

**TO: THE EXECUTIVE
23 FEBRUARY 2016**

**GENERAL FUND REVENUE BUDGET 2016/17
Chief Executive/Borough Treasurer**

1 PURPOSE OF REPORT

- 1.1 As part of the Council's financial and policy planning process, the Executive agreed draft revenue budget proposals for 2016/17 as the basis for consultation on 15 December 2015.
- 1.2 Over the course of the last two months a number of issues have also become clearer, in particular the details of the Local Government Financial Settlement. This report therefore builds on the draft budget proposals agreed by the Executive in December, in the light of the consultations and the details of the Settlement itself, to set out the basis of the Executive's final budget proposals for 2016/17. These will be submitted to the Council for approval on 24 February 2016.
- 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 2016/17 – 2018/19. Changes to the proposals included within that report may therefore necessitate revisions to the 2016/17 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 2016/17:

- 2.1 **Confirms the original budget proposals, subject to the revisions in section 8.3 and those decisions to be taken elsewhere on this agenda on the capital programme;**
- 2.2 **Agrees the provision for inflation of £0.765m (section 8.2);**
- 2.3 **Agrees the additional budget proposals as set out in Annexe A and Annexe D and in sections 6.2, 6.3, 7.3 and 7.4;**
- 2.4 **Agrees that the Council should fund the Schools budgets at the level set out in section 9.1 subject to any amendments made by the Executive Member for Children, Young People and Learning following the receipt of definitive funding allocations for Early Years and High Needs pupils;**
- 2.5 **Includes a 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 10.6);**
- 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 Agrees a £5.161m contribution from revenue balances (before loss of interest on use of balances) to support revenue expenditure;**
- 2.9 Recommends that the Council Tax requirement, excluding Parish and Town Council precepts, be set as £49.795m;**
- 2.10 Recommends a 3.99% increase in the Council Tax for the Council's services and that each Valuation Band is set as follows:**

Band	Tax Level Relative to Band D	£
A	6/9	758.40
B	7/9	884.80
C	8/9	1011.20
D	9/9	1137.60
E	11/9	1390.40
F	13/9	1643.20
G	15/9	1896.00
H	18/9	2275.20

- 2.11 Recommends that the Council approves the following indicators, limits, strategies and policies included in Annexe E:**
- The Prudential Indicators and Limits for 2016/17 to 2018/19 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 2016/17 to 2018/19 and Treasury Management Limits on Activity contained in Annexe E(iv);
- 2.12 Approves the virements relating to the 2015/16 budget as set out in Annexe H and recommends those that are over £0.100m for approval by Council.**

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 24 February.

4 ALTERNATIVE OPTIONS CONSIDERED

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

SUPPORTING INFORMATION**5 Basis of Draft Budget Proposals**

- 5.1 At its meeting on 15 December 2015, the Executive considered the overall position facing the Council in setting a budget for 2016/17. 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.
- 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 £65m 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 new Council Plan, are summarised in Table 1.

Table 1: Draft Budget Proposals

Department	Commitment Budget 2016/17	Capital programme & Changes in investment income	Inflation	Service Pressures / Economies	Change in Contingency	New Homes Bonus / Business Rates	Business Rates transfer from Reserve	Draft Budget 2016/17
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care, Health and Housing	37,102	0	0	-2	0	0	0	37,100
Children, Young People and Learning	26,783	0	0	-518	0	0	0	26,265
Corporate Services / Chief Executive's	7,432	0	0	-415	0	0	0	7,017
Environment, Culture & Communities	34,014	0	0	-898	0	0	0	33,116
Non Departmental / Council Wide	-24,596	-34	800	495	-1,000	-600	-6,528	-31,463
Total	80,735	-34	800	-1,338	-1,000	- 600	-6,528	72,035

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 Provisional Settlement was published on the 17 December 2015 followed by the Final Settlement on the 8 February 2016. As such the budget proposals, agreed as the basis for consultation on 15th December 2015, were based on a number of assumptions regarding government funding

6.1.3 In the event, the figures eventually released in the Settlement resulted in a further reduction of £2.388m on the level of government funding assumed to be received by the Council. This significant further cut in grant reflects the decision by the Government to change the distribution methodology used in allocating central government support. As part of the 2016/17 Settlement the Government chose to include the relative levels of Council Tax collected within the grant calculation. As such those authorities deemed to have a relatively larger tax base or a greater reliance on Council Tax income experienced a larger cut in Revenue Support Grant (RSG). There was no indication in the run up to the Provisional Settlement that such a substantial change would be introduced and this has surprised many authorities. The government also chose to include a number of specific grants, in particular the 2015/16 Council Tax Freeze grant and previous years funding for the Care Act 2014, within the Council's Funding Assessment, which in turn has led to an even greater reduction than might otherwise be the case. This methodology change will also lead to greater cuts in 2017/18 than had been assumed.

6.1.4 As such the Funding Assessment for Bracknell Forest in 2016/17 is -£26.687m (comprising -£11.283m RSG and -£15.404m baseline funding from Business Rates). This is a £5.261m reduction in funding from that received in 2015/16. In terms of RSG this reflects a 32% cut in central government support and a 16.5% reduction when comparing the combination of RSG and retained Business Rates income and represents the largest ever annual cut to the Council's grant income.

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. Individual grants continue to be rolled into RSG as outlined in paragraph 6.1.3.

6.2.2 Two of the largest Specific Grants received by the Council are the ring-fenced Public Health Grant and the NHS funding to support social care and benefit health. The Public Health Grant for 2016/17 will be -£4.262m followed by -£4.157m (indicative) in 2017/18. These figures include the full year equivalent of the budget for children aged 0-5 which was funded for 6 months in 2015/16. After taking this and the 2015/16 in-year savings into account these represent further reductions of 2.25% and 2.5% respectively. With regards to NHS funding, it has been assumed that the pooling of health and social care services budgets under the Better Care Fund will have a neutral impact on the Council's revenue budget.

- 6.2.3 The Council continues to benefit from the New Homes Bonus (NHB) and following the publication of the final figures total income of -£3.899m has been included in the budget proposals (-£6k higher than previously reported). However, the government is consulting on changes to the NHB to take effect from 2017/18. The consultation contains a number of options for increasing the focus on delivery of new homes and freeing up resources to be recycled within the local government settlement to support authorities with particular pressures, such as adult social care, following the outcome of the 2015 Spending Review. It also sets out proposals for reducing the number of years for which NHB is paid from the current 6 years to 4 years.
- 6.2.4 The Education Services Grant (ESG) is paid to fund education support services which local authorities provide centrally to maintained schools but for the most part academies must secure independently; for example, human resources, financial supervision and asset management. It is not a ring-fenced grant: authorities and academies are free to decide how it is spent based on their individual circumstances. The general funding rate has been cut by £10 per pupil from £87 to £77 for mainstream schools in 2016/17. This combined with Brakenhale becoming an academy on 1 April 2016 will result in an overall reduction in ESG of £0.206m (to -£1.496m). This is the first step towards making the £600 million savings from ESG announced in the 2015 Spending Review.
- 6.2.5 As part of the Final Local Government Finance Settlement published on 8 February, the Government announced a new Transition Grant payable over two years which is designed to ease the impact of the formula grant changes outlined in section 6.1. The Council will receive -£0.934m in 2016/17 and -£0.914m in 2017/18.
- 6.2.6 Information on a number of smaller Specific Grants is still awaited. The only significant allocation that has been confirmed relates to Housing Benefit Administration Subsidy grant which has been reduced by £0.041m to -£0.346m in 2016/17.
- 6.3 Business Rates
- 6.3.1 A third 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 (0.8% for 2016/17) and local growth or decline as local businesses and economic conditions expand or contract. The Government sets a baseline level of funding against which any growth or reduction is shared between local and central government.
- 6.3.2 The Government has announced that by 2020, local government will be able to retain 100% of Business Rates, RSG will be phased out and local government will be expected to take on new responsibilities. The government will abolish the Uniform Business Rate and give councils the power to cut Business Rates to boost economic activity in their areas. The Department for Communities and Local Government will consult on changes to the local government finance system to pave the way for the implementation of the 100% Business Rates retention. Currently the Council collects significantly more Business Rates than it is allowed to keep (although presumably a baseline will need to be established under the new arrangements) and only receives approximately a quarter of any Business Rates growth. However, until the finer details of the scheme are announced, any potential benefits need to be viewed with caution bearing in mind the need to take on new responsibilities, the overall deficit reduction programme and the increased exposure to volatility from appeals and business movements that will arise as a consequence.

- 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. The 2015/16 base-budget was supported by an on-going transfer of £3m from this additional income on top of a one-off transfer of £3.988m from accumulated surpluses held in the Business Rates Equalisation Reserve. This company has successfully appealed against the rateable value of its business and details are awaited on the impact of the appeal from the Valuation Office. The timing of this information is uncertain but for the budget projections it has been assumed that a reduction of up to 50% in rateable value will result from the appeal. A significant deficit is now projected on the Business Rates element of the Collection Fund as a result.
- 6.3.4 Taking into account the baseline funding level published in December and factoring in local circumstances, the budget projections assume income of -£30.587m (-£17.541m after tariff and levy payments). There is a risk associated with these projections due to the impact of the outstanding appeals, the Town Centre regeneration and changes in the local economic conditions; however officers monitor total yield, revaluations, changes-in-circumstances, appeals and refunds on a monthly basis. The Council will also receive Section 31 grant to cover the loss of income resulting from capping the Business Rates increase to 2% in 2015/16 and a number of Business Rate Reliefs (-£0.557m after tariff adjustments). The National Non-Domestic Rates Return 1 (NNDR1) 2016/17 attached at Annexe J provides further details.
- 6.4 Future Funding
- 6.4.1 The Provisional Settlement set out an indicative 4-year funding profile, with further reductions in RSG in 2017/18 through to 2019/20. However the consultation process indicated that these indicative grant levels would only be offered to those councils that requested the 4-year Settlement and produced an efficiency plan. The Council is waiting further guidance from the Government noting that the offer has since been qualified in that it will be subject to changes to the Spending Review assumptions, transfer of functions and unforeseen events. Councils will have until Friday 14 October 2016 to respond to the offer of a 4-year Settlement.
- 6.4.2 The Government also launched a consultation on the New Homes Bonus with proposals to transfer funding from this grant to the new improved Better Care Fund that councils will begin to receive additional funding for in 2017/18 (£100m available) through to 2019/20 (£1.5bn available). The New Homes Bonus consultation runs through to March 2016 and officers are evaluating the various options, all of which are likely to result in a reduction in grant from 2017/18 onwards.
- 6.4.3 The Government also re-affirmed its plans to move towards 100% Business Rates retention by the end of the Parliament. There is very little information available as to how this will be achieved and it is likely to be extremely complex and lead to a number of distributional changes. In the intervening period the Government will also undertake a Business Rates revaluation in 2017, which it has promised to be cost-neutral overall, however there are clearly likely to be further risks and uncertainties linked to potential appeals.
- 6.4.4 As such, even with the promise of a 4-year Settlement, the outlook remains increasingly uncertain with the outcome of the return of Business Rates to local authorities a major area of concern.

7 Council Tax and Collection Fund

- 7.1 The Council Tax Base for 2016/17 has been calculated as 43,772 (Band D equivalents). Following the acceptance of Council Tax Freeze Grant and the resultant zero increase for the last five years, Council Tax at present levels would therefore generate total income of -£47.884m in 2016/17.
- 7.2 The Government limits Council Tax increases by requiring councils to hold a local referendum for any increases equal to or in excess of a threshold percentage which is normally included in the Local Government Financial Settlement. The threshold percentage has been set at 2% for 2016/17. As a council with Social Care responsibilities, it will now also be possible for Council Tax to be raised by a further 2% to support Social Care pressures providing certain criteria are met. Every 1% increase in Council Tax would generate approximately -£0.479m of additional income.
- 7.3 A surplus will be generated on the Council Tax element of the Collection Fund in the current year, primarily due to a lower than expected take up of the Local Council Tax Benefit Support Scheme. The Council's share of this surplus which can be used to support the 2016/17 budget is -£0.425m. This figure is unchanged from the draft budget proposals.
- 7.4 A deficit will be generated on the Business Rates element of the Collection Fund and the Council's share has been declared as £11.803m. This deficit will not increase the budget gap as it will be funded from a one-off transfer out of the Business Rates Equalisation Reserve. The transfer required is £1.287m more than that assumed in the draft budget proposals which is reflected in Table 3.

8 Developments since the Executive Meeting on 15 December 2015

8.1 Consultation

- 8.1.1 The Executive's draft budget proposals have been subject to a process of public consultation since their publication in December. During the consultation period, the draft proposals have also been scrutinised by the Council's Overview & Scrutiny Commission and Scrutiny Panels. Extracts from the minutes of these meetings are attached as Annexe B and show the Commission broadly supported the draft proposals presented.
- 8.1.2 The draft fees and charges for 2016/17 have also been considered by the Overview and Scrutiny Commission and Scrutiny Panels and no significant issues were raised. As part of the consultation it was discovered that two land charges fees were omitted (Copy search £25 and Extra parcel fee £5) along with the fees for hiring the Syrett Small Ceremony Room for marriages or civil partnerships (£75-£200 depending on the day). The fees for naming ceremonies or the renewal of vows in the Syrett Large Ceremony Room on a Friday, Saturday and Sunday were also incorrectly stated (fees excluding VAT should have been £187.50 for a Friday, £204.17 for a Saturday and £229.16 for a Sunday/Bank Holidays). Amendments will be included in the papers presented to Council.
- 8.1.3 The Schools' Forum considered the Executive's proposals relating to the Children, Young People and Learning department at its meeting on 14 January. Its members requested that the Executive be made aware of their concerns regarding the proposed cuts to services with respect to their long term impact on young people and the potential for future cost increases.

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- 8.1.4 The draft budget proposals were published on the Council's web site and letters were sent to business ratepayers drawing their attention to the consultation. A total of 12 responses were received including a detailed response from Labour. The responses were mixed and a number of specific concerns were expressed. A summary of the responses received is included at Annexe C.

8.2 Inflation

- 8.2.1 The Executive established a framework for calculating an appropriate inflation provision at its December meeting. Inflation allowances have been reviewed further by the Borough Treasurer and the Corporate Management Team and as a consequence the inflation provision has been reduced to £0.765m. The Departmental analysis is shown in Table 2.

Table 2: Inflation Allocations

Department	2016/17 £'000
Adult Social Care, Health and Housing	390
Children, Young People and Learning (excluding schools)	201
Corporate Services / Chief Executive's Office	142
Environment, Culture and Communities	32
Non Departmental / Council Wide	0
Total	765

- 8.2.2 This is a saving of -£0.035m 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.

8.3 Other Revisions to the Draft Budget Proposals

- 8.3.1 As outlined above, in the two months since the Executive published the draft budget proposals more information has inevitably become available. Details of the suggested amendments to the draft budget proposals are set out in paragraphs a) to i) below with the net impact being a decrease in the net revenue budget for 2016/17 of £0.284m. These changes have been reflected in the full budget proposals set out in Annexe D and the Commitment Budget (Annexe A).

- a) Adult Social Care, Health and Housing - re-provision of the services provided at Heathlands Residential Care Home and Day Centre
The 9 February Executive agreed to re-provide in the independent sector the residential and day care service currently delivered at Heathlands. This will generate savings of -£0.500m.
- b) Adult Social Care, Health and Housing - Council Tax Hardship Fund
The 15 December Executive agreed that the hardship fund should be increased by £0.010m to £0.020m as part of the changes to the Local Council Tax Benefit Scheme.
- c) Corporate Services – discretionary Council Tax Discount
The saving relating to the removal of the one month discretionary Council Tax discount for empty properties has now been incorporated into the Council Tax

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Base and forms part of the income stream generated from Council Tax. It is therefore no longer shown as a saving under Corporate Services (£0.150m).

- d) Environment, Culture and Communities –waste disposal PFI
The latest waste projections have resulted in an upward revision to the cost included in the Commitment Budget (£0.031m).
- e) Environment, Culture and Communities – Golf Simulator Invest to Save scheme
The introduction of a golf simulator at Downshire Golf Club will generate a new income scheme. The additional net income (-£0.09m) will more than cover the revenue impact of the capital transaction included under Non Departmental budgets.
- f) Council Wide – Bracknell Forest Supplement
The Employment Committee on the 16 December 2015 agreed to increase the supplement by 40p to £8.25 per hour from 1 April 2016. Although not directly pegged to the National Living Wage the supplement aims to keeps in line with it. The additional cost has been built into the Commitment Budget (£0.041m).
- g) Non Departmental / Council Wide - 2016/17 Capital Programme
For consistency, the impact of the 2016/17 Capital Programme on investment income has now been reflected in the Commitment Budget. As outlined in section 9.3, the reduction in interest earned has increased by £0.033m to £0.074m since the draft proposals.
- h) Non Departmental / Council Wide – Council Tax Support to Parish and Town Councils
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 (-£0.040m). One of the additional savings proposals included elsewhere on the agenda recommends that the payments should be stopped.
- i) Non Departmental / Council Wide – Senior Management Restructure
The -£0.200m savings from a senior management restructure have now been allocated between Environment, Culture and Communities (-£0.105m) and Adult Social Care, Health and Housing (-£0.095m).

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

9 Other Budget Issues

9.1 Schools Budget

9.1.1 Whilst spending on the Schools Budget is funded by the ring fenced Dedicated Schools Grant (DSG), and therefore outside of the Council's funding responsibilities, councils retain a legal duty to set the overall level of the Schools Budget. In deciding the relevant amount, councils must plan to spend at least to the level of estimated DSG. The policy of the Council is to fund the Schools Budget up to the level of grant income, with the Executive Member for Children, Young People and Learning responsible for agreeing individual service budgets.

9.1.2 From April 2013, the DSG was split into three notional blocks – schools (which includes delegated school budgets and a small number of centrally managed

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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.

- 9.1.3 The Department for Education (DfE) has yet to provide a complete update on grant funding in the Early Years or High Needs Block. For the Schools Block, as in previous years, a “cash flat” settlement has been confirmed, with funding only to be adjusted to reflect changes in pupil numbers. With a confirmed increase in mainstream schools of 291 (1.9%), the Schools Block element of DSG will increase by £1.246m to £66.522m with a total provisional DSG allocation for all three blocks in 2016/17 of £83.424m.
- 9.1.4 Many of the financial difficulties faced by the council on non-school services also impact on schools, with pressures arising on pay and other inflationary cost increases, a 1% full year effect increase in contributions to the teachers’ pension fund and increases in National Insurance contributions which coupled with other increases and the “cash flat” funding settlement indicate a significant average cost pressure next year on individual school budgets.
- 9.1.5 In the longer term, further cost pressures will arise from the school building programme which is responding to new housing developments. These new schools will generally open with relatively low pupil numbers and will need additional financial support until pupil numbers grow to a sustainable level. This pressure will ordinarily need to be managed through the DSG and even with inflationary increases in funding settlements now expected over the next four years, reductions to individual school budgets to finance future, unavoidable pressures, cannot be ruled out. The impact of the Government’s proposed consultation on a national funding formula for schools is also unknown at this stage.
- 9.1.6 Decisions around the final balance of the budget between spending by schools and that on services managed by the Council is the responsibility of the Executive Member for Children, Young People and Learning, although the Schools Forum must be consulted, and in certain circumstances, agree to budget proposals.
- 9.2 Pensions
 - 9.2.1 Accounting standards on the treatment of pension costs (IAS19) require the inclusion within the total cost of services of a charge that represents the economic benefits of pensions accrued by employees. To simplify the presentation of the budget proposals the IAS19 adjustment has not been incorporated at this stage, although it will be included in the supporting information to the Council meeting on 24 February. This will not impact upon the Council’s net overall budget or the level of Council Tax.
- 9.3 Investments
 - 9.3.1 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.
 - 9.3.2 Investment returns are likely to remain relatively low during 2016/17 and for some time to come compared to historic averages rates. The Bank of England in its latest Inflation Report (November 2015) forecast the Bank Rate to remain unchanged at 0.5% during the next nine months before starting to rise in the last months of 2016.

With inflation low and predicted to stay low for the next 12 months, the decision to raise rates by the Bank of England will be a difficult one with risks coming from concerns on declining global trade and geo-political tensions. Given the Council's approach to managing risk and keeping investments limited to a maximum of 6 months maturity (based on current market conditions) with the exception of the part-nationalised UK Banks (364 days), the opportunity to achieve rates in excess of the Bank Rate is limited.

- 9.3.3 The 2016/17 budget is therefore based on an average rate of return of approximately 0.5% on its investments and reflects the lower cash balances as a result of the proposed 2016/17 Capital Programme. This programme is substantially larger than any previous plans and includes some major long-term projects (Binfield Learning Village, Local Housing Company, Street Lighting Replacement) that will span a number of years and which are reliant on a range of complex factors including agreements with partners, planning approvals and other issues outside of the control of the Council. The timing of the cash-flows related to these schemes will to a large extent be dependent on these factors. Given that taken together these major schemes cannot be funded completely from existing resources and will require external borrowing to complete, the projection of investment income is particularly difficult this year.
- 9.3.4 Maximum use of internal cash will be used in the first instance before going to the external market for borrowing, the timing of which will depend largely on the progress made on completing the major capital projects. However over the last two years underlying cash balances have been higher than usual, enabling the Council to earn a greater income than budgeted (this has been reported as part of the budget monitoring process). It has also enabled the Council to maximise the opportunity of paying pension contributions 12 months in advance (rather than monthly in arrears) benefitting from a much higher return than could be achieved in the cash markets.
- 9.3.5 Taking these factors into account (the higher cash balances, the low interest rates and the benefit from pension pre-payments) the net impact of the capital programme, excluding the Binfield Learning Village, is an economy of -£0.001m, a gain of -£0.075m from the higher than expected cash balances less the £0.074m pressure from the Capital Programme (now included in the Commitment Budget).
- 9.3.6 There is an expectation that the cash flows required to complete the Binfield Learning Village will require external finance and this has been allowed for in the Commitment Budget (£0.075m).
- 9.3.7 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. With a number of outstanding large scale appeals and the shortly to be announced reforms to Business Rates this area represents a further layer of uncertainty.
- 9.3.8 As such any change in interest rates or cash balances will clearly have an impact on the overall investment income generated by the Council and may require the Council to borrow externally sooner than expected. It is difficult to estimate the impact given this transition between internal and external borrowing. Long-term interest rates are at historical lows with 25-year Public Works Loan Board rates at 3.5% compared to an internal investment return of 0.5%.
- 9.3.9 The 2016/17 Treasury Management Report attached as Annexe E re-affirms the strategy adopted by the Executive in December 2015 that governs the amount, duration and credit worthiness of institutions that the authority will place investments

with during 2016/17. 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 27 January 2016, the Treasury Management Strategy remains unchanged from that consulted on in December.

- 9.3.10 The Local Government Act 2003 introduced a revised framework for capital expenditure and financing, underpinned by CIPFA's Prudential Code for Capital Finance in Local Authorities. The Code requires the Council to set a number of prudential indicators and limits relating to affordability, capital investment and treasury management. These require Council approval and are included at Annexe E (i) and within the Treasury Management Strategy Statement at Annexe E (iii).
- 9.3.11 The capital programme is being considered separately on tonight's agenda and proposes council funded capital expenditure of £59.983m and an externally funded programme of £19.846m in 2016/17. After allowing for projected receipts of approximately £5m in 2016/17 and carry forwards, the additional revenue costs will be £0.074m in 2016/17 and £1.052m in 2017/18. These figures include on-going costs associated with the maintenance and support of IT capital purchases. Costs will need to be revised at the meeting if the Executive decides on a different level of capital spending.
- 9.3.12 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision or MRP), although it is also allowed to undertake additional voluntary payments. The regulations issued by the Department for Communities and Local Government (DCLG) require full Council to approve an MRP Policy in advance of each year. The Council is therefore recommended to approve the MRP Policy set out in Annexe E (ii) to the Treasury Management Strategy. The MRP policy has been drawn up to ensure the Council makes prudent provision for the repayment of borrowings (in accordance with the Regulations) and at the same time minimises the impact on the Council's revenue budget. The MRP policy was reviewed by the Governance and Audit Committee at its meeting on 27 January 2016 and no changes were proposed.
- 9.3.13 As capital expenditure is incurred which cannot be immediately financed through capital receipts or grant, the Council's borrowing need (its Capital Financing Requirement) and its MRP will increase. In practice the Council is unlikely to borrow externally in the short term 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".
- 9.3.14 The draft budget proposals included an estimate of £1.853m for the Minimum Revenue Provision required to be made in 2016/17. This figure remains unchanged. The actual charge made in 2016/17 will be based on applying the approved MRP policy to the 2015/16 actual capital expenditure and funding decisions.

9.4 Capital Charges

- 9.4.1 Capital charges are made to service departments in respect of the assets used in providing services and are equivalent to a charge for depreciation. The depreciation charges are included in the base budget figures and are important as they represent the opportunity cost to the Council of owning fixed assets. They must therefore be

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considered as part of the overall cost of service delivery, particularly when comparisons are made with other organisations. It is also important that these costs should be recognised when setting the level of fees and charges.

- 9.4.2 Capital charges do, however, represent accounting entries and not cash expenditure. The Council is therefore able to reverse the impact of these charges “below the line”, i.e. outside service department costs, thereby reducing the net revenue budget whilst not directly affecting the overall cost of each individual service. This means that the charges do not affect the level of Council Tax. The capital charges in 2016/17 total £13.844m which is a decrease of £0.195m compared to the current year. This decrease primarily relates to the downward revaluation of schools partly offset by additional charges from capital expenditure in 2015/16.
- 9.4.3 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 24 February.

9.5 Internal Services Recharges

- 9.5.1 Members’ decisions on the capital programme may affect capital charges and this will determine the overall cost of services in 2016/17. Due to their corporate nature, some services do not relate to a single service department, e.g. finance, IT, building surveyors, health and safety advisers etc. The budgets for these services are changed only by the specific proposals impacting on the departments responsible for providing them (mainly Corporate Services). However, all such costs must be charged to the services that receive support from them.
- 9.5.2 The impact of changes in recharges for internal services is entirely neutral across the Council as a whole, since the associated budgets are also transferred to the services receiving them. The overall level of recharges is dependent upon the Executive’s budget proposals being approved.

10 Statement by the Borough Treasurer

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

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

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

Robustness of estimates

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

This identifies a number of key risk areas including:

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- financial and economic factors, in particular the need to maintain services whilst achieving significant savings and to promote economic activity in the Borough;
- the impact of demand led services and the need to forecast changes and reshape service delivery to meet changing needs;
- staffing and the need to recruit, train and retain staff with the relevant skills and expertise;
- IT infrastructure availability, compliance and information accuracy;
- potential for the Information Commissioner to impose fines if personal sensitive data is misused or stolen;
- failure to design, monitor and control the implementation of major programmes and projects;
- 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.

10.3 The Borough Treasurer receives regular updates from Group Accountants on the largest and most volatile budget areas which could place the overall budget most at risk and makes arrangements to report these through the regular monthly budget monitoring process. The most significant risks in the 2016/17 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 in particular) and the implementation of savings proposals such as the conversion of street lighting to LED;
- **Inflation** – the provision is based on estimates of inflationary pressures at the current time;
- **Treasury Management** – return on investments is affected by cash flow and the level of the Bank rate. There is also a high degree of uncertainty around the timing at which the Council will commence borrowing;
- **Uninsured losses** – the Council's insurances cover foreseeable risks. However, some risks are uninsurable, including former County Council self-insured liabilities and mandatory excesses;
- **Contractual Issues** – disputes, contract inflation (in particular rates for care providers) and renewal of major contracts;
- **Legislative Changes** – for example, the transference of risks resulting from the retention of Business Rates by councils and the localisation of Council Tax support, the introduction of the Better Care Fund and its impact on funding and the way services will be delivered in the future, the implementation of responsibilities under the Care Act 2014 and Children and Families Act 2014, and the transition to universal credit;
- **Independent external providers** – changes in provision by independent service providers may result in increased costs to the Council;
- **Service interdependencies** – the potential impact of service reductions in one area on the demand for other services provided by the Council;
- **External inspections** – improvements identified through external inspection;
- **Safeguarding** – failure to adequately safeguard vulnerable people could result in cost pressures.
- **Schools Budget** – the impact of schools becoming academies on Education Services Grant and income generated from selling services.

- 10.4 The probability of some of the above risks occurring is high. However it is unlikely that all will occur at the same time as has been evidenced in the demand led budgets over the past few years. The measures in place, set out in paragraph 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

- 10.5 In setting the budget for 2015/16, the level of general contingency was increased to £2.000m. Within the draft budget proposals for 2016/17 the Contingency was reduced to £1.000m, although it was recognised that this would need to be reviewed.
- 10.6 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. Whilst the Council continues to face uncertain times the level of risk and

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uncertainty for 2016/17 can be managed through the £1.000m Contingency recommended by the Borough Treasurer and available reserves.

Earmarked Reserves

- 10.7 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure. The Council had £30.289m in Earmarked Reserves at the start of 2015/16 which were approved by the Governance and Audit Committee in September 2015. 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 2015/16 closedown process and any changes will be presented to the Executive and the Governance and Audit Committee as part of the closure of the accounts.

11 Net Revenue Budget

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

Table 3: summary of budget changes

	Inflation (Section 7.2)	Revisions to draft budget proposals (Sections 8.3, and 7.4)	Changes to Specific Grants (Section 6.3)	Total Changes Identified
	£'000	£'000	£'000	£'000
Adult Social Care, Health and Housing	390	-578	41	-147
Children, Young People and Learning (excluding schools)	201	5	206	412
Corporate Services / Chief Executive's	142	150	2	294
Environment, Culture & Communities	32	-54	0	-22
Non Departmental / Council Wide	-800	-1,094	-413	-2,307
TOTAL	-35	-1,571	-164	-1,770

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 2016/17

Department	2016/17 Draft Proposals (Table 1)	Changes Identified (Table 3)	Revised Budget Proposals
	£'000	£'000	£'000
Adult Social Care, Health and Housing	37,100	-147	36,953
Children, Young People and Learning (excluding schools)	26,265	412	26,677
Corporate Services / Chief Executive's	7,017	294	7,311
Environment, Culture & Communities	33,116	-22	33,094
Non Departmental / Council Wide	-31,463	-2,307	-33,770
Total	72,035	-1,770	70,265

- 11.2 The Net Revenue Budget in 2016/17 if the Executive agreed all of these proposals would be £70.265m before the loss of interest on any revenue balances that might be used. This compares with income of -£63.193m from RSG and Business Rates baseline funding (-£26.687m), the Collection Fund – Council Tax surplus (-£0.425m) and Council Tax at the 2015/16 level (-£47.884m) less the deficit of £11.803m on the Collection Fund – Business Rates. The Net Revenue Budget is therefore £7.072m above the level of income for 2016/17.

12 Funding the Budget Proposals

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

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

12.2 Council Tax

- 12.2.1 Each 1% increase in Council Tax in 2016/17 will generate approximately -£0.479m of additional revenue towards the budget gap. It is recommended that the Council increase Council Tax by 3.99%; a general increase of 1.99% plus a further 2% increase to support Social Care pressures. These are the maximum increases permissible under the current guidance without a referendum. This will generate additional income of -£1.911m and reduce the budget gap to £5.161m. All grant projections assume that councils with responsibility for Adult Social Care will levy the specific 2% Council tax increase the Government has made available to support Social Care pressures.

12.3 Use of Balances

- 12.3.1 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.

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- 12.3.2 In deciding the level of any contribution from balances, the Executive will wish to have regard to the level of balances available. The Council's General Fund balance at the start of 2016/17 is expected to be £12.0m. This is made up as follows:

Table 5: General Balances as at 31 March 2016

	£m
General Fund	10.9
Planned use in 2015/16	(0.9)
2016/17 forecast under spend	2.0
TOTAL Estimated General Balances	12.0

- 12.3.3 The Council has, in the past, planned on maintaining a minimum prudential balance of £4m. It is prudent when considering the use of reserves to not only consider the current year's budget but also future years' pressures.
- 12.3.4 The fact that the Government introduced significant changes to the RSG system with no advance notice in late December means that it has simply not been possible to develop, consult on and implement a series of proposals that respond to the increased budget gap imposed upon the Council. Given this, it is recommended that the Council makes a contribution of £5.161m from General Reserves to bridge the remaining budget gap in 2016/17. This approach is set out in Annexe G.
- 12.3.5 Such a significant use of balances is not sustainable over the medium term and as a consequence a range of additional savings proposals will have to be implemented to, at least in part, replenish these reserves. However both good practice and the Council's constitution suggest such proposals should be subject to consultation rather than simply imposed. They are, therefore, set out in a second revenue budget report elsewhere on the agenda. These significant savings will enable the use of balances to be reduced but the late notice of the funding reduction means that they will be consulted upon outside the usual budget setting timeframe.

13 Preceptors' Requirements

- 13.1 On the 29 January 2016 the Thames Valley Police and Crime Panel met to determine the 2016/17 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 £166.96 in 2016/17. The Royal Berkshire Fire Authority (RBFA) will not determine its budget and precept for 2016/17 until 17 February. The tax for a Band D property for RBFA in 2015/16 was £60.66. The Parish Councils have yet to set their precepts for 2016/17. These totalled £2.781m in 2015/16 with an average tax of £65.15 for a Band D property. The Parish Council, Police and RBFA precepts will be reported to the Council meeting on 24 February 2016.

14 Summary of Matters for Decision

- 14.1 Annexe G outlines the Council's Council Tax Requirement based on the draft budget proposals. The outcome of the Executive's deliberations will be recommended to the Council meeting on 24 February regarding the budget and Council Tax level for 2016/17. 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 2016/17:

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- (a) confirmation of the draft budget proposals, taking account of issues raised during the consultation period (section 8.1) and revisions identified to reflect current information (sections 6.2, 6.3, 7.3, 7.4), set out in detail in Annexes A and D;
 - (b) confirmation of the impact of changes in investment rates on the budget (section 9.3);
 - (c) the level of the corporate contingency (section 10.6);
 - (d) the level of Council Tax increase (section 12.2);
 - (e) subject to (a) to (d) above and decisions considered elsewhere on the agenda, to determine the appropriate level of revenue reserves to be retained and the consequent use of balances to support the budget in 2016/17 (section 12.3).
- 14.2 As outlined above, dependent upon the decisions made by the Executive concerning these issues, it may be necessary to adjourn the meeting to enable officers to calculate the appropriate figures to include in the recommendations.
- 14.3 A detailed budget book will be prepared during March exemplifying the budget at the level of detail required to support the scheme of virement. This will be sent to all members.
- 15 Budget Monitoring - Virement requests
- 15.1 A virement is the transfer of resources between two budgets but it does not increase the overall budget approved by the Council. Financial Regulations require formal approval by the Executive of any virement between £0.050m and £0.100m and of virements between departments of any amount. Full Council approval is required for virements over £0.100m. A number of virements have been made since the December Executive meeting which require the approval of the Executive or Full Council. These have been previously reported to the Corporate Management Team who recommends them to the Executive and the Council for approval. They have been included in the Quarterly Service Reports. Details of the virements are set out in Annexe H.

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

Borough Solicitor

- 16.1 In carrying out all of its functions, including the setting of the budget, the Council must comply with the Public Sector Equality Duty set out in the Equality Act 2010. That duty requires the Council to have due regard to the need to:-
- a) eliminate discrimination , harassment, victimisation and any other conduct that is prohibited by the Act;
 - b) advance equality of opportunity between persons who share a "relevant protected characteristic" and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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"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

- 16.2 The setting of the 2016/7 budget and Council Tax has presented the Council with a unique set of financial challenges following the publication of the Final Local Government Finance Settlement. In order to set a legal budget within the statutory timescales the used of £5.161m of general balances is recommended.
- 16.3 Such an approach would not usually be supported by the Section 151 officer as it would result in an unsustainable budget and almost certainly mean that the Council could not deliver its Medium Term Financial Strategy.
- 16.4 A further report appears elsewhere on tonight's agenda recommending a range of savings proposals totalling -£3.784m (including Public Health savings of -£0.367m) that can be delivered during 2016/17 and used to replenish the Council's general balances. On the assumption that these savings proposals will be agreed and implemented during 2016/17 the recommendations contained in this report can be supported.

Equalities Impact Assessment

- 16.5 The Council's budget proposals impact on a wide range of services. A detailed consultation was undertaken on the draft budget proposals published in December to provide individuals and groups the opportunity to provide comments.
- 16.6 Equality impact assessments are attached at Annexe I.

Strategic Risk Management Issues

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

17 CONSULTATION

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

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