

To: **Cabinet**
15 October 2024

Budget Update

Executive Director: Resources

1 Purpose of report

- 1.1 Recognising the scale of the financial pressures the Council is currently facing and following the overspend experienced in the 2023/24 financial year, this report provides an update to Cabinet on the Council's financial situation in the current year and a forward look to the potential financial position in future years.

2 Cabinet Member for Finance and Corporate Improvement

- 2.1 We have a responsibility to manage our finances and the budget provides the foundation for the stable provision of services. At this stage the medium – long term position is largely assumptive, whilst we wait to see what the new government brings forward in terms changes to funding for local authorities. This does present a certain risk to our planning, however, we know that pressures continue to increase and we will need to take action to make savings. Action has already been taken in year and we may need to extend these efforts for 2024/25, as well as give consideration to the long term view. We know that the use of reserves is unsustainable and the Safety Valve programme places additional pressure on this, and our focus remains on the robust and pertinent financial management we have a proud history of in Bracknell Forest. The Business Change programme is an important opportunity to make the transformation that we will need to achieve to secure financial stability over the coming years.
- 2.2 Borough priorities:
- ambitious, resilient and sustainable organisation

3 Recommendation(s)

That the Cabinet:

- 3.1 **Notes the Council's predicted current year financial position summarised in Table 1;**
- 3.2 **Endorses the actions agreed by the Corporate Management Team to help contain expenditure in the current year and notes that further action is likely to be needed;**
- 3.3 **Notes the Council's predicted medium-term financial prospects based on the assumptions detailed in the report and summarised in Table 3, which is subject to development of detailed draft budget proposals for 2025/26 and future years and to confirmation of the local government finance settlement in December;**

4 Reasons for recommendation(s)

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

5 Alternative options considered

- 5.1 The Cabinet 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.

6 Supporting information

Current Year Financial Position

- 5.1 The Council approved the current year's budget and council tax at its in-person meeting on 21 February 2024. 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 the high level of pressures being faced during the 2023/24 financial year, at the end of which an overspend of £1.2m occurred, dominated our financial planning. Many of the pressures being experienced last year were included in the approved 2024/25 budget alongside a corporate contingency of £4m to reflect identified risks. On this basis, the agreed 2024/25 budget was felt to be realistic and manageable.
- 5.2 However, budget monitoring returns provided by Directorates have highlighted that the scale of financial pressures the Council is facing is continuing to heighten. The first monitoring report indicated a projected overspend after taking into account the corporate contingency of £0.442m, rising to a potential £3.556m after allowing for identified emerging issues.
- 5.3 The reported position has subsequently improved, with all service areas having been asked to carefully review the emerging issues they are reporting to ensure they do not overstate potential risks identified and targeted messaging to budget managers emphasising the need for all parts of the organisation to curtail non-essential expenditure and consider further measures to reduce costs in year. In addition, all proposed recruitment requires sign off by the Corporate Management Team (CMT). Other areas of focus include reviewing fees and charges and reviewing decisions that have resulted in loss of Health income.
- 5.4 CMT was advised at its meeting on 18 September of a projected overspend of £0.286m, rising to £2.717m with emerging issues included. Despite the improvements in recent months, the position remains concerning.

Table 1: Latest Predicted 2024/25 Budget Out-turn

| | Current Approved Budget £000 | Predicted Variance £000 | Variance Including Emerging Issues £000 |
|-------------------------|---------------------------------|----------------------------|--|
| Communities | 25,064 | -70 | 411 |
| Place | 5,271 | -65 | 175 |
| People | 71,155 | 3,611 | 4,509 |
| Resources | 7,176 | 40 | 52 |
| Non-Departmental | -13,934 | 270 | 1,070 |
| Sub-Total | 94,732 | 3,786 | 6,217 |
| Contingency | 3,500 | -3,500 | -3,500 |
| Overall Position | 98,232 | 286 | 2,717 |

- 5.5 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. Cabinet is asked to endorse the actions being taken and to note that any actions required that constitute significant service changes will be brought to Cabinet for a decision at the earliest possible opportunity.
- 5.6 The position regarding the Dedicated Schools Grant is similarly concerning. The original approved budget included a budgeted deficit of £6.483m, lower than the 2023/24 outturn in recognition that a downwards trajectory is needed while accepting that it will take 6 years to achieve a balanced in-year position, as set out in the Council's Safety Valve deal. CMT was advised on 18 September that the projected deficit has risen by £2.091m from the budgeted sum. This reflects the continuing increase in Education Health and Care Plans and the high costs of external school places needed while the planned local provision is delivered. As with the general fund revenue budget, options to reduce costs are being explored in detail by the service.

Medium-Term Prospects

- 5.7 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 only one year's worth of grant settlements have been provided at a time. The new Government has committed to providing longer-term funding settlements and to undertake a fair funding review that includes consideration of the relative ability of individual authorities to generate income from council tax. Given that any funding review will take time to complete, local authority finance officers are expecting a further single year settlement in 2025/26, similar to the current year's, with longer-term settlements from 2026/27. While it is most likely that any change to the funding methodology will be to the detriment of areas like Bracknell Forest, which has low levels of deprivation and a relatively high council taxbase, previous experience indicates that there would at least initially be some form of damping to protect against significant grant reductions.
- 5.8 For planning purposes, the following key assumptions have been made at this stage. These will be kept under review and amended in light of any Government announcements, most particularly the Autumn Budget on 31 October.

Core Settlement (Guaranteed Business Rates and Revenue Support Grant)

- 5.8.1 In 2024/25 the Council received a core grant settlement of £20.69m from Business Rates Revenue Support Grant). It is assumed that this will be maintained with a small inflationary uplift.

Specific Grants

- 5.8.2 Aside from the Dedicated Schools Grant, which is mostly distributed to schools, the most significant specific grants received are for social care which total £9.9m. It is currently assumed that these will continue at the same levels. This same assumption has been made for all other specific grants except the New Homes Bonus. The assumption is that this will continue with a small increase of £0.5m in 2025/26 to reflect the high number of affordable homes delivered over the past 12 months, most notably in Amber House.

Business Rates Retention System

- 5.8.3 Under the Business Rates Retention System that has operated since 2013 local authorities are able to retain a proportion (typically 25% - 35%) of growth in their collectable business rates to incentivise investment in economic development. 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.
- 5.8.4 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).
- 5.8.5 The Council experienced a large number of reductions to rateable values in 2023/24, which was a significant factor in the large Collection Fund deficit at the end of that year. The position in 2024/25 to date has been much less volatile. It is assumed that retained business rates income will grow slightly in 2025/26, due to a number of large scale developments that are in progress in Bracknell's commercial zones, with any deficit in collection not being material.

Council Tax

- 5.8.6 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 £80.312m.
- 5.8.7 For many years the permitted level of increase in Council Tax each year has been set by the Government. It is unclear whether the new Government will maintain this approach, although most commentators believe this is likely. For planning purposes it is assumed that the general increase permitted for all authorities will be up to 3%, with additional flexibility for social care authorities to increase by a further 2%,

mirroring the recent permitted levels. Applying the maximum permitted increase would raise a further £4.0m, with growth in the taxbase from new property completions adding potentially around £1.25m.

Reserves

- 5.8.8 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 entering into the Government's Safety Valve arrangement to receive additional grant funding for the Dedicated Schools Grant deficit, the Council had to set aside £22.76m from its reserves as match funding. This has significantly reduced the level of reserves available for other purposes and eroded the Council's financial flexibility.
- 5.8.9 Despite this, the Council holds £5.45m in General Reserves and the Future Funding reserve that are available 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. £1.51m was drawn from the Future Funding reserve to support the 2024/25 budget. It would be possible to maintain this level of drawing from reserves over the medium-term, but to do so would not represent a step towards achieving longer-term financial sustainability.
- 5.9 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.
- 5.10 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 £1.3m in 2025/26 and by similar sums in subsequent years. A detailed review of the Commitment Budget will be undertaken in parallel with development of the draft budget proposals for 2025/26.

Inflation, Revenue Pressures and Savings

- 5.11 Compared with the position for the last two budgets, inflation rates have now returned to more normal levels, close to the Bank of England's target rate. Energy prices have also reduced from their peak levels. There is, however, pressure for public sector pay awards to make up for real term pay reductions over many years. The Government is responding to these, although local government pay does not currently feature among the sectors where relatively high awards have been granted.
- 5.12 Assumptions regarding future inflation allowances are summarised in the table below. It is proposed that only the most significant expenditure budgets linked to contracts with inflationary clauses are to be uplifted. The assumed uplift in prices charges for fees and services should be seen as a guideline, with prices being increased further if market conditions permit. As in previous years, these figures will be adjusted to reflect the September CPI data when it is published.

Table 2: Assumed Inflationary Price Changes

| | 2025/26 | 2026/27 | 2027/28 |
|---------------------------|---------|---------|---------|
| Pay | 3.0% | 2.0% | 2.0% |
| Gas and Electric | -20.0% | -5.0% | 0.0% |
| Non pay | 2.0% | 2.0% | 2.0% |
| Fees and charges (income) | 3.0% | 2.5% | 2.5% |

- 5.13 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 2025/26. However, Members are advised that pressures approved in the last three budgets totalled £20m, while savings totalled £15.5m and included £3.5m in 2023/24 related to the business rates revaluation that cannot be repeated. In an average year, pressures identified would generally be expected to be around double the level of savings.
- 5.14 For illustrative purposes only, it is assumed in this report that revenue pressures in each of the coming years will be identified totalling around £6m while savings will be around £3m. All potential budget proposals identified will need to be considered against the following Council Plan priority themes before being included in the draft 2025/26 budget, to ensure they are aligned with agreed priorities:
- Engaged and Healthy Communities
 - Thriving and Connected Economy
 - Green and Sustainable Environment
- 5.15 Given the wide range of pressures on the Council's budget compared with a realistic expectation of additional resource, careful consideration will need to be given to the introduction of major new initiatives to pursue those priorities at pace.

Capital Programme Proposals

- 5.16 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.
- 5.17 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.
- 5.18 Table 3 below draws together the planning assumptions set out above 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 2025/26 will be considered by Members in the Autumn before being agreed and published as part of the Council's draft budget in December.

Table 3 – Illustrative Medium Term Financial Prospects

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|--|----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m |
| Base Revenue Budget (adjusted for one-offs) | 97.51 | 102.58 | 108.85 | 116.02 |
| Commitments | 1.09 | 1.27 | 1.32 | 0.99 |
| Inflation (pay, non-pay and fees and charges) | 4.51 | 3.00 | 2.85 | 3.05 |
| Contingency (£4m in 24/25) | 1.25 | 0.00 | 0.00 | 0.00 |
| Identified Savings | -5.57 | -3.00 | -3.00 | -3.00 |
| Identified Pressures | 7.12 | 6.00 | 6.00 | 6.00 |
| Change in Business Rates growth retained | -1.11 | -0.50 | 0.00 | 0.00 |
| Specific grant changes | -1.98 | -0.50 | 0.00 | 0.00 |
| Use of Specific Reserves for One-Off Pressures | -0.24 | - | - | - |
| Expenditure | 102.58 | 108.85 | 116.02 | 123.06 |
| RSG and Business Rates Baseline | -20.69 | -21.10 | -21.53 | -21.96 |
| Council Tax (+ 4.99%) | -80.31 | -84.32 | -89.84 | -95.11 |
| Collection Fund Surplus (Council Tax) | -0.07 | - | - | - |
| Collection Fund Deficit (NNDR) | 3.72 | - | - | - |
| Use of Business Rates revaluation reserve | -3.72 | - | - | - |
| Use of General / Future Funding Reserves | -1.51 | - | - | - |
| Council Taxbase Growth (estimate) | 0.00 | -1.25 | -0.75 | -0.50 |
| Resources | -102.58 | -106.67 | -112.12 | -117.57 |
| Cumulative Gap before Use of Reserves | 0.00 | 2.17 | 3.90 | 5.49 |
| Annual Gap before Use of Reserves | 0.00 | 2.17 | 1.73 | 1.59 |

5.19 In summary, this shows that the Council will need to reduce the modelled imbalance between pressures and savings pressures bridge an identified gap of around £5.5m over the next three years to 2027/28. 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.

5.20 Delivering savings to balance service pressures represents a huge challenge for an organisation of the Council's scale, with well 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 is expected to make a significant contribution.

7 Consultation and other considerations

Legal Advice

7.1 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

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

Equalities impact assessment

- 7.3 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

- 7.4 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 Cabinet 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 and ecological impact

- 7.5 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.

Health & wellbeing considerations

- 7.6 None.

8 Consultation

- 8.1 A detailed consultation will be undertaken on the Councils draft budget proposals for 2025/26 after they are published in December 2024.

Contacts for further information

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