

TO: THE EXECUTIVE  
DATE: 18 JULY 2016

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**MEDIUM TERM FINANCIAL STRATEGY 2017/18 – 2019/20  
(Borough Treasurer)**

**1 PURPOSE OF DECISION**

- 1.1 This report updates the Executive on the significant issues that are likely to impact upon the Council's budget in future years and represents the next step towards setting a budget for the 2017/18 financial year and beyond.

**2 RECOMMENDATIONS**

- 2.1 **That the Commitment Budget for the period 2017/18 to 2019/20, summarised in Annex A of the report be approved.**
- 2.2 **That the Executive recommend to Council that the Government's offer of a four year funding settlement be accepted, subject to the agreement of an efficiency plan at the Council meeting on 14 September 2016.**
- 2.2 **That the proposed budget process and timetable for 2017/18 as set out in paragraphs 5.18 to 5.22 of the report be approved.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1 The recommendations are designed to allow the Executive to develop its Medium Term Financial Strategy and to start to consider an appropriate budget strategy for 2017/18 and beyond.

**4 ALTERNATIVE OPTIONS CONSIDERED**

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

**5 SUPPORTING INFORMATION**

Resources

- 5.1 The Final Local Government Finance Settlement for the period 2016/17 to 2019/20 was published on 8 February 2016. The Settlement contained previously unannounced changes to the distribution of resources amongst authorities depending on the different sets of services provided by them and their relative ability to raise income through council tax locally. The intention is to recognise both the rising costs of adult social care and the differing relative abilities of local authorities to raise income. The impact of this is for the significant cuts announced by the Government in the November 2015 Spending Review to fall greatest on those authorities with a perceived ability to raise more income from council tax, of which Bracknell Forest is one.
- 5.2 As part of the Final Settlement the Government has offered all local authorities the opportunity to take up a four year funding settlement to 2019/20. The Government has committed to provide a minimum allocation of Revenue Support Grant and Transitional Grant for each year of the Spending Review period, should councils wish to accept the offer and publish an efficiency plan. For Bracknell Forest the offer comprises:

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	Revenue Support Grant £000	Transitional Grant £000
2016/17	11,283	934
2017/18	7,081	914
2018/19	4,445	0
2019/20	1,743	0

- 5.3 Whilst the offer represents an almost complete withdrawal of Revenue Support Grant over the four year period, the alternative is to accept an annual settlement and the inherent uncertainty around medium term financial planning that this brings. In addition to this there is clearly the underlying risk that future settlements will result in the withdrawal of Revenue Support Grant at a faster rate than that contained in the Government's offer. Therefore, on balance it is recommended that the Council accept the Government's offer of a four year settlement.
- 5.4 In order to be eligible for the four year settlement the Council is required to publish an efficiency plan and lodge this with the Department for Communities and Local Government by 14 October 2016. The Secretary of State has indicated that his approach will be light touch and that he does not intend to issue any firm guidance on what efficiency plans should contain. The intention is that they should be locally owned and locally driven. It is anticipated that some high level professional guidance will be issued over the summer. As such, it is recommended that Council accept the four year settlement at its meeting on 14 September 2016, subject to the agreement of an efficiency plan at that meeting. At this point in time the expectation is that this Council's efficiency plan will be a combination of the Medium Term Financial Strategy contained in this report and the transformation programme.
- 5.5 The Council identified a range of significant risks in preparing the 2016/17 Budget and it was deemed prudent to include a contingency fund of £1m. Whilst the Council continues to face uncertain times, given the level of reserves held by the Council and greater certainty around future levels of Government funding over the medium term, it is proposed that the contingency be retained at £1m throughout the planning period. This position will be reviewed as part of the annual budget setting process.
- 5.6 The Council also receives substantial external funding through a reducing number of specific grants for which the following assumptions have been included within the latest budget projections.

### Public Health and Other Specific Grants

These are some of the largest specific grants received by the Council, totalling over £7m in 2016/17. It has been assumed that these funding streams will be used to support services and initiatives within their specific service area (e.g. public health) and as such are financially neutral for planning purposes at this stage in the budget cycle.

### New Homes Bonus

This non-ringfenced grant is designed to reward and encourage development of new properties in local communities and will generate £3.9m for Bracknell Forest Council in 2016/17. Alongside the settlement the Government launched a consultation on the New Homes Bonus, including proposals to reduce the number of years for which it is paid from the current six years to four. The results of the consultation have yet to be announced. For the purposes of the Medium Term Financial Strategy a range of scenarios have been modelled and a realistic assessment of the likely outcome included. A slight reduction in grant of £0.228m is anticipated in 2017/18, with a more significant and further reduction of £1.414m expected in 2018/19.

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### Education Services Grant

Education Services Grant is paid to fund education support services which local authorities provide centrally to maintained schools. It is not a ring fenced grant and authorities are free to decide how it is spent based on their individual circumstances. As part of the 2015 Spending Review the Government announced that it was looking to make savings of £600m from the grant. Announcements and consultations published since the settlement now indicate that the grant will be withdrawn almost completely and for Bracknell Forest this represents a funding reduction of £1.242m in 2017/18, followed by a further £0.255m in 2018/19. These reductions have been incorporated in the Commitment Budget at Annex A. Reductions of this level mean that services provided to schools cannot be maintained at their present level unless schools are prepared to pay for them. Establishing the Council's response to this challenge is a key project within the current transformation programme.

### Inflation and Interest Rates

- 5.7 Forecasting future levels of inflation and interest rates is fraught with considerable risk as the outlook for global economy continues to recover from the long-term economic shocks of 2008. The level of uncertainty has increased significantly following the result of the EU Referendum on 23 June and the consequences of vote to leave the European Union will only become apparent in the years ahead. Aside from this, the greatest risk faced by the UK and the USA is the “unwinding” of the monetary easing that has been in place for many years. Historically low interest rates and never-before attempted quantitative easing now represent challenges to be overcome as both economies continue to grow.
- 5.8 Based on the most up-to-date information and commentary from respected economists and the Governor of the Bank of England himself, UK interest rates may begin to rise in 2017, however any changes are likely to be minimal given the level of private sector debt (in particular personal levels of mortgage debt).
- 5.9 Whilst the Council still retains some surplus cash, the Capital Programme embarked on by the Council in 2015/16 – including the investment in the Town Centre regeneration and related highway works, the development of the Binfield Learning Village and the re-development of the Coral Reef Water World, will see the Council having to borrow to fund its on-going capital commitments at some point during 2016/17. With borrowing rates still at historically low levels and unlikely to significantly rise in the coming 18 months, the Council will be borrowing at a relatively fortuitous time. However with long-term borrowing rates close to 3%, there will be a material interest cost that will need to be factored into the Council's forward budget projections. The actual level of debt-servicing costs will depend both on future levels of interest rates and more importantly in the short-term the actual timing of the need to borrow which will itself depend on the progress on the various capital schemes. The figures included within the Commitment Budget at Annex A are a best estimate at this stage and will be closely monitored and updated as the major capital schemes progress and economic conditions change.
- 5.10 The outlook for inflation, over the period covered by the Commitment Budget, remains benign and is currently significantly below the 2% target set by the Monetary Policy Committee. In the short-term, expectations are for inflation to remain below target and only approach this level over the next 2 -3 years. The Consumer Price Inflation rate has been measured at close to zero in recent months. Given the underlying economic conditions this is likely to increase over the short-term. Allowances for budget increases due to inflation are calculated based on September indices. An estimate has been made at this stage of 1% for CPI in 2017/18, rising to nearer 2% in 2019/20. This translates into a non-pay inflationary pressure of £0.7m in 2017/18. The final figure will be updated once the September figures are published.

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- 5.11 In terms of pay inflation, a 1% increase in public sector pay has been agreed for 2017/18. This represents an additional cost of £0.5m. Similar increases have been factored into the Medium Term Financial Strategy for 2018/19 and 2019/20.

### Fees and Charges

- 5.12 Increases in fees and charges are determined by the overall economic conditions, the willingness of customers to pay the higher charges and continued demand for Council services. For planning purposes it has been assumed that income from fees and charges will increase in line with CPI. The Council's long term average rate of increase in fees and charges is between 2% and 3%. If the market will bear increases of this magnitude in 2017/18 this will have a positive impact on the budget forecasts. As a guide, a further 1% increase in fees and charges could be expected to yield an additional £0.2m in 2017/18.

### Business Rates

- 5.13 Business rates are an important income stream for the Council, a proportion of which are retained locally following the introduction of the business rates retention reforms in 2013. The Government has re-affirmed its plans to move towards 100% business rates retention by the end of this Parliament. Whilst work has now begun on developing an approach this is in its early stages and it is clear that it will be extremely complex and lead to a number of distributional changes. In the intervening period the Government will 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. Locally, the Council's largest business ratepayer has applied to the Government to join the central rating list. Whilst no decision has yet been made this represents a considerable risk to the Council's future business rate income. For the purposes of the Medium Term Financial Strategy, however, income is forecast to grow in line with the Government's baseline assumptions.
- 5.14 In addition to this the Council can also expect to see a growth in business rate income once the new town centre opens. An initial forecast prepared by the rating surveyors, Montagu Evans, suggests that the Council can expect to see its share of the additional business rate income to be in the region of £1.5m per annum. The main uncertainty around this will be the timing with which this income is received as it is dependent upon the Valuation Office agreeing rateable values over the coming months and the speed with which the remaining town centre units are let. For the purposes of the Medium Term Financial Strategy an additional £0.75m has been assumed for 2017/18, with the balance of a further £0.75m being achieved in 2018/19.

### Capital Programme

- 5.15 The indicative Council funded three year General Fund capital programme included within the budget assumptions are £8m each year. The long-term capital programme will be funded from a combination of capital receipts and borrowing. For 2017/18 an estimate of proceeds arising from Community Infrastructure Levy have been included along with a contribution from the Councils Right-To-Buy/VAT sharing agreement with Bracknell Forest Homes (which will end in 2018) and the sale of surplus assets. With the scope for generating income from capital receipts limited by the availability of surplus land/assets the capital programme has a significant impact on the revenue account with accounting regulations requiring resources to be set aside to cover underlying borrowing costs. Therefore the Council will need in due course to consider whether an indicative capital programme of approximately £8m is affordable as part of its overall budget strategy.

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### Budget Pressures

- 5.16 At this stage it is not possible to quantify the precise impact of service pressures and developments but experience has shown that the Council typically needs to add around £1.5m per annum to the budget for essential service pressures predominantly within adults and children's social care.

### Budget Overview

- 5.17 Drawing together the above projections for future commitments and resources provides a starting point for considering the budget strategy for 2017/18 and beyond. This is detailed in Annex B and summarised below:

	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Budget Requirement	84,221	90,707	94,967
Funding	-74,078	-73,156	-71,475
<b>Cumulative Funding Gap</b>	<b>10,143</b>	<b>17,551</b>	<b>23,492</b>
<b>Annual Funding Gap</b>	<b>10,143</b>	<b>7,408</b>	<b>5,941</b>

### Budget Strategy

- 5.18 The focus over the coming months will be on the challenge posed by the likely funding gap in 2017/18. The Council has a track record of delivering efficiency savings and reducing back office costs in order to protect front line services although it is becoming increasingly difficult to achieve similar types of savings year-on-year. The transformation programme that is currently underway will therefore be critical to the achievement of balanced budgets in the future. In practice, each of the following measures will need to be considered if a balanced budget is to be achieved:

- a) taking a firm line to limit future year's pressures
- b) delivering efficiency savings and reducing back office costs
- c) increasing the council tax
- d) utilising available balances
- e) implementing savings arising from the transformation programme

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- 5.19 In order to balance the Council's 2016/17 budget council tax was increased by 3.99% (representing 2% for the adult social care precept and a further 1.99% to fund services in general). Whilst no decisions have yet been taken on council tax increases (and none are necessary until the budget is set in February 2017), the impact of a similar level of increase would reduce the funding gap as follows:

	2017/18 £000	2018/19 £000	2019/20 £000
Budget Requirement	84,221	90,707	94,967
Funding (including 3.99% council tax increase)	-76,046	-77,170	-77,618
<b>Cumulative Funding Gap</b>	<b>8,175</b>	<b>13,537</b>	<b>17,349</b>
<b>Annual Funding Gap</b>	<b>8,175</b>	<b>5,362</b>	<b>3,812</b>

- 5.20 As reported elsewhere on tonight's agenda general balances were approximately £12.7m at 31 March 2016. The 2016/17 budget, following implementation of the additional saving proposals agreed in year, includes plans to spend £1.7m of this reserve on the assumption that the Council is able to spend within budget for the nineteenth consecutive year. Historically £4m has been considered to be the minimum prudent level for revenue balances. There is, therefore, £7m available to support future expenditure. As an example, if £6m of the £7m available were used, on a phased basis, to support the next three year's budgets the funding gap would reduce further, as follows:

	2017/18 £000	2018/19 £000	2019/20 £000
Budget Requirement	84,221	90,707	94,967
Funding (including 3.99% council tax increase)	-76,046	-77,170	-77,618
Phased use of Balances	-3,000	-2,000	-1,000
<b>Cumulative Funding Gap</b>	<b>5,175</b>	<b>11,537</b>	<b>16,349</b>
<b>Annual Funding Gap</b>	<b>5,175</b>	<b>6,362</b>	<b>4,812</b>

- 5.21 Clearly the Council faces a challenging financial outlook for the next three years and a combination of council tax increases, use of balances, efficiency and transformation savings will be required to achieve a legal and balanced budget in each of these years. Work will continue over the coming months so that the Executive is in a position to consult on a full range of budget proposals at its meeting in December.

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### Budget Timetable

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

Development of budget proposals	July 16 – November 16
Executive agree proposals for consultation	13 December 16
Overview and Scrutiny Commission reviews budget proposals	26 January 17
Executive considers responses to consultation and agrees final budget proposals	14 February 17
Council agrees budget and Council Tax	1 March 2017

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

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

### Borough Treasurer

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

### Equalities Impact Assessment

- 6.3 None.

### Strategic Risk Management Issues

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

The budget includes resources sufficient to enable the Council to monitor these key risks and where possible to minimise their effects on services in accordance with the strategic risk actions plans. Specific risk reduction measures that are in place include the following:

- Budget Setting Process
  - Production and regular monitoring of a robust medium-term financial strategy
  - Regular analysis of budgets to identify legislative, demographic, essential and desirable service pressures / enhancements
  - Detailed consideration of budgets by officers and Members to identify potential budget proposals
  - Robust scrutiny of budget proposals prior to final agreement

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- Ensuring adequacy and appropriateness of earmarked reserves
- Budget Monitoring
  - Robust system of budgetary control with regular reporting to CMT and through the Quarterly Service Reports (QSR's) to Members
  - Exception reports to the Executive
  - Review of the Councils' budget monitoring arrangement by external audit to ensure they remain fit for purpose
  - Taking corrective action during the year to ensure the budget is delivered every year (as in 2009/10, 2006/07, 2005/06 and 2000/01)
  - Specific regular review by Group Accountants of particularly volatile budget areas

## 7 CONSULTATION

### Principal Groups Consulted

7.1 No groups have been consulted at this stage.

### Background Papers

None.

### Contacts for further information

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