

**TO: THE EXECUTIVE**  
**DATE: 10 FEBRUARY 2015**

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**GENERAL FUND REVENUE BUDGET 2015/16**  
**(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 2015/16 as the basis for consultation on 16 December 2014.
- 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 2015/16. These will be submitted to the Council for approval on 25 February 2015.
- 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 2015/16 – 2017/18. Changes to the proposals included within this report may therefore necessitate revisions to the 2015/16 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 2015/16:**

- 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;**
- 2.2 **Agrees the provision for inflation of £1.511m (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 following the receipt of definitive funding allocations for Early Years and High Needs pupils;**
- 2.5 **Includes a general contingency of £2.000m, 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 11.5;
- 2.9 Recommends that the Council Tax requirement, excluding Parish and Town Council precepts, be set as £46.706m;
- 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 2015/16 to 2017/18 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 2015/16 to 2017/18 and Treasury Management Limits on Activity contained in Annexe E(iv);
- 2.12 Approves the virements relating to the 2014/15 budget as set out in Annexe H and recommends those that are over £0.100m for approval by Council.
- 2.13 Approves the release of the £0.490m of funds from the Schools SEN Resource Units Reserve from January 2015 to finance start-up costs at Rise@Garth (section 8.1).
- 2.14 Approves the medium term budget plan for Rise@Garth, subject to annual review (Annexe I).

### 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 25 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 16 December 2014, the Executive considered the overall position facing the Council in setting a budget for 2015/16. 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 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 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 in 1998 the Council has successfully delivered savings of more than £62m 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 2015/16	Capital programme Change in investment income	Inflation	Service Pressures / Economies	Changes to Specific Grants	New Homes Bonus / Business Rates	Business Rates transfer to Reserve	Draft Budget 2015/16
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care, Health and Housing	36,020	0	0	140	208	0	0	36,368
Children, Young People and Learning	25,473	0	0	-354	426	0	0	25,545
Corporate Services / Chief Executive's	8,235	0	0	-229	0	0	0	8,006
Environment, Culture & Communities	34,001	0	0	-389	0	0	0	33,612
Non Departmental / Council Wide	-12,950	85	1,700	-60	0	-500	-9,322	-21,047
<b>Total</b>	<b>90,779</b>	<b>85</b>	<b>1,700</b>	<b>-892</b>	<b>634</b>	<b>-568</b>	<b>-9,322</b>	<b>82,484</b>

## 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 2014. As such the budget proposals, agreed as the basis for consultation on 16th December 2014, were based on indicative funding figures provided in February 2014 as part of the 2014/15 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 £0.197m on the level of government funding to be received by the Council. One reason for this further reduction relates to the capping of the Business Rates Multiplier at 2% (compared to 2.5% in the indicative figures). This will benefit local business owners, but would otherwise reduce the income received by the Council. The Government have given a commitment to offset this loss through the payment of a Section31 grant during the year (see section 6.3.2). The government have also confirmed the decision to roll into the Council's funding baseline the Council Tax Freeze Grant (CTFG) relating to 2014/15 (-£0.501m).
- 6.1.4 As such the provisional Funding Assessment for Bracknell Forest in 2015/16 is £30.879m (comprising -£15.602m Revenue Support Grant and -£15.277m baseline funding from Business Rates). This is a £3.910m reduction in funding from that received in 2014/15, representing an 11.4% 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.
- 6.2.2 The draft proposals included reductions to two Specific Grants. A reduction of £0.426m in Education Services Grant (ESG) which is paid to fund education support services which councils provide centrally to maintained schools, and removal of the Social Fund Grant (£0.208m) which in future would be funded from general grant. The provisional settlement confirmed the treatment of Social Fund Grant and revised the reduction in ESG to £0.419m, £0.007m less than originally forecast.
- 6.2.3 The only further significant reduction related to funding for Local Council Tax Support and Housing Benefit Administration Subsidy which will reduce by £0.108m in 2015/16. A number of other minor reductions affecting 2015/16 total £0.030m.
- 6.2.4 Two of the largest Specific Grants received by the Council are the ring-fenced Public Health Grant and the NHS funding to support social care and benefit health (-£1.658m in 2014/15). The Public Health Grant for existing services has been maintained at -£3.049m for 2015/16. However, from 1 October 2015, councils will take over responsibility from NHS England for commissioning public health services for children aged 0-5. An additional ring fenced grant allocation of -£0.774m will be received in 2015/16 to meet the half year cost of this transfer. With regards to NHS funding, it has been assumed that the pooling of health and social care services budgets under the Better Care Fund will have a neutral impact on the Council's revenue budget.

- 6.2.5 The Council has been successful in a competitive bidding process and has been awarded a grant of -£0.087m so that it can participate in the Delivering Differently in Neighbourhoods programme. This funding has no impact on the budget as it will be used to fund new initiatives.
- 6.2.6 The Council continues to benefit from the New Homes Bonus (NHB) and following the publication of the provisional figures additional income of -£0.133m over and above that reported in the December Executive report can be budgeted for in 2015/16. The total income included within the budget proposals for 2015/16 from NHB is -£3.292m.
- 6.2.7 A Council Tax Freeze Grant equivalent to a 1% increase in Council Tax equates to -£0.505m in 2015/16 for Bracknell Forest. Any future support 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 introduction of the Business Rates Retention reforms in April 2013. The level of Business Rates changes each year due to inflationary increases in the multiplier (again capped at 2% for 2015/16) and local growth or decline as local businesses and economic conditions expand or contract.
- 6.3.2 The Government sets a baseline level of funding against which any growth or reduction is shared between local and central government. Taking into account the baseline funding level published in December and factoring in local circumstances, the budget projections assume income of -£35.286m (-£20.368m after tariff payments). There is a short term risk associated with these projections due to the impact of the Town Centre regeneration on existing businesses; however officers monitor total yield, revaluations, changes-in-circumstances, appeals and refunds on a monthly basis. 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 (-£0.801m after tariff adjustments). The National Non-Domestic Rates Return 1 (NNDR1) 2015/16 attached at Annexe J provides further details.
- 6.3.3 During 2013/14 a large multi-national company transferred on to the Council's valuation list which materially increased the level of business rates collected locally. When setting the budget for 2014/15 the Council's share of the resulting one-off surplus on the Collection Fund for 2013/14 and the on-going additional rates income were transferred into the Business Rates Equalisation Reserve. The draft budget proposals assumed that the on-going transfer to the reserve would be reduced by £3m to help balance the budget. To bridge the remaining budget gap it is proposed that an additional one-off transfer of £3.998m is made out of the reserve in 2015/16 (see section 11). It should be noted that this company has submitted a successful appeal against the rateable value of their fibre optic network. The impact has yet to be quantified by the Valuation Office but this will reduce future year's Business Rate income.
- 6.3.4 The Overview and Scrutiny Commission has completed a review of Business Rates and discretionary relief. They have recommended the introduction of a discretionary Business Rates relief scheme for small businesses within Bracknell Forest. The Executive will consider its response to this proposal and, if agreed, appropriate budgetary provision will need to be made during 2015/16.

## 6.4 2016/17 Funding

Future funding will be announced as part of the 2016 Spending Round following the General Election. With all mainstream political parties supporting a continuation of the national deficit reduction programme, combined with commitments to maintain the ring-fence on major public expenditure areas such as Health and Education, further reductions are inevitable in the coming years. These are likely to be of a similar magnitude to those experienced over the last 5 years.

## 7 Developments since the Executive Meeting on 16 December 2014

### 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 2015/16 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 15 January.
- 7.1.4 The Forum also requested that the Council's strategy to fund revenue budgets for relevant education services up to the level of grant income be reviewed with a view to considering providing top up funding from the Council's own resources. The overall level of funding for schools has, and will continue to be considered, as part of the Council's overall budget proposals.
- 7.1.5 The draft budget proposals were published on the Council's web site and letters were sent to business ratepayers drawing their attention to the consultation. A total of 12 responses were received including a detailed response from the Labour Group. Although there was broad agreement on the Council's approach a number of specific concerns were expressed. A summary of the responses received is included at Annexe C.

### 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 £1.511m. The Departmental analysis is shown in Table 2.

Table 2: Inflation Allocations

<b>Department</b>	<b>2015/16 £'000</b>
Adult Social Care, Health and Housing	636

Children, Young People and Learning (excluding schools)	269
Corporate Services / Chief Executive's Office	207
Environment, Culture and Communities	399
Non Departmental / Council Wide	0
<b>Total</b>	<b>1,511</b>

7.2.2 This is a saving of -£0.189m 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 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 2015/16 budget, is estimated to be -£0.412m.

7.3.2 A surplus is also expected to be generated on the Business Rates element of the Collection Fund and the Council's share is estimated to be -£0.182m.

### 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 g) below with the net impact being a decrease in the net revenue budget for 2015/16 of -£0.122m. These changes have been reflected in the full budget proposals set out in Annexe D and the Commitment Budget (Annexe A). The new proposals included in Annexe D have been shaded to distinguish them from the December proposals that formed part of the consultation process.

- a) Children, Young People and Learning – high needs pupils in schools  
In order to reduce the future cost increases currently being forecast for high needs pupils, a range of key actions have been identified. These are not eligible DSG spend, so fall within the financial responsibilities of the Council. In order to be able to finance these at no cost to the Council it is proposed that the Council fund a new £0.060m growth bid for the Special Educational Needs (SEN) Team with the Schools Budget financing an equivalent cost transfer from the Council relating to educational support for looked after children. Further details can be found in section 8.1.
- b) Corporate Services – Wildridings Square shops Invest to Save scheme  
The purchase of the head lease for two shops in Wildridings Square will generate rental income of -£0.034m. This will more than cover the revenue impact of the capital transaction included under Non departmental budgets.
- c) Environment, Culture and Communities –waste disposal PFI  
The latest waste projections, which are based on tonnage information from the September 2014 survey, have resulted in a reduction in the additional cost included in the Commitment Budget (-£0.261m).

- d) Environment, Culture and Communities – London Road Landfill Site  
The Environment Agency has recommended that enhancements are made to gas monitoring following an audit of the site. Additional expenditure is required over the next two years (£0.014m in 2015/16 and 2016/17).
- e) Non Departmental / Council Wide – revenue impact of the 2014/15 capital programme  
Changes to the forecast capital expenditure in 2014/15, in particular the purchase of the bus station when the Town Centre Development Agreement goes unconditional, have increased the Minimum Revenue Provision and the loss of interest figures included in the Commitment Budget (£0.170m).
- f) Non Departmental / Council Wide - 2015/16 Capital Programme  
For consistency, the impact of the 2015/16 Capital Programme on investment income has now been reflected in the Commitment Budget. As outlined in section 8.3, the reduction in interest earned has increased from £0.034m to £0.046m since the draft proposals.
- g) Non Departmental / Council Wide – Council Tax Support to Parishes  
The lower 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 (-£0.023m).

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

## 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. The policy of the Council is to fund the Schools Budget up to the level of grant income, with the Executive Member for Children, Young People and Learning responsible for agreeing individual service budgets.
- 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 Department for Education (DfE) has yet to provide a complete update on grant funding in the Early Years or High Needs Block, but with a confirmed increase in pupil numbers of 277, and an additional £1.555m of funds from the Government's Fairer Funding for Schools in 2015/16 initiative (that is targeted to councils currently receiving the lowest per pupil funding rates), the Schools Block element of DSG will increase by £2.724m to £65.276m with a total provisional DSG allocation for 2015/16 of £82.346m.



- 8.1.4 Despite this increase in income, as previously reported, there continues to be significant financial pressure on budgets for schools and the budgets managed by the Council that support schools and pupils, in particular those with high needs. An estimate of likely High Needs Block DSG income compared to cost indicates a significant pressure and this mainly relates to an increase in the cost of external placements, most notably for those aged 16 and above.
- 8.1.5 This arises from changes in financial responsibility, with the DSG now needing to fund post-16 high needs pupils through to age 25 rather than 19, with insufficient additional funds being allocated by the DfE to meet the extra responsibilities. In terms of funding made available for post 16 students, the budget transferred from the EFA to councils in 2013/14 to meet these commitments was based on 2011/12 pupil numbers and associated funding allocations. On a national scale, demand for Post 16 placements far outstripped the EFA's predictions which the budgets were based on, with a 40% increase in budget costs being seen. This was mirrored in Bracknell Forest with the allocated budget being less than the commitments already identified for 2013/14. Buckinghamshire County Council is proposing a legal challenge around the funding methodology and decision making process of the DfE in this matter. This could result in a Judicial Review, and further developments are awaited on this.
- 8.1.6 Costs supporting high needs pupils are rising and are now estimated at £2.138m above budget for 2015/16, with the pressure reducing to £1.938m after taking account of £0.2m (9%) of savings. A further cost increase of £0.891m is forecast between 2015/16 and 2017/18 as a number of post 16 students will continue in education to 25. The Council has made a request to the DfE for additional funding to help finance these cost increases as have a number of other authorities and a response is awaited.
- 8.1.7 With no significant change expected in the amount of High Needs DSG, the only viable option available to balance the Schools Budget is to use £1.938m of funding intended for schools for high needs pupils. This means that other than for increases in pupil numbers and changes to their characteristics, such as increased numbers eligible to a free school meal, no additional funds will be allocated to schools next year. In the absence of other options, the Schools Forum has agreed this funding transfer.
- 8.1.8 In order to reduce the future cost increases currently being forecast for high needs pupils, a range of actions have been identified. These are labour intensive, estimated at £0.06m to implement, and as they are not eligible DSG spend, fall within the financial responsibilities of the Council. In order to be able to finance this at no cost to the Council, the Executive is recommended to support a funding swap that would see the Council fund a new £0.06m growth bid for the SEN Team with the Schools Budget financing an equivalent cost transfer from the Council relating to educational support for looked after children. The Schools Forum has also agreed this proposal.
- 8.1.9 To ensure that the most up to date information on DSG income is used in budget setting, final decisions on the Early Years and High Needs areas are planned to be taken by the Executive Member for Children, Young People and Learning in March. Taking these measures is expected to result in sufficient resources being available to finance relevant costs next year and also set in place actions to reduce future cost increases. The Schools Budget is finely balanced and action will be taken during the year to ensure the budget does not fall in to deficit and a reasonable level of reserves is re-established for the future.
- 8.1.10 The most significant impact on reducing spend on high needs pupils would be to increase the number of available places in maintained provision. The Council is

seeking to achieve this by developing a 56 place Autistic Spectrum Disorder (ASD) pupil facility at Eastern Road (through use of DfE capital grants), with phased opening planned from September 2015. A further 40 SEN places are also planned for the Binfield Learning Village at Blue Mountain. An Earmarked Reserve was set up in 2012/13 to help finance the development of new SEN Resource Units. The Executive is recommended to agree that the balance on the Reserve (£0.490m) is released from January 2015 until the ASD unit is self-financing, which is currently projected to be from 2018.

8.1.11 Agreement has subsequently been reached with Garth Hill College to manage the ASD unit, to be called Rise@Garth, and more detailed budget plans have now been worked up which confirm the original expectation of long term savings in excess of £0.5m. Annexe I sets out the summary budget plan and key data. The Executive is requested to agree the medium term budget plan at Annex I, which will be subject to annual review until the unit is properly established.

## 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 25 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 Investment returns are likely to remain relatively low during 2015/16 and beyond. The Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from as late as Spring 2016. Given the Council's approach to managing risk and keeping investments limited to a maximum of 6 months maturity with the exception of the part-nationalised UK Banks, the opportunity to achieve rates in excess of the Bank Rate is limited..

8.3.3 The 2015/16 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 proposed 2015/16 Capital Programme. The net impact of these is a £0.097m pressure, being £0.046m related to the Capital Programme (included in the Commitment Budget) and a loss of income of £0.051m from the fall in the expected yield on investments from cash-flow movements.

8.3.4 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 £0.03m pressure to the General Fund.

8.3.5 The 2015/16 Treasury Management Report attached as Annexe E re-affirms the strategy adopted by the Executive in December 2014 that governs the amount, duration and credit worthiness of institutions that the authority will place investments with during 2015/16. 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 28 January 2015, the Treasury Management Strategy remains unchanged from that consulted on in December.

- 8.3.6 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).
- 8.3.7 The capital programme is being considered separately on tonight's agenda and proposes council funded capital expenditure of £16.798m and an externally funded programme of £14.315m in 2015/16. After allowing for projected receipts of approximately £2.5m in 2015/16 and carry forwards, but excluding the self-funding Invest to Save schemes, the additional revenue costs will be £0.046m in 2015/16 and £0.492m in 2016/17. These figures include on-going costs associated with the maintenance and support of IT capital purchases. This is an increase in revenue costs of £0.012m in 2015/16 compared to the draft proposals which relates to the revised profiling of capital spend. Costs will need to be revised at the meeting if the Executive decides on a different level of capital spending.
- 8.3.8 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 2015 and no changes were proposed.
- 8.3.9 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".
- 8.3.10 The draft budget proposals included an estimate of £1.333m for the Minimum Revenue Provision required to be made in 2015/16. The revised estimate is £1.489m, an increase of £0.156m relating to changes to the forecast capital spend in 2014/15 (primarily the purchase of the bus station). The actual charge made in 2015/16 will be based on applying the approved MRP policy to the 2014/15 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 2015/16 total £14.049m which is an increase of £0.226m compared to the current year. This is largely because of forecast capital expenditure in 2014/15 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 25 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 2015/16. 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 both internal and 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 2015/16 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, Coral Reef improvements, Waste Management PFI, major school redevelopment proposals (Binfield Learning Village at Blue Mountain in particular) 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 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;
- **Clarification of legislation** - the implementation of a recent court ruling regarding the deprivation of liberty safeguards;
- **Independent external providers** – changes in provision by independent service providers may result in increased costs to the Council;
- **Service interdependencies** – the potential impact of service reductions in one area on the demand for other services provided by the Council;
- **External inspections** – improvements identified through external inspection;
- **Safeguarding** – failure to adequately safeguard vulnerable people could result in cost pressures.
- **Schools Budget** – impact of post 16 high needs pupil costs.

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 2014/15, the level of general contingency was decreased to £1.000m. Within the draft budget proposals for 2015/16 the contingency was

maintained at £1.000m, although it was recognised that this would need to be reviewed.

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 implementation of a recent court ruling regarding the deprivation of liberty safeguards;
- the Care Act 2014;
- waste – contractual arrangements and variations in tonnages;
- the continuing general economic uncertainty;
- closure of Coral Reef.

The level of risk and uncertainty has increased significantly compared to last year. 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 £2.000m which is an increase of £1.000m compared to 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 £18.585m in Earmarked Reserves at the start of 2014/15 which were approved by the Governance and Audit Committee in September 2014. 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 2014/15 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, pension costs and internal services recharges are incorporated within service department budgets.

Table 3: summary of budget changes

	Inflation (Section	Revisions to draft budget	Changes to Specific	Total Changes
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	7.2)	proposals (Sections 7.4 and 9.6)	Grants (Section 6.3)	Identified
		£'000	£'000	£'000
Adult Social Care, Health and Housing	636	0	108	744
Children, Young People and Learning (excluding schools)	269	0	5	274
Corporate Services / Chief Executive's	207	-34	1	174
Environment, Culture & Communities	399	-247	0	152
Non Departmental / Council Wide	-1,700	1,159	385	-156
<b>TOTAL</b>	<b>-189</b>	<b>878</b>	<b>499</b>	<b>1,188</b>

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 2015/16

Department	2015/16 Draft Proposals (Table 1)	Changes Identified (Table 3)	Change in Council Tax Freeze Grant (Section 6.3)	Revised Budget Proposals
	£'000	£'000	£'000	£'000
Adult Social Care, Health and Housing	36,368	744	0	37,112
Children, Young People and Learning (excluding schools)	25,545	274	0	25,819
Corporate Services / Chief Executive's	8,006	174	0	8,180
Environment, Culture & Communities	33,612	152	0	33,764
Non Departmental / Council Wide	-21,047	-156	-505	-21,708
<b>Total</b>	<b>82,484</b>	<b>1,188</b>	<b>-505</b>	<b>83,167</b>

- 10.2 The Net Revenue Budget in 2015/16 if the Executive agreed all of these proposals would be £83.167m before the loss of interest on any revenue balances that might be used. This compares with income of -£78.179m from Revenue Support Grant and Business Rates baseline funding (-£30.879m), the Collection Fund surplus (-£0.594m) and Council Tax at the 2014/15 level (-£46.706m). The Net Revenue Budget is therefore £4.988m above the level of income for 2015/16.

## 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 2015/16 is expected to be £7.2m. This is made up as follows:

Table 5: General Reserves as at 31 March 2015

£m



General Fund	9.8
Planned use in 2014/15	(2.6)
<b>TOTAL Estimated General Balances</b>	<b><u>7.2</u></b>

- 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.
- 11.4 The Council's share of the Business Rates surplus for 2013/14 and the additional Business Rates income in 2014/15 will be transferred into the Business Rates Equalisation Reserve at the year end. It is estimated that there will be a balance of £11.7m available on the reserve at the end of 2014/15.
- 11.5 It is recommended that the Council makes a contribution of £1.000m from General Reserves to fund the increase in Contingency and £3.988m from the Business Rates Equalisation Reserve to support expenditure in 2015/16. This approach is set out in Annexe G.
- 12 Preceptors' Requirements
- 12.1 On the 30 January 2015 the Police and Crime Panel met to determine the 2015/16 budget for the Thames Valley Police and Crime Commissioner (TVPCC). The tax for a Band D property for the TVPCC will increase by 1.99% to £163.70 in 2015/16. The Royal Berkshire Fire Authority (RBFA) will not determine its budget and precept for 2015/16 until 23 February. The tax for a Band D property for RBFA in 2014/15 was £60.66. The Parish Councils have yet to set their precepts for 2015/16. These totalled £2,718,344 in 2014/15 with an average tax of £64.73 for a Band D property. The Parish Council, Police and RBFA precepts will be reported to the Council meeting on 25 February 2015.
- 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 25 February regarding the budget and Council Tax level for 2015/16. 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 2015/16:
- (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 2015/16 (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 and the Council 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.

No Equality Impact Assessments were required in order for the Council to meet its 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.

None of the budget proposals required specific equality impact assessments to be carried out.

### 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.

### Contacts for further information

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