

TO: THE EXECUTIVE
DATE: 25 AUGUST 2020

**Financial Update
(Director: Resources)**

1 PURPOSE OF REPORT

- 1.1 Recognising the unprecedented financial pressures the Council is facing as a result of the various impacts of the Covid-19 pandemic, this report provides an update to the Executive on the Council's financial situation in the current year and a forward look to the potential financial position in future years.

2 RECOMMENDATIONS

That the Executive:

- 2.1 **Notes the identified best case and worst case scenarios for the Council's current year financial position summarised in Table 1 and detailed in Annex A and approves the virements relating to the 2020/21 budget also included in Annex A;**
- 2.2 **Endorses the medium-term financial planning framework in paragraph 5.22 to guide detailed preparations for the 2021/22 and future years' budgets;**
- 2.3 **Note the out-turn capital expenditure and financing for 2019/20 and approves carry-forwards of £31.596m into the 2020/21 capital programme;**
- 2.4 **Recommends to Council the proposed additions to the current year's capital programme in paragraph 5.37;**
- 2.5 **Agrees to make available a vacant domestic property owned by the Council for social care purposes, as set out in paragraph 5.38.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The recommendations are intended to ensure that the Executive is aware of the Council's current and predicted future financial position.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Executive could decide to take immediate, corrective action through approving in-year budget changes to further mitigate the identified financial risks, however such an approach is not felt to be justified at this time.

5 SUPPORTING INFORMATION

Background

- 5.1 The Council approved the current year's budget and council tax at its meeting on 26 February 2020. At the time it was recognised to be one of the most difficult budgets

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ever faced. Spending pressures totalled an unprecedented £8m, the vast majority being in Children's and Adult Social Care. This necessitated the identification of £5m of savings, a maximum permitted increase in council tax plus the use of £0.4m from reserves to achieve a balanced budget for the year.

5.2 In setting the budget for 2019/20, consideration was given to the outlook for the economy as a whole, the impact of demographic changes and the resulting pressures on services and other risks contained within the proposed budget. The Contingency was set at £2.250m in the final budget proposals, to make an allowance for the identified risks.

5.3 At that time it was also recognised that there was significant uncertainty for the period from 2021/22 due to the potential impact of a number of issues, in particular:

- Fair Funding Review
- Business Rates system re-set
- 2020 Spending Review which would determine the overall quantum of resources available to local government
- Final Brexit arrangements

5.4 The most likely consequence of all of these factors combining was estimated to be an additional recurring budget gap of around £4.5m in 2021/22. It was acknowledged that the impact of these factors would be a greater reliance on Council Tax income as an on-going source of funding to support essential front-line services as well as a need to identify further savings each year. It was noted that the Future Funding Reserve had deliberately been created in order to help manage the transition to the new funding arrangements and enable savings to be gradually identified and implemented over time.

Update on Current Year Position

5.5 The impact of the Covid-19 epidemic on Council budgets since March 2020 has been widely reported. In recognising the important role that local authorities have played in responding to the situation, Government has provided an additional £3.7bn of funding to English councils directly and undertaken to mitigate some lost income from sales, fees and charges. Details of arrangements in respect of the latter support are still awaited. Further costs incurred by upper tier authorities to support hospital discharges are being covered by funding being passed through Clinical Commissioning Groups (CCGs).

5.6 The areas of additional spending referred to by Government as being covered by the additional funding it has provided are as follows:

| | |
|---------------------------------|---------------------------------------|
| Adult social care | Children's services |
| Public health services | Fire and rescue services |
| Waste collection services | Shielding those clinically vulnerable |
| Homelessness and rough sleeping | Domestic abuse |
| Supporting the NHS | Managing excess deaths |

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- 5.7 While welcoming the additional Government funding, individual authorities and the Local Government Association are highlighting that the scale of the impact on council budgets in the current year is expected to exceed the sums provided to date.
- 5.8 Councils have been asked by the Ministry of Housing, Local Government and Communities (MHCLG) to provide monthly updates on the scale of cost increases and income losses they are experiencing and expect to see over the remainder of the year. Responses to the June survey indicated that between March and June councils had incurred £4.8bn of extra cost pressures and income losses and expected these to rise by a further £4.4bn and £2.8bn respectively by the end of the year. In addition, collection fund losses from council tax and business rates income were forecast to be £3.7bn over the year. To date, £4bn of additional funding has been provided to councils by Government directly and through CCGs.
- 5.9 Being a unitary authority responsible for the full range of council services across the Borough, Bracknell Forest is one of the councils facing challenges both from additional expenditure and income losses across its service areas.
- 5.10 A detailed analysis of the Council's forecast financial position in the current year is set out in Annex A of this report, which shows the first formal budget monitoring report for 2020/21. Recognising the scale of uncertainty we are facing at this time, the report includes both estimated best and worst case scenarios which reflect actual expenditure to date plus a range of financial predictions from Assistant Directors covering the remainder of the year. A summary of the position being reported is shown in the table below.

Table 1: Current Year Financial Position

| | Current Approved Budget £000 | Predicted Variance – Best Case £000 | Predicted Variance – Worst Case £000 |
|-------------------------|--|---|--|
| Service Departments | 84,801 | 7,335 | 14,647 |
| Non-Departmental | -4,629 | -575 | -425 |
| Sub-Total | 80,172 | 6,760 | 14,222 |
| Contingency | 2,207 | -2,207 | -2,207 |
| Covid Funding | 0 | -6,457 | -6,457 |
| Overall Position | 82,379 | -1,904 | 5,558 |

- 5.11 It can be seen that the Council is expecting to face additional pressures this year of between £6.8m and £14.2m, the vast majority of which are directly related to the Covid situation. With funding of almost £8.7m available from the additional Covid grant and the corporate contingency, the overall range of potential financial outcomes is from all pressures being covered by available resources in the best case scenario to an overspend of over £5.5m in the worst case scenario. Full details of the variances being reported and their underpinning rationale is included in Annex A. This shows that the service areas most significantly affected are Contract Services (car parking and leisure), Adult's and Children's Social Care and Place, Planning and Regeneration (The Look Out and Planning fees).
- 5.12 These figures will continue to be refined during the year as more data becomes available on expenditure to date and further clarity emerges on the detailed arrangements for Government support for lost income. At this stage, based on what we understand to be the position on this, it has been assumed in the best case scenario that the Government will reimburse 75% of the reduced car parking income

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over the course of the year (after an initial 5% “deductible”) but no other loss of income.

- 5.13 Details of the income compensation scheme have yet to be published but it has recently become apparent that loss of management fee income from externally run leisure services is likely to be supported. Once the level of support has been confirmed this will be built into the forecast position which will have a positive impact on both scenarios. This, together with Bracknell Forest’s long track record of sound financial management, provides some confidence that the Council will be able to live within the resources available to us in the current year, without having to draw significantly from available reserves.
- 5.14 That said, the situation remains extremely unpredictable, with a further peak of Covid cases and a prolonged economic downturn still possible over the Autumn and Winter periods. Either of these could materially impact the scenarios currently being predicted. It is therefore important that we do not become complacent and continue to monitor the financial position very closely over the coming months. In the meantime, the message from the Corporate Management Team to the organisation is to be continuously mindful of the pressures we are facing and to minimise any non-essential expenditure to help ensure we remain within budget.

Medium-Term Prospects

- 5.15 Alongside the process of setting the Council’s budget for 2020/21, the Corporate Management Team and Executive members were considering and planning for the Council’s medium-term financial position earlier this year. There is currently no funding settlement for local government beyond 2020/21. However, in confirming the 2020/21 local government finance settlement the Government announced its intention to re-set the business rates baseline for all authorities in April 2021, at which point Bracknell Forest would lose around £4m of retained business rates growth which has been supporting the revenue budget for many years. This had been expected and the Council had established a Future Funding earmarked reserve to provide mitigation against this loss for several years.
- 5.16 Other key factors in projecting the medium-term financial position are:
- The level of new spending pressures and inflationary increases that are added to the base (commitment) budget each year;
 - Specific grants received, notably New Homes Bonus;
 - Annual council tax increases and the number of new properties.
- 5.17 In budget planning there is normally a gap between the predicted level of spending and available income. Since local authorities are legally obliged to set a balanced budget every year, this gap needs to be filled by a combination of budget savings and use of reserves.
- 5.18 The estimated position in February 2020 is detailed in Annex B. In summary, this showed that the Council would need to identify and deliver £10m of savings over the 3 years 2021/22 to 2023/24 to mitigate cost pressures of around £2.75m per year. It was recognised that this was significantly lower than the £8m of pressures faced in the 2020/21 budget, which was acknowledged to be unsustainable. During this period just over £10m would be used from the Future Funding reserve to support the budget. This meant that the savings required could be spread relatively evenly over the 3 years rather than having to be front loaded to coincide with the significant funding reduction in 2021/22.

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- 5.19 In order to guide work to identify where savings would be achieved, 7 key principles were identified:
- We would:
 1. Aspire to excellence in what we do so we can live within our means;
 2. Consolidate the recent growth in social care spending into our financial plans but work towards a small reduction in real terms from 2020/21 levels;
 3. Concentrate on targeted early intervention and preventative activities to reduce future demand for more expensive services;
 4. Seek no funding for new service growth unless in exceptional circumstances, apart from a strategic priority around climate change and agreed manifesto commitments;
 5. Refocus transformation and other savings programmes and quantify savings “envelopes” for all projects;
 6. Expect all service areas to deliver spending reductions throughout the period to bridge the remaining gap, focusing on but not limiting efforts to restrict areas of limited or manageable public impact;
 7. Increase fees and charges as much as reasonably possible every year to maximise income.
- 5.20 Work was commencing to review and firm up savings targets for transformation programmes and individual service areas when the focus of the organisation turned, as it had to, to supporting our residents and businesses deal with the health and economic impacts of the pandemic. While the Council’s work in that respect is far from finished, we have reached the point where work needs to start to develop options for the 2021/22 budget and future years.
- 5.21 Given the scale of change that has happened to society and the economy since March, it is necessary to re-evaluate our planning assumptions from earlier in the year. The section below sets out key matters to consider.
- a) *Pressures*
- The 2020/21 budget included £8m of service pressures and, as shown in table 1 above, we are facing a further £6.75m - £14m in year;
 - Some of the in-year pressures are likely to continue into 2021/22
 - It is not realistic at this point to plan for pressures to be held at a maximum of £2.75m per year for the foreseeable future
- b) *Funding*
- It was expected that the Council would lose £4m funding in 2021/22 through a reset of the business rates system;
 - Government has recently announced that any significant changes to the business rates system will be delayed beyond 2021;
 - Business rates income will fall from the current level due to appeals against valuations (e.g. town centre) and potential business changes
 - Apart from the loss of retained business rates, it was expected that the Council would keep (broadly) the same level of Government funding in future years as in 2020/21;

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- Unprecedented levels of additional grant support have been provided by Government in the current year – can this realistically be sustained?
- A Spending Review has been announced for the Autumn which will cover the next three years for revenue and four years for capital– there will be no clarity before then about the overall level of public funding in the future
- This means that the local government finance settlement will most likely be announced in mid December (after the Council needs to publish its draft 2021/22 budget)

c) *Income*

- Fees and charges were planned to increase each year to help bridge the budget gap;
 - A fragile economy will make demand more sensitive to price increases
- It was expected that the number of properties paying council tax would increase significantly over the coming years;
 - To date, the council taxbase has remained broadly in line with predictions
 - A period of economic uncertainty / downturn normally has an adverse impact on the housing market
 - The impact and length of the temporary stamp duty reduction is currently unclear

5.22 An updated, estimated medium-term position is included as Annex C. A key assumption is that the level of Government support will remain broadly at the level it was at the start of 2020/21, i.e. before the additional Covid-19 support was provided. Assuming more resources will be available and then finding that this is not the case when the local government finance settlement is announced in December would leave the Council seriously exposed with little time to respond to the position outlined in Annex C. The headline is, therefore, that the Council needs to plan to deliver £15m rather than £10m of savings over the next three years to compensate for increased spending pressures and reduced income over that period. Although the gap and savings target has increased, the 7 principles previously identified under paragraph 5.19 above remain valid and will be used to guide work over the coming months to develop draft revenue budget proposals for consideration by the Executive in December.

Capital Programme

5.23 The Council approved a capital programme for 2019/20 to 2021/22 at its meeting on 28 February 2019. The final capital out-turn position is summarised in Table 2 below (subject to the final external audit).

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Table 2: capital budget out-turn expenditure 2019/20

| | Approved Budget | Actual Expenditure Incurred | Proposed Carry Forwards | Underspend |
|----------------------|------------------------|------------------------------------|--------------------------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Delivery | 8,867 | 5,917 | 1,951 | -1,000 |
| Central Directorates | 24,120 | 8,739 | 12,283 | -3,099 |
| People | 28,027 | 6,869 | 17,362 | -3,799 |
| TOTAL | 61,014 | 21,525 | 31,596 | -7,898 |

- 5.24 The total capital budget for 2019/20 of £61m was comprised of £33.4m approved specifically for that year with virements and carry-forwards agreed in the year of £27.6m. The Council relies on government grants, capital receipts and other contributions of fund its on-going capital programme. As a result of the reduction in overall public expenditure over the last 3 years, the level of government grants (particular in relation to schools) has reduced substantially. However, the introduction of the Community Infrastructure Levy (CIL) has provided the Council with the means to invest in its highest infrastructure priorities. New Council funding in 2019/20 amounted to £19.05m and included significant funding for Waste Collection, the redevelopment of Heathlands and the Town Centre redevelopment.
- 5.25 In accordance with the Council's Financial Regulations, directorates are required to manage their budgets to ensure that the overall department capital programme is not exceeded. Table 2 shows that the overall capital programme is underspent against budget, with the most significant variations from approved budgets being on the following schemes:
- Easthampstead House Demolition (£1.0m) – The original Time for Change Accommodation budget included a provision for the demolition of Easthampstead House. With tenants now in place this budget is no longer required.
 - Country Park (£2.6m) – An update has previously been provided to the Executive on the progress of this scheme. Funding for a reduced scheme remains in place.
 - Basic Needs Grant (£3.7m) – The financing of Binfield Learning Village (Kings Academy) was front-end funded through Council borrowing on the assumption that the final financing would consist of future grants and developer contributions. As such the outstanding unallocated amount of Basic Needs Grant will be used to reflect this historic position, with a consequent underspend being reported in 2019.20.
- 5.26 The total carry forwards requested by service departments amount to £31.596m. Details at scheme level can be found in Annexe D. Given the scale of this relative to the overall programme, these have been closely scrutinised by the Corporate Management Team. It is clear that the vast majority of the projects are either close to being completed or are contractually committed and underway.
- 5.27 The most significant carry-forwards that have been funded from Council resources (as opposed to grant funding which is normally automatically carried forward) are as follows:

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- Town Centre Redevelopment (£7.2m) – The funding set aside for the redevelopment of the Town Centre through various schemes will be drawn down as the programme continues to roll out.
- Replacement LED Street Lights (£0.8m) – This is a continuing project and is expected to be completed in 2020/21
- Heathlands Re-development (£10.7m) – This project is expected to complete in 2021/22 and is a long term commitment of the Council

5.28 In previous years funding carried forward has simply been rolled into the following year (in this instance 2020/21), however for some of the largest projects the actual cash flow profile will stretch over more than one year. This was a significant factor in the relatively low proportion of the capital budget that was actually spent in 2019/20.

5.29 While the Executive is asked to recommend to Council that carry-forwards totalling £31.596m are approved, it is intended that further work be undertaken over the coming months to profile capital spending across future years in time for the setting of the 2021/22 capital programme later in the year. This will enable a more accurate estimate of capital funding required and the potential revenue impact of any required additional borrowing to support the capital programme in each of the years ahead.

Capital Financing

5.30 Capital expenditure can be financed from four main sources; Developers' Contributions (S106 monies and Community Infrastructure Levy), Grants, Capital Receipts and Borrowing.

5.31 A total of £16.274m of government grants and other external contributions have been used to finance capital projects in 2019/20. Table 3 below summarises financing arrangements for capital expenditure incurred in 2019/20.

Table 3: Financing of 2019/20 Capital Expenditure

| | |
|--|--------|
| | £'000 |
| Total capital expenditure | 21,525 |
| To be financed by: | |
| -Capital receipts | 5,251 |
| -Government Grants & Other Contributions | 16,274 |
| -Capital Financing Requirement | 0 |

5.32 The table below highlights the most significant asset sales (capital receipts) that were realised in the year.

Table 4: Capital Receipts

| Asset | £000 |
|--------------------|-------------|
| Unit A Waterside | 1,060 |
| Bigwood Lodge | 548 |
| Peacock Cottages | 380 |
| Mendeleev Building | 364 |

5.33 As a result of the capital expenditure in 2019/20 the Council now has an overall capital financing requirement of £211.6m as at the 31 March 2020. This represents the Council's underlying need to borrow to fund previously approved capital expenditure that cannot be financed from other income sources. As required by regulations, the Council will provide for the repayment of this through the minimum revenue provision which will be re-calculated for these out-turn figures using the policy agreed by Council and reflected in the Council's Budget.

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- 5.34 The Council's actual need to borrow at any particular time is determined by its overall cashflow requirements. The actual level of borrowing at the end of March 2019 was £95m with investments of £16.8m, totalling net debt of £78.2m. This reflects that the Council holds cash from its reserves, capital receipts and developer contributions that can temporarily be used to finance expenditure, commonly known as "internal borrowing".
- 5.35 Capital receipts have significantly reduced over the last 5 years as the Council has disposed of surplus assets through reviews of its asset estate. As such greater reliance has been placed in recent years on developer contributions and government grants. There is considerable uncertainty surrounding the level of these contributions over the next 2 years as a result of economic conditions and changes that have been introduced by Government in order to reduce the burden on developers, which is likely to reduce the level of available funding for capital schemes.
- 5.36 Over the last 3 years the Council has developed proposals for an annual capital programme limited to £5m of new Council funding, recognising the negative impact on the revenue budget of any additional borrowing requirement. Given the significant level of capital funding already approved but not yet spent, the general economic conditions and the financial pressures faced by the Council at his time, it is proposed that this should continue to be the maximum amount of new council funding each year. In order to remain within this financial envelope, future proposals and bids should only be brought forward where there is an acute need for investment or where investment will contribute towards the Council's transformation programme and save costs in the medium to long-term.
- 5.37 The following schemes have been identified that need to be added to the current Capital Programme for 2020/21 due to an urgent need.

Berkshire Archives (£17,000)

There is an urgent need to replace vital equipment at the Berkshire Records Office – a share of which must be met by each Council party to the joint arrangement. The total costs of the work are estimated at £127,000 with an apportionment to Bracknell Forest of £17,000. The works will include a replacement of the Chiller system and building control management system. These works are urgent to maintain the integrity of the documents held.

Market Street (£175,000)

Members have previously agreed that the Coopers Hill site be re-developed and site closure is now anticipated to be by end of 2020 for all users. A phased closure is anticipated but exact details have yet to be agreed. Alternative accommodation needs to be found to house some services provided by the Head of Children's Support Services which are currently situated in Coopers Hill. Co-location of services has the potential to increase the effectiveness of service provision by providing a calm and purposeful learning environment for vulnerable young people within an accessible building within the centre of Bracknell. It is proposed that the site identified at 20-21 Market Street be remodelled to provide the additional accommodation required.

It is intended to remodel the building to make the site suitable for the services by subdividing some spaces to provide the required level of meeting accommodation. The refurbishment includes work associated with this remodelling, plus any legislative work to comply with Building Regulations within the initial estimate of £175,000.

The Market Street site which is owned and managed by Bracknell Forest Council has been empty since the end of the tenancy in December 2019. Market Street is currently advertised for rent in the external market for an income to the Council of

£20,000-£25,000. Current market conditions are unfavourable for securing an external tenant. The Virtual School and College Hall PRU currently pay approximately £33,000 for up to 5 rooms per day for 5 hours a day at Coopers Hill. It is proposed that the same charge will be made for use of a more suitable facility at 20/21 Market Street.

Invest-to-Save – Memorial Area (£54,000)

The Crematorium has an area of memorial tablets which were laid in the very early days of opening. These are underground vaults. All memorial leases are now on annual leases following a change to arrangements over 5 years ago. The take up of renewing leases for memorials improved significantly. A new vault is charged at £695 (this incorporates the inscribed tablet and the first year's lease). Thereafter the lease charge would be £66 p.a.

The area is on constant view to mourners after every service. They have deteriorated over the years to the extent that we are now unable to offer any vaults that have been vacated to new customers and we are also unable to offer renewals of expired leases to existing customers. The current facilities are deteriorating and not worth repairing, the cost to remove the deteriorating granite would be prohibitive for the labour alone and would not include any replacement system. The proposal is to remove the existing concrete/granite combination and replace with granite only making the tablets stronger and looking brand new once again. This ensures the strength of the memorials and the longevity of the area – the granite would last for 20 years. The families of the bereaved are constantly seeking to explore options and there is a robust business case for progressing this scheme. Estimates show projected income growing from £17,000 in year 1 to £25,000 by year 5 as new memorials are leased. Ongoing income will then drop to £9,000 per annum reflecting the assumed annual renewal. At a borrowing rate of 2% the scheme meets the criteria of the Council's Invest-to-Save, with the additional income repaying the cost of capital within 3 years. With a lifetime of at least 20 years this refurbished memorial area will generate additional income for many years to come.

- 5.38 The Executive has previously approved the disposal of a vacant bungalow owned by the Council adjacent to the Cemetery and Crematorium, with an estimated sale value in excess of £300k. An alternative opportunity has been identified to use the bungalow for specific social care and housing needs, which require a property in a relatively isolated setting. This offers a financial advantage to the Council overall compared with the alternative of using residential care home placements setting, in addition to offering a more suitable and preferred model of care, even after taking into account the opportunity cost of the capital receipt that would be foregone. It is therefore recommended that the Executive agrees to make available the bungalow near to the Cemetery and Crematoria for social care purposes, rather than dispose of it to generate a capital receipt.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Members are reminded in the context of this report of their fiduciary duty to the Council Taxpayer, effectively to act as trustee of the Council's resources and to ensure proper custodianship of the Council's resources.

The Council must set and maintain a balanced budget and must take steps to deal with any projected overspends and identify savings or other measures to bring budget pressures under control.

In relation to pressures and savings the Council has a variety of statutory duties which it must fulfil by law. It cannot lawfully decide not to carry out those duties. Even where the Council is under a statutory duty to provide a service there is often a discretion available to the Council about the level of service provision. For other activities, the Council provides services in pursuance of a statutory power rather than a duty, and though not bound to carry out those activities, decisions about them must be taken in accordance with the decision making requirements of administrative law.

Director: Finance

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

Equalities Impact Assessment

- 6.3 The Council's budget proposals impact on a wide range of services. A detailed consultation was undertaken on the draft budget proposals published in December 2019 to provide individuals and groups the opportunity to provide comments.

Strategic Risk Management Issues

- 6.4 The Council's strategic risk register contains a specific risk highlighting "significant pressures on the Council's ability to balance its finances whilst maintaining satisfactory service standards". While this is a long-standing issue, the situation in the current year and future year prospects mean that the risk is particularly difficult to manage at the current time. This paper has been brought to the Executive at this time to ensure there is a shared understanding of the situation and to agree an outline approach to achieving financial sustainability over the medium-term, to help focus more detailed work on specific options over the coming months.

7 CONSULTATION

- 7.1 A detailed consultation will be undertaken on the Councils draft budget proposals for 2021/22 after they are published in December 2020.

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