Council Tax	25 Feb 15

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Local Government Finance Act 1992 requires the Council to set the level of the Council Tax by 11 March each year. It is impossible to achieve this without having agreed an affordable revenue budget for the year in question.

Borough Treasurer

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

Equalities Impact Assessment

- 6.3 None.

Strategic Risk Management Issues

- 6.4 The Borough Treasurer, as the Council's Chief Finance Officer (section 151 officer) must formally certify that the budget is sound when it is recommended for approval in February. This will involve identifying and assessing the key risk areas in the budget to ensure the robustness of estimates and ensuring that appropriate arrangements are in place to manage those risks, including maintaining an appropriate level of reserves and contingency. This formalises work that is normally undertaken each year during the budget preparation stages and in monthly monitoring after the budget is agreed.

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 actions 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 CMT and through the Quarterly Service Reports (QSR's) to Members
 - Exception reports to the Executive
 - Annual review of the Councils' budget monitoring arrangement 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

7 CONSULTATION

Principal Groups Consulted

7.1 No groups have been consulted at this stage.

Background Papers

None.

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