

TO: THE EXECUTIVE  
DATE: 16 JULY 2002

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**MEDIUM TERM FINANCIAL STRATEGY**  
**(Director of Corporate Services - Finance)**

**1 INTRODUCTION**

- 1.1 A report presented to the Executive at its meeting on 18 June ("Provisional Out-Turn Revenue Expenditure 2001/02 And Commitment Budget 2003/04 – 2005/06") highlighted that a potential budget gap of over £7m exists on the general fund revenue account by 2005/06. This report updates the strategy and process to address this position and also sets out the links between the general fund revenue account, Capital and the Housing Revenue Account that need to be considered in an overall medium-term financial strategy.

**2 RECOMMENDATIONS**

- 2.1 **That the Executive supports the establishment of Budget Working Groups to examine options for addressing the identified budget gap by 2005/06.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1 The Council's predicted medium-term financial position necessitates the development of specific options at an early stage to address the likely general fund budget gap. The links between the general fund, capital and the HRA mean that all accounts need to be examined in the context of an overall financial strategy for the Council.

**4 ALTERNATIVE OPTIONS CONSIDERED**

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

**5 SUPPORTING INFORMATION**

5.1 Categories of Expenditure

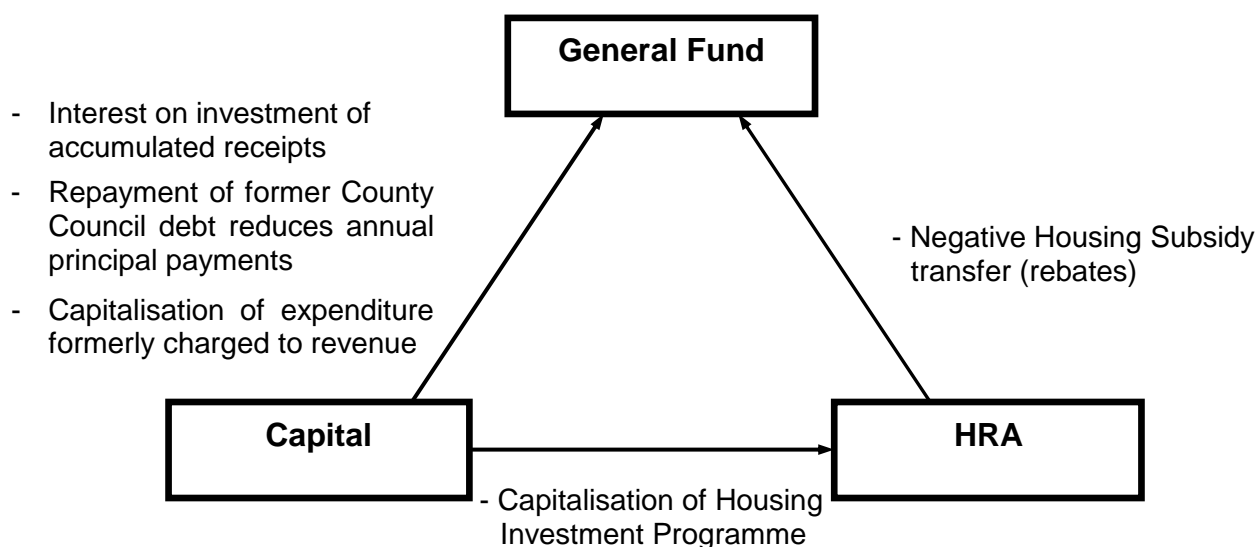
- 5.1.1 Bracknell Forest is required by legislation to account for its expenditure in three distinct categories:

**General Fund Revenue Account** – This includes day to day spending on all services except those directly relating to council housing. Expenditure is financed mainly from government grant (Revenue Support Grant), Business Rate income and Council Tax.

**Housing Revenue Account** – Included within this account is all expenditure on the day to day management of the Council's housing stock. Expenditure is principally funded from council house rents.

**Capital** – All improvements and enhancements to the Council’s assets are included in this category. This expenditure is financed partly from the sale of capital assets, government grant support and contributions from developers.

5.1.2 Bracknell Forest is in an unusual financial position, being technically debt free with a relatively large amount of accumulated capital receipts and in receipt of negative housing subsidy. The main consequence of this position is a high degree of inter-dependency between the three different accounts, as illustrated below.



5.1.3 The existence of the links illustrated above means that it is not possible to consider each account in isolation. A further complexity is that the Government intends to change the rules and funding mechanisms for all categories of expenditure in the next two years, the impact of which is still unclear on individual Councils.

5.1.4 The Government has recently published a consultation paper on formula grant distribution for the general fund (see section 5.2). However, pending the publication of specific proposals for all accounts later in the year and the results of the Comprehensive Spending Review which is expected imminently, it is necessary to plan on the basis of the current arrangements, with the main focus being on the general fund revenue account, where the pressure is greatest. The sections below set out the key issues for the Executive’s consideration and takes forward the process for developing the Council’s medium-term financial strategy.

## 5.2 General Fund Revenue Account

5.2.1 The on-going review of the Local Government Finance (LGF) System, will be completed in November 2002. It was expected that local authorities would not be consulted upon the proposals until September 2002. However, the Local Government Minister last week published a consultation paper on formula grant distribution. This lengthy document set out a vast range of options which will take some time to analyse in detail, although preliminary examinations indicate that the potentially most damaging options around the Area Cost Adjustment have not been included. This is good news for Bracknell Forest, which receives 10% of its SSA allocation through this element of the grant distribution formula.

5.2.2 Against this, options proposed for “resource equalisation”, if implemented, would be particularly damaging for this Council, which is categorised in the consultation paper as, “relatively low formula spend, high taxbase”. Currently, a notional level of Council Tax (Council Tax at Standard Spending) is used to calculate each Council’s potential tax income and hence level of grant support (Government Grant = SSA – Income from CTSS). In the situation where most Councils are spending over their SSA level, the

Government has recognised that the use of an assumed level of Council Tax that is lower than reality has the effect of moving grant away from high formula spend, low council taxbase authorities and towards authorities with relatively low formula spend and high taxbase (i.e. Councils such as Bracknell Forest). Options to address this would transfer resources away from shire areas and the South of England (excluding London) towards metropolitan areas and the north.

- 5.2.3 Responses to the consultation paper have been invited by 30 September and Officers will be assessing the likely impact of the proposed changes over the next two months in conjunction with representatives of similarly affected authorities. The Executive will be kept up to date with any developments.
- 5.2.4 Previous predictions of budget gaps have assumed that the Council will only receive 3% increases p.a. in Government funded resources. This was due to the belief that more radical options would be included in the Government's draft proposals than has proved to be the case, which would have reduced the availability of funding for transitional arrangements. While it remains possible that the changes to be finally implemented could have a significant redistributive effect (Bracknell Forest could lose £7.6m in the very worst case scenario) this now seems unlikely. Consequently, it is now possible to consider increases of 4% p.a. as a realistic possibility. Comparing this level of resources with the Council's Commitment Budget and estimates of future growth and inflation implies a reduced potential budget gap of around £5.75m by 2005/06. This is slightly better than the position predicted in recent years. However, circumstances are now different as the Council no longer holds significant levels of general reserves. (Useable reserves are predicted to be £4.9m by March 2003 although a further release of reserves from the former County Council's balance sheet and final closedown of the 2001/02 accounts may increase this, but not by a substantial sum. In the last two years £4.8m has been used to support the budget.)
- 5.2.5 In this context, it is not feasible to continue to spend at current levels without firming up the strategy to bring expenditure into line with recurring resources in the medium-term. Members will be aware that there has been broad understanding of this situation for some time and that the level of available reserves has now reached a level that makes it necessary to have clearly identified, costed, deliverable plans in place to achieve this before any further sums can be released from reserves to support revenue expenditure beyond 2002/03.
- 5.2.6 A broad spectrum of options exists to achieve this objective, ranging from raising Council Tax to the level required to bridge the budget gap to implementing sufficient economies and service reductions to do so without raising Council Tax beyond the assumed increases in the Government's Council Tax at Standard Spending. In addition the Council could take an even firmer line in future years to limit spending on new service developments to help reduce the potential gap.
- 5.2.7 In practice, it is likely that a combination of the three approaches will be required and it would be unwise to make firm decisions until the full impact of the CSR and SSA changes over the next three years are clearer. However, to prepare for all possible scenarios it is necessary to identify specific options to match expenditure levels to resources, with an impact analysis of each option. To achieve this, it is suggested that informal Budget Working Groups involving the Executive Portfolio Holders and individual Directors and other staff / Executive Members as appropriate be established to take this work forward over the coming months, prior to the initial consideration of options for the 2003/04 budget in November / December. An indicative timetable covering the next six months is set out below.

<b>Activity</b>	<b>Responsibility</b>	<b>Timescale</b>
Agree focus for detailed work to be undertaken by Departments	BWG Meeting 1	Late July 2002
Undertake detailed work on specific options for 2003/04 to 2005/06 budgets	Individual Directors	August / early September 2002
Consider first draft options	BWG Meeting 2	September 2002
Refine strategy in light of all options identified compared with estimated resources	Executive / CMT	September / October 2002
Review final draft options and agree which are to be considered for inclusion in draft budget package	BWG Meeting 3 / 4?	October / November 2002
Agree draft budget package for consultation in light of SSA settlement	Executive	November / December 2002

### 5.3 Capital

5.3.1 Each year the Council agrees a programme of capital schemes. These schemes are funded from three main sources;

- The Council's accumulated capital receipts and/or revenue balances
- Government Grants
- Other external contributions

5.3.2 Investment of the Council's accumulated capital receipts generates significant income by way of interest receipts which supports the Council's Revenue Budget. In recent years Members have agreed capital programmes in excess of the amounts estimated to be generated by asset sales each year (around £7m), therefore reducing the level of receipts held. As the Council uses its capital receipts to fund capital expenditure it loses interest on these resources, which in turn increases the pressure on the revenue budget (in the medium term for every £1m spent on capital expenditure the Council loses £50,000 pa in interest).

5.3.3 In deciding the level of the capital programme, Members also need to bear in mind that it currently includes sums of over £2m for the capitalisation of expenditure formerly classified as revenue and for a Housing Improvement Programme. Both of these allocations benefit the general fund revenue account, the first by providing alternative funding for necessary expenditure and the second by reducing pressure on the HRA and hence on rent levels, which helps maintain the level of the negative housing subsidy transfer. Given these links it is important that decisions on capital expenditure are considered alongside those on revenue expenditure. As such, it is suggested that options should also be considered by the Budget Working Groups.

### 5.4 Housing Revenue Account

5.4.1 As part of the Housing Investment Programme the Council must submit to the Government Office of the South-East (GOSE) a Housing Strategy and a 5 year Business Plan by the 31<sup>st</sup> July 2002. The Business Plan is based on a financial model that analyses the key cost and income drivers that impact on the HRA, which are as follows:

- Rent levels (implementation of the Social Rent reforms introduced in 2002/02 implies rent increases in line with Government guidelines of 5.35%)
- Continued levels of investment in the Council's Housing stock
- Consideration of the level of the negative subsidy transfer to the General Fund (affected by rent levels)

- Maintaining minimum balances of £300,000

5.4.2 Forward projections of income and expenditure indicate that there will be a deficit on the HRA from 2003/04 onwards, rising to around £0.75m by 2005/06. This will need to be addressed by a combination of expenditure reductions (e.g. reducing the level of maintenance), other economy measures, further capitalisation of expenditure or increases in rent levels. Given the impact of the latter option on the negative housing subsidy transfer to the general fund, it will be necessary to consider all options alongside proposals for the general fund. Consequently, it is recommended that the Budget Working Group including the Executive Member for Social Health Care Services and Housing should also consider the HRA alongside the general fund budget.

## **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 Finance Officer

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

### Access Implications

6.3 None.

## **7 CONSULTATION**

### Principal Groups Consulted

7.1 No groups have been consulted at this stage.

### Background Papers

Report to Executive 18 June 2002 "Provisional Out-Turn Revenue Expenditure 2001/02 And Commitment Budget 2003/04 – 2005/06"

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