

TO: THE EXECUTIVE
DATE: 17 OCTOBER 2023

**Budget Update
(Executive Director: Resources)**

1 PURPOSE OF REPORT

- 1.1 Recognising the scale of the financial pressures the Council is currently facing due to inflation and service demand, 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 Council's predicted current year financial position summarised in Table 1 and detailed in Annex A;**
- 2.2 **Endorses the actions agreed by the Corporate Management Team to help contain expenditure in the current year as set out under paragraph 5.4;**
- 2.3 **Notes the Council's predicted medium-term financial prospects based on the assumptions detailed in paragraphs 5.9 to 5.16 and summarised in Table 2, which is subject to development of detailed draft budget proposals for 2024/25 and future years and to confirmation of the local government finance settlement in December;**
- 2.4 **Note that the Executive will be asked at its November meeting to recommend to Full Council a Flexible Use of Capital Receipts Strategy, that will provide funding from capital resources to secure additional capacity needed to drive transformation change to help secure a sustainable future financial position;**
- 2.5 **Agrees the proposed use of the Council's funding to support delivery of affordable housing as set out in paragraphs 5.20 to 5.22.**

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 choose not to support expenditure on the proposed priority areas. This is not recommended as the measures proposed are viewed as preventing more significant cost increases in the period ahead.

5 SUPPORTING INFORMATION

Current Year Financial Position

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- 5.1 The Council approved the current year's budget and council tax at its in-person meeting on 22 February 2023. Consideration at the time 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 impact of high inflation dominated our financial planning. The Council typically allocates around £2m - £3m each year to cover the cost of inflation, which represents the extra we need to spend just to maintain current service levels. For 2023/24, we had to set aside just under £10m. The Contingency was increased to £2.75m in the final budget proposals, a higher level than in any previous year, reflecting the scale of the identified financial risks. While the budget including service pressures of more than £6m, the agreed 2023/24 budget was felt to be realistic and manageable.
- 5.2 The first budget monitoring report of the year indicated a potential problem. Based on actuals to the end of May, an overall overspend of between £0.7m and £1.2m was predicted by the year end. The first figure represented the sum of all Directorates' projected outturn estimates at that point, while the latter included "emerging issues", which had been identified as additional risks.
- 5.3 By the next monitoring return, based on actual expenditure and income to the end of June, the position had deteriorated significantly to an overspend of between £2.3m and £4.2m (including Emerging Issues). This position was highlighted to the Overview and Scrutiny Commission on 31 August by the Executive Director: Resources in his introduction to the quarterly Corporate Performance Overview Report (CPOR) and represented an unprecedented position for the Council.
- 5.4 Having considered this position, the Corporate Management Team at its meeting on 16 August agreed the following actions to help ensure a balanced position by the end of the year:
- The Executive Director : Resources to write to all staff, explaining the current budget position, and instructing that the measures below should be followed with immediate effect;
 - a. All new expenditure not essential to the delivery of front-line services should be avoided;
 - b. Opportunities to make savings in non-staffing budgets should be actively investigated;
 - c. Any proposed new staffing recruitment (either permanent or temporary) must have Departmental Management Team approval;
 - d. CMT will receive weekly updates on the most significant pressures being experienced in each Directorate, to ensure there is a clear focus on understanding and responding as quickly as possible to issues being faced.
 - The Executive Director: Resources was also asked to explore changes to the Council's financial systems that could help automatically enforce tighter spending controls.
- 5.5 The most recent budget monitoring information presented to CMT on 21 September is summarised in Table 1 below and shows a slight improvement on predicted variances (-£0.259m) and a material improvement to the position including Emerging Issues (-£1.144m), where mitigating savings plans are being developed to support Adult Social Care pressures. Despite the improvement, the projected overspend is still up to a potential £3.0m and is of significant concern. It should be noted that this position excludes the impact of the national pay award, which has not yet been agreed but is expected to exceed the budgeted amount.

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Table 1: Latest Predicted 2023/24 Budget Out-turn

	Current Approved Budget £000	Predicted Variance £000	Variance Including Emerging Issues £000
Central Directorates	18,357	694	1,226
Delivery Directorate	21,013	652	812
People Directorate	65,847	3,215	3,373
Non-Departmental	-14,974	-285	-125
Sub-Total	90,243	4,276	5,286
Contingency	2,321	-2,261	-2,261
Overall Position	92,564	2,015	3,025

- 5.6 The table shows that just over £0.4m has already been allocated from the original £2.75m in the corporate contingency, most notably £0.35m to support additional staffing in the Special Educational Needs and Disability (SEND) service. Information about all the variances being reported against approved budgets is included in the detailed budget monitoring report attached as Annex A to this report. This includes a pressure on the schools budget of over £7m, which will be subject to intense scrutiny through the Department for Education's Safety Valve programme, which Bracknell Forest has been invited to participate in. The expected outcome of this programme is to agree a robust plan to return to a balanced in-year position over a time period of around five years, which will require savings of over £7m to be identified and delivered.
- 5.7 The Council's in-year financial position will be kept under tight review by CMT in the weeks and months ahead. Should the predicted overspend not show a clear downward trajectory, further actions will be initiated. The Executive is asked to endorse the actions being taken and to note that it cannot currently be ruled out that an in-year emergency budget will be required.

Medium-Term Prospects

- 5.8 Although the current year's financial position is particularly challenging, Bracknell Forest Council currently enjoys a strong financial position relative to most similar local authorities. This is illustrated in benchmarking data published by the newly-created Office for Local Government, set out in Annex B to this report. The Council's reserve levels are comparatively high as is our spending on social care services, while our overall spending, borrowing and Council Tax levels are below average.
- 5.9 In looking to future years, the starting point is to consider the level of resources that will likely be available to support spending. For several years this has been a difficult task, since the Government has provided only one year's worth of grant settlements at a time. Alongside publishing the provisional 2023/24 local government finance settlement in December 2022, the Government issued a policy statement covering its expected approach for some of the most significant factors in the 2024/25 settlement, which is expected to be published in mid-December 2023. [Local government finance policy statement 2023-24 to 2024-25 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/policies/local-government-finance-policy-statement-2023-24-to-2024-25). This brought some more certainty to planning for 2024/25. The key factors in estimating the Council's future resources are as follows.

Core Settlement (Guaranteed Business Rates and Revenue Support Grant)

- 5.9.1 In 2023/24 the Council received a core grant settlement of £19.610m (comprising £17.462m from Business Rates and £2.148m from Revenue Support Grant), a 5% increase over the previous year. With the policy statement confirming that the core settlement will be broadly unchanged in 2024/25, a small increase (3%) in the Council's allocation is being assumed.

Specific Grants

- 5.9.2 The Autumn statement on 17th November 2022 introduced a number of changes to the Spending Review 2021 funding levels, the most significant being:
- £1 billion of new grant funding in 2023/24 for social care, increasing to £1.7 billion from 2024/25, allocated to support system capacity and hospital discharges;
 - Delaying the planned Adult Social Care charging reforms from October 2023 to October 2025, but allowing funding intended for implementation to be retained in council budgets to help meet current pressures (£1.3billion in 2023/24 rising to £1.9billion in 2024/25);
 - The core schools budget will receive £2.3 billion of additional funding in 2023/24 with a further £2.3 billion in 2024/25.
- 5.9.3 Allocations of these additional grants in 2024/25 have not been published at an individual authority level, so we have assumed the same proportion is received of the overall figure as in 2023/24.
- 5.9.4 The same approach has been taken to estimating funding from the New Homes Bonus (NHB) grant, despite no confirmation having been received that it will continue into 2024/25. With the future of NHB having been uncertain for many years and the Government not yet having published a response to its consultation in early 2021 regarding the grant's continuation, it is assumed that there is insufficient time to amend the grant without creating financial instability for many district councils who rely on it.

Business Rates Retention System

- 5.9.5 In parallel with the 2023 business rates revaluation exercise, the Government moved a number of large hereditaments ("properties") from local business rates lists onto its Central list. This included the network for a multi-national telecommunications company which had been on Bracknell Forest's local list since 2014. A technical adjustment, supported by the Council during the Government's consultation on how best to deal with such transfers, helped ensure that our position was broadly protected during this exercise.
- 5.9.6 Under the Business Rates Retention System, local authorities are able to retain a proportion (typically 25% - 35%) of growth in their collectable business rates to incentivise investment in economic development. With the central list transfer having removed a significant level of uncertainty from Bracknell Forest's retained income and up to date ratings valuations having been determined from April 2023, it was expected that the Council's income from the business rates retention system would be protected in future years. Indeed, it was initially estimated that the Council's retained income would rise slightly from the current budgeted income of £10.6m in the years ahead.

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- 5.9.7 The amount of business rates collectible is determined by the Valuation Office Agency (VOA), which sets rateable values (RVs) for all business premises. Outside of the periodic national revaluations that affect all business premises, the VOA continuously re-assesses premises in response to valuation appeals submitted by occupying businesses and their ratings agents and to changes in use or occupier. Local authorities are usually unaware of any revaluations until the VOA issues updates to its ratings list, typically on a weekly basis. When this happens, the local authority needs to adjust its business rates system to reflect the revised valuation and backdate this to the effective date determined by the VOA. This is typically to the start of the current valuation list (i.e. the 2023 list) but can be backdated to the previous list (in this instance 2017). The local authority then issues a revised bill and either seeks to collect the increased sum due or, more typically, makes a refund for sums paid in excess of the (downwards) revised bill(s).
- 5.9.8 The Council has recently noticed an emerging pattern of large-scale RV reductions being notified for many premises in The Lexicon. This was unexpected, given the recently published 2023 valuation list and its effect is exacerbated by the effective dates for the RV reductions being set generally back to the opening of The Lexicon, in 2017. While just over 20 properties have appeared to date on the VOA updates, these include the largest units who have on average seen reductions in rateable value of 33% from the 2023 list and 50% from the latest 2017 listings. While the Council includes annual provisions for potential RV reductions when it calculates business rates income receivable, those provisions are not on anything like this scale.
- 5.9.9 As a consequence, the Council will face a material shortfall in its budgeted income in the current year, that will manifest in a large deficit on the 2023/24 Collection Fund at the end of the year. It is impossible to accurately determine the value of this until figures for more properties are known, however it is likely to be in the order of several £s million. The Council will also face a large reduction in future income retained through the Business Rates Retention System. Again, it is impossible to accurately predict the impact with only partial information, however a loss of around £1m per year (roughly 10% of the current retained business rates income) is feasible and will be used at this stage in projecting future resource levels.
- 5.9.10 With any deficit on the Collection Fund needing to be recovered in the next year's budget, this will need to be met either by reducing spending by an equal sum in 2024/25 or from the Council's reserves, which include a sum of £6.26m for Business Rates Revaluations.

Council Tax

- 5.9.11 With the exception of the Dedicated Schools Grant, which is largely passported through to schools, Council Tax represents by far the most important income source to the Council. The budgeted income from Council Tax in the current year is £75.053m.
- 5.9.12 The permitted level of increase in Council Tax each year is determined by the Government. For 2024/25, the policy statement confirmed that the general increase permitted for all authorities would be up to 3%, with additional flexibility for social care authorities to increase by a further 2%. Applying the maximum permitted increase would raise a further £3.75m, with growth in the taxbase from new property completions adding potentially around £0.7m.

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5.9.12 Income from Council Tax is paid into the Collection Fund as it is received and the budgeted amount transferred to support General Fund services. There will always be a surplus or deficit on the Collection Fund at the end of the year, reflecting the difference between the actual versus budgeted income. The surplus or deficit in 2023/24 will need to be estimated by the mid-January 2023. A surplus can be used to help the 2024/25 budget, while a deficit needs to be recovered in that year. There is no indication at this time that the income being collected is materially different from what was expected.

5.9.13 The Executive at its meeting in February 2024 will recommend to Council the level of Council Tax considering the Local Government Finance Settlement, the results of the consultation and the final budget proposals. For planning purposes, it is assumed at this stage that the maximum permitted increase will be applied.

Reserves

5.9.14 The Council has deliberately set aside funding into reserves in recent years to help protect against both immediate and future risks and to support delivery of its priorities. In terms of budget setting, the most significant reserves are the Future Funding reserve (£16.3m available after using £3.6m to support the current year's budget) and General Reserves (£6.6m available - £11.1m less a £4.5m minimum recommended level). This funding can be used to ensure a balanced budget is achieved in future years, however reserves can only be used once and their use does not help secure an on-going sustainable financial position. With £3.6m of reserves having been used in the current year, drawing a higher sum in 2024/25 would be affordable but would not represent a step towards achieving medium-term financial sustainability.

5.9.15 It should be noted that the Government will expect the Council to use its reserves to support a Safety Valve deal (See paragraph x.x below), meaning that the current earmarking of reserves for particular purposes will need to be fundamentally reviewed in coming months.

5.10 Having assessed the level of resources potentially available, it is important to review the Council's future spending needs and compare the two. At this relatively early stage in the budget preparation process there is not a fully developed list of service pressures and potential mitigating savings. Work on these will continue over the Autumn, in preparation for draft budget proposals being published for consultation in December. An initial calculation of likely inflationary pressures can, however, be undertaken.

5.11 The starting point for future years' budgets is the Council's Commitment Budget, which represents a rolling base budget including unavoidable future spending commitments. Most notably, these are contributions to the Berkshire Pension Fund, which increase each year to help ensure the pension scheme is fully funded over time and borrowing costs arising from the Council's approved capital programme. The Commitment Budget is expected to increase by £1.0m in 2024/25 and by much lesser sums in subsequent years. A detailed review of the Commitment Budget will be undertaken in parallel with development of the draft budget proposals for 2024/25.

Inflation, Revenue Pressures and Savings

5.11.1 The budget preparations for 2024/25 are being undertaken against the backdrop of stubbornly high inflation rates. While the headline level is lower than twelve months ago and energy prices seem to have passed their peak,

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we are still a long way from the Bank of England's target 2.5%. This inevitably affects the budget provision we will need to make for price increases, some of which are contractually set, and drives the Council to consider high increases in its own fees and charges, to cover rising costs.

- 5.11.2 Starting with pay inflation, the national employers' body has once again this year offered a flat rate £1,925 increase for most local government workers. While this has not yet been agreed by Trades Unions, who are pressing for a significantly more generous offer, it is broadly equivalent to the 4% provision for pay inflation included in the Council's approved budget. Looking ahead to 2024/25, it is inevitable that Trades Unions will continue to demand pay increases for their members that secure parity against private sector pay rises. The national pay negotiating body representing local authorities will counter this with an argument that local government's financial position makes this unaffordable. At this stage, recognising that a balance will need to be struck and that inflation is likely to fall in the coming months, a provision for a 3.5% pay award (at a cost of £3.1m) has been included for planning purposes in 2024/25, falling to 3% and 2% in subsequent years.
- 5.11.3 Energy prices increased significantly faster than the headline inflation rate in 2022 and the early part of 2023 but are now falling. The Council has arrangements in place to forward purchase these commodities, which provides some protection against the extreme fluctuations that the market has seen. Despite this, the Council suffered average energy increases of 92%. Early indications for 2024/25 are that energy prices will fall by around 25%, which is the current budget assumption (a budget reduction of £0.7m), with further (albeit smaller) reductions in subsequent years.
- 5.11.4 The most significant inflationary costs arise from non-pay budgets (excluding for energy). Should the headline inflation rate in Autumn 2023 be around 6.5% - 7% (which looks likely), this will add around £6.3m to the current cost of service delivery. This figure is included for planning purposes in the future financial projections, however attention is being given to how contractual inflation can be absorbed or managed as the detailed budget proposals are progressed. Any potential impact on service levels arising from this exercise will need to be highlighted for Members' consideration. It is assumed that inflation will fall back towards the Bank of England's target over the next three years.
- 5.11.5 Recognising the impact of these inflationary increases on the Council's costs, it is proposed that our fees and charges also work towards average increases of 5%, which would generate additional income of around £1.7m, with future increases mirroring pay award assumptions (3% and 2%). As always, there will be some service areas where charges are market driven and this level of increase is not sustainable. Individual service areas will need to make this assessment in calculating fees and charges for Members to consider as part of developing the Council's draft budget proposals that will be published in December.
- 5.12 In addition to additional inflationary costs, the Council's budget is affected each year by other cost pressures, notably relating to increased demand for services. As has been stated above, it is too early at this stage of the budget process to accurately predict the scale of these for 2024/25. However, Members are advised that pressures approved in the last two budgets totalled £13m, while savings totalled £10m and included £3.5m in 2023/24 related to the business rates revaluation that

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cannot be repeated. In an average year, pressures identified would generally be expected to be double the level of savings.

5.13 For illustrative purposes only, it is assumed in this report that revenue pressures in each of the coming years will be identified totalling around £5m while savings will be around £2.5m. All potential budget proposals identified will need to be considered against the following emerging Council Plan priority themes before being included in the draft 2024/25 budget, to ensure they are aligned with agreed priorities:

- Engaged and Healthy Communities
- Thriving and Connected Economy
- Green and Sustainable Environment

5.14 Given the paucity of funding and the wide range of pressures on the Council's budget, careful consideration will need to be given to the introduction of major new initiatives to pursue those priorities at pace.

Capital Programme Proposals

5.15 As is the case with revenue budget pressures and savings, it is too early in the budget process to provide an indication of the nature and scale of proposals that will be brought forward for consideration. Any agreed proposals that exceed funding available from capital grants, asset disposals or meet the criteria for invest to save schemes will need to be funded from borrowing, with an associated impact on the revenue budget to fund debt interest and provision for principal repayment.

5.16 For illustrative purposes, an allowance has been made in the medium-term projects for new capital programme proposals totalling £5m and assumed capital income of £2m, reflecting the Council's typical experience in previous years. Allowance has therefore been made in the medium-term revenue budget projection for debt charges on a net additional £3m of borrowing, which typically impacts the year after the capital schemes are first approved and will cost around £0.25m.

5.17 Table 2 below draws together the planning assumptions in paragraphs 5.9 to 5.16 together to give an indication of the Council's potential future financial prospects. It is particularly important to emphasise that the level of pressures and savings is included simply for illustrative purposes, informed by figures in previous years' budgets. Actual proposals for 2024/25 will be considered by Members in the Autumn before being agreed and published as part of the Council's draft budget in December.

Unrestricted

Table 2 – Illustrative Medium Term Financial Prospects

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Base Revenue Budget (adjusted for one-offs)	88.64	97.35	107.62	113.97
Commitments	1.11	1.00	0.05	0.18
Inflation (pay, non-pay and fees and charges)	9.76	7.01	3.56	2.56
Contingency (£2.75m in 23/24, may change)	2.75	0.00	0.00	0.00
Identified Savings (illustrative only)	-7.53	-2.50	-2.50	-2.50
Identified Pressures (illustrative only, incl. for Capital Prog)	5.49	5.00	5.25	5.25
Estimated Change in Business Rates growth retained	-2.19	1.00		
Specific grant changes	-0.27	-1.24		
Use of Specific Reserves for One-Off Pressures	-0.41	-		
Expenditure	97.35	107.62	113.97	119.46
RSG and Business Rates Baseline	-19.61	-20.20	-20.70	-21.10
Council Tax (+ 4.99%)	-74.30	-78.79	-83.46	-88.25
Collection Fund Deficit (Council Tax & NNDR)	0.90	-	-	-
Use of General / Future Funding Reserves	-3.59	-	-	-
Council Taxbase Growth (estimate)	-0.75	-0.70	-0.60	-0.50
Resources	-97.35	-99.69	-104.76	-109.85
Cumulative Gap (Before Use of General Reserves)	0.00	7.93	9.21	9.62
Annual Gap (Before Use of General Reserves)	0.00	7.93	1.28	0.41

- 5.18 In summary, this shows that the Council will need to either reduce pressures or identify further savings to bridge an identified gap of around £9.5m over the next three years to 2026/27. The gap is currently significantly front loaded, due to the current high level of inflation, that is expected to reduce over time. The Council is able to use its available reserves to smooth the phasing over time, although drawing from reserves in any one year adds future risk as it increases the cumulative gap to be bridged in the period.
- 5.19 Delivering this level of savings, particularly in such a short time period, represents a huge challenge for an organisation of the Council's scale, with over £100m having been saved since the Council was created in 1998. While all parts of the Council will be expected to make a contribution, efficiencies alone will not bridge this scale of gap. Transformational change will be required and the Business Change programme that is being developed alongside the Council Plan will bring a focus to this. Additional capacity will be required to drive change at pace, the scale and nature of which is currently being assessed. In order to avoid placing further pressure on existing revenue budgets, the Executive and Full Council will be asked in November to adopt a Flexible Use of Capital Receipts Strategy, that will enable eligible transformation costs to be capitalised and funded from asset sale(s), as permitted by Government.

Proposed Release of Funding to Support Affordable Housing

- 5.20 The Executive has previously confirmed its support for the Market Street development being taken forward by the Bracknell Forest Cambium Partnership, most recently at its meeting in July 2023. At that time offers from registered social landlords to purchase the 48% affordable units in the scheme were being assessed and it was recognised that a further financial contribution from the money the Council secures from developers to deliver affordable housing may be required. Authority was delegated to the Executive Member for Social Care, Health and Housing to approve an additional contribution of £0.5m.

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- 5.21 In the event, the impact of continuing high inflation and rising borrowing costs has added more pressure to the scheme's finances. There is a residual funding gap of £1.5m, that cannot be bridged and which the Council's previously approved additional contribution of £0.5m is insufficient to cover. In order to secure the scheme's delivery, which includes a significant number of affordable units, the Council is being asked to input a total of £2m of its s106 funding received to deliver affordable housing, representing £1m more than has previously been approved. While this late development is not welcome news the Council's funding, which can only be used for the purpose of supporting affordable housing delivery, will secure delivery of the scheme.
- 5.22 At this time, there is insufficient funding available to support the proposal in full, with the Council currently holding £1.2m of affordable housing funding, including £0.5m already committed to Market Street. However, an agreement is in the process of being finalised with a developer that will secure a sum of almost £2.7m by May 2024 at the latest and a further sum of this level by no later than December 2024. The Council will not be required to contribute this funding before it is received, hence there will be no adverse cashflow impact.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Council is required to make arrangements for the proper administration of its financial affairs. As part of those arrangements, it is under a duty to monitor its budgets throughout the financial year and to take appropriate action to deal with any deterioration in the financial position revealed by the regular monitoring.

Financial Advice

- 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. Detailed consultation is undertaken on the draft budget proposals when they are published in December each year 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.

Climate Change Implications

6.5 There are no direct implications arising from this report which sets the context for the Council's budget considerations. An assessment will be undertaken of the revenue and capital budget proposals as they are developed for Members' consideration against the Council Plan priorities, which include supporting a clean and sustainable environment.

7 CONSULTATION

7.1 A detailed consultation will be undertaken on the Councils draft budget proposals for 2023/24 after they are published in December 2022.

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