

COMMITMENT BUDGET 2011/12 – 2014/15
Borough Treasurer

1 PURPOSE OF DECISION

- 1.1 This report updates the Executive on the significant issues that are likely to impact upon the Council's budget in future years and represents the first step towards setting a budget for the 2011/12 financial year and beyond.

2 RECOMMENDATIONS

- 2.1 **That the Commitment Budget for the period 2011/12 to 2014/15, summarised in Table 1 of the report be approved.**
- 2.2 **That the proposed budget process for 2011/12 as set out in paragraphs 5.12 to 5.15 of the report be approved.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The recommendations are designed to allow the Executive to start to consider an appropriate budget strategy for 2011/12 and beyond in the light of strategies being developed by the new Coalition Government.

4 ALTERNATIVE OPTIONS CONSIDERED

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

5 SUPPORTING INFORMATION

Commitment Budget 2011/12-2014/15

- 5.1 The preparation of the Commitment Budget for the coming four year period brings together the Council's existing expenditure plans and is the first formal stage in planning for the revenue budget for 2011/12. The planning period has been extended from three to four years so that it is aligned with the new Coalition Government's spending plans. The Council's Commitment Budget is shown in detail in Annexe A and summarised in Table 1.

Table 1: Commitment Budget 2011/12-2014/15

Department Plans	Base Budget	Planned Expenditure			
		2011/12	2012/13	2013/14	2014/15
	2010/11 £m	£m	£m	£m	£m
Base Budget	74.59	74.59	75.24	75.15	75.12
Movements in Year	0	0.65	-0.09	-0.03	0.06
Adjusted Base	74.59	75.24	75.15	75.12	75.18

The table above illustrates the Council's current planned spending. The Commitment Budget is based upon the approved 2010/11 budget adjusted to exclude the effects of drawings from balances, and takes account of approved existing commitments, including the full-year effect of pressures and economies approved for the 2010/11 budget.

- 5.2 Savings identified for future years within the revenue proposals for 2010/11 have been included in the commitment budget where a firm commitment exists. Where no firm

commitment exists the savings have been rolled forward into budget pressures and economies for the 2011/12 budget. Significant changes to the Commitment Budget submitted in February include:

- Changes in Waste PFI projections arising from:
 - contract inflation increases linked to CPI (actually 5.4% rather than the estimated 2.5% in 2009/10).
 - increases in business rates at Smallmead and Longshot Lane
 - a stepped reduction in prices in 2012/13.
- The senior management restructure within Children, Young People and Learning has generated savings of £0.112m towards the organisational and back office review savings identified during the 2010/11 budget process.
- Changes in NI bandings announced in the emergency budget have reduced the impact of NI increases on employers (£0.250m).

5.3 As part of the process for building the 2011/12 budget, all commitments will be reviewed over the coming months to ensure that they remain valid and have been accurately costed.

Resources

5.4 There are a number of inherent difficulties in medium-term financial planning, in terms of accurately estimating both available resources and spending needs.

5.5 The new Coalition Government has made tackling the financial deficit a key priority and has initiated a range of measures to reduce public expenditure. As a precursor to the Emergency Budget, on 24 May the Government announced in-year savings of £6.2bn in 2010/11, £1.165bn of which is to be achieved by reducing grants to local authorities. In practice, this means that the Council's revenue grants (predominantly Area Based Grant but also including a number of Specific Grants) will be reduced by £1.035m with a further £0.300m at risk through reductions to the Local Authority Business Growth Incentive scheme and the Local Area Agreement Reward grant. These latter grants do not directly support service delivery but are taken into account as part of the Council's overall reserves. They are not, therefore, reflected in the Council's revenue budget. Capital grants will also reduce by £0.283m. Officers are currently developing a range of proposals that will deliver the necessary in-year savings.

5.6 On 22 June the Chancellor delivered his Emergency Budget. Utilising a wide range of measures the Chancellor undertook to balance the UK's Budget by 2015/16, with 77% of the deficit being met through spending reductions and 23% through increased taxation (notably VAT). In his Budget speech the Chancellor reiterated the Government's commitments to providing the National Health Service with real increases throughout the Parliament and honouring overseas aid obligations. Once these are taken into account, the Budget figures imply that other departments will face an average real cut of around 25% over four years. This percentage may be higher for local government as the Chancellor pledged to recognise the pressures faced by Health, Education and Defence. The Chancellor also announced that the 2010 Comprehensive Spending Review will be published on 22 October. However, this will only give budget control totals for Local Government and the Council will have to wait until the announcement of the Provisional Local Government Financial Settlement, which is usually published in late November or early December, before it knows the effect of the Spending Review on its budgets. It is, however, clear that the reductions in Government Grant faced by local authorities will be significant and the budget planning process for 2011/12 and beyond will need to recognise this.

5.7 Against this backdrop of uncertainty the Council cannot delay its budget planning if it is to consult on its proposals, as required by the Constitution, in December. In order to

progress, therefore, it is necessary to make a number of assumptions which will require updating and revising through out the budget process. At this point an annual reduction in Government Grant of 4% per annum over four years has been assumed. This broadly equates to a 25% real terms reduction over the period if inflation averages between 2.5% and 3% during this time.

- 5.8 Alongside these measures the Chancellor reiterated the Government's plans to work in partnership with local authorities to implement a Council Tax freeze in 2011/12. Details of how this will operate have not been released to date and are not likely to be made available until the Spending Review 2010 is published. For budget planning purposes it is currently assumed that the Government will provide a grant equivalent to around 1.5% of Council Tax as compensation for the Council Tax freeze. However it is entirely possible that this figure will be less than this due to the scale of the financial challenge facing the Government.

Capital Programme

- 5.9 The Council funded indicative three year General Fund capital programme included with the budget report to Council in March 2010 is £8.591m for 2011/12 and £7.424m for 2012/13. In addition it is anticipated that the Council will continue to generate capital receipts of around £3.0m per annum following the transfer of the housing stock to Bracknell Forest Homes. The Council will share in a proportion of future sales of properties and in addition the proceeds of a VAT shelter relating to backlog repairs in transferred stock will be shared over the 10 years following transfer. The Council will be able to keep 100% of these receipts as the "pooling" regime will no longer apply. With the scope for generating significant income from capital receipts being curtailed the capital programme has a significant impact on the revenue account with resources having to be set aside to cover potential borrowing costs. Therefore the Council needs to consider whether the indicative capital programme is affordable as part of its overall budget strategy.

Budget Overview

- 5.10 Drawing together the above projections for future commitments and resources provides a starting point for considering the budget strategy for 2011/12 and beyond. It has been assumed that inflation will reduce to 2% in 2011/12 but then trend upwards to 2.5% in later years. The two year pay freeze (including the £250 per annum increase for those earning less than £21,000) announced in the Emergency Budget has also been included in the forecast. Building on these assumptions and including an allowance for future inflation allows a realistic expenditure level to be compared with the estimated resources.

Table 2: Preliminary Budget Overview 2011/12 to 2014/15

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Base Budget	74.59	76.15	77.60	80.21
Known Commitments	0.65	-0.08	-0.04	0.06
Impact of current indicative capital programme/interest rates	0.26	0.80	0.96	1.17
Provisional Inflation allowance	0.65	0.73	1.69	2.10
Budget Requirement	76.15	77.60	80.21	83.54
Grant income	25.07	24.07	23.10	22.18
Council Tax income (at current rate with assumed growth in number of properties)	48.42	48.92	49.52	50.17
	73.49	72.99	72.62	72.35
Funding Gap	2.66	4.61	7.59	11.19

- 5.11 The table above indicates, based on currently available information, that the Council faces an underlying funding gap of around £11.2m by 2014/15. However, it should again be noted that this is before considering service pressures and developments. At this stage it is not possible to quantify the precise impact but experience has shown that the Council typically needs to add around £1.5m-2m per annum to the budget for service pressures. This would arise, for example, as a result of demographic change and an increase in some demand led services. This therefore suggests that the total budget gap over the next four years may be between £17.2m and £19.2m (i.e. almost 25% of the budget requirement in 2014/15). At its meeting on 15 June the Executive considered a report on asset management planning. The proposal to include £0.5m as a potential pressure for the 2011/12 revenue budget to support the need for urgent priority planned maintenance was noted. This would increase the total budget gap by a further £0.5m if not accommodated within the £1.5m-£2m for service pressures in 2011/12.

Budget Strategy

- 5.12 When reporting on the financial outturn for 2009/10 revenue balances were £8.85m at 31 March 2010. The 2010/11 budget includes plans to spend £0.56m of this reserve. After allowing for the previously agreed cost of surrendering the lease on Enid Wood House (£1.16m) balances are expected to be £7.13m as at 31 March 2011, on the assumption that the Council is able to spend within budget for the thirteenth consecutive year. Historically £4m has been considered to be the minimum prudent level for revenue balances. There is therefore £3.13m available to support future expenditure. This is clearly not sufficient to bridge the budget gap outlined above. Therefore, the Council will need to prepare savings options to be considered as part of the budget build for 2011/12 and beyond.
- 5.13 The Council has successfully managed significant budget gaps in the past, but the current forecasts indicate that there is a need to reduce spending by amounts far in excess of those previously encountered. The Council's approach to budget savings in the past has been to identify areas of activity to cut or to stop. This has worked effectively but would be problematic in the face of scaling back Council budgets by a quarter. It is, therefore, proposed that services should be reviewed on the basis of what could (and should) be provided within the envelope of a budget some 75% and 80% the current size, rather than what will not. Factors to help decide what would be included in these scenarios include statutory duties, residents' views and contractual commitments. The savings options developed for 2011/12 will need to be aligned with this view of a much reduced organisation in the future.
- 5.14 In addition to this approach to identifying savings the Council could also

- a) take a firm line in future years to limit pressures
- b) utilise available balances

In practice, it is likely that a combination of all of these approaches will be required.

Budget Timetable

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

Service Planning Process identifying key work streams	Jul 10 – Feb 10
Development of savings proposals	Jul 10 – Nov 10
Provisional settlement	Late Nov/ Early Dec 10
Executive Briefing – final package	30 Nov 10
Executive agree proposals for consultation	14 Dec 10
Executive considers responses to consultation and agrees final budget proposals	15 Feb 11
Council agrees budget and Council Tax	2 Mar 11

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

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

Borough Treasurer

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

Equalities Impact Assessment

6.3 None.

Strategic Risk Management Issues

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

The Council's Strategic Risk Register identifies a number of key risk areas including:

- demographic and socio-economic changes
- impact of demand led services
- impact of the South East plan
- town centre redevelopment
- non achievement of income projections
- financial settlement and funding pressures
- loss of systems and data
- business continuity incidents
- IT and information security/identity breach
- programme management capacity
- impact of litigation
- potential failure of key contractors
- safeguarding
- impact of inspections
- impact of job evaluation
- maintenance of assets

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

- Budget Setting Process
 - Production and regular monitoring of a robust medium-term financial strategy
 - Regular analysis of budgets to identify legislative, demographic, essential and desirable service pressures / enhancements
 - Detailed consideration of budgets by officers and Members to identify potential budget proposals
 - Robust scrutiny of budget proposals prior to final agreement
 - Ensuring adequacy and appropriateness of earmarked reserves
- Budget Monitoring
 - Robust system of budgetary control with regular reporting to CMT and through the Performance Monitoring Reports (PMR's) to Members
 - Exception reports to the Executive
 - Annual review of the Councils' budget monitoring arrangement by external audit to ensure they remain fit for purpose
 - Taking corrective action during the year to ensure the budget is delivered every year (as in 2009/10, 2006/07, 2005/06 and 2000/01)
 - Specific regular review by Group Accountants of particularly volatile budget areas

7 CONSULTATION

Principal Groups Consulted

7.1 No groups have been consulted at this stage.

Background Papers

None.

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