

TO: THE EXECUTIVE
3 JULY 2012

COMMITMENT BUDGET 2013/14 – 2015/16
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 2013/14 financial year and beyond.

2 RECOMMENDATIONS

2.1 That the Commitment Budget for the period 2013/14 to 2015/16, summarised in Table 1 of the report be approved.

2.2 That the proposed budget process for 2013/14 as set out in paragraphs 5.19 to 5.23 of the report be approved.

3 REASONS FOR RECOMMENDATIONS

3.1 The recommendations are designed to allow the Executive to develop its Medium Term Financial Strategy and to start to consider an appropriate budget strategy for 2013/14 and beyond.

4 ALTERNATIVE OPTIONS CONSIDERED

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

5 SUPPORTING INFORMATION

Commitment Budget 2013/14-2015/16

5.1 The preparation of the Commitment Budget for the coming three year period brings together the Council's existing expenditure plans and is the first formal stage in planning for the revenue budget for 2013/14. The Council's Commitment Budget is shown in detail in Annex A and summarised in Table 1.

Table 1: Commitment Budget 2013/14-2015/16

Department Plans	Base Budget	Planned Expenditure		
		2013/14	2014/15	2015/16
	2012/13 £m	£m	£m	£m
Base Budget		72.330	71.650	71.388
Movements in Year		-680	-262	99
Adjusted Base	72.330	71.650	71.388	71.487

This table illustrates the Council's current planned spending. The Commitment Budget is based upon the 2012/13 budget approved by Council in February 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 2012/13 budget.

5.2 Savings identified for future years within the revenue proposals for 2012/13 have been included in the commitment budget. Significant changes to the Commitment Budget submitted in February include:

- The introduction of charging for the collection of garden waste from 1 April 2013 (-£250,000)
- The full year effect of savings proposals being implemented during 2012/13 i.e. youth service, public transport and concessionary fares and community transport (-£436,000)
- Under the current refuse collection contract, refuse vehicles are purchased by the Council from capital resources and any revenue impact will be assessed when the capital programme is considered. Under the old contract, vehicles were purchased by the contractor and the cost to the Council was reflected in the revenue service charge. This element of the service charge has now been removed (-£181,000)
- Impact of the 2012/13 capital programme on interest receipts and the Minimum Revenue Provision (+£140,000).

5.3 As part of the process for building the 2013/14 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 Significantly, the Provisional Local Government Finance Settlement for 2013/14 is unlikely to be published before December 2012. The Comprehensive Spending Review assumes that there will be further reductions to Central Government support of 2% in 2013/14 and 4% in 2014/15. For planning purposes, it has been assumed that 2% in 2013/14 represents the 'best case' scenario, given that the actual reductions in the Council's Formula Grant have exceeded considerably the planning assumptions contained in the earlier years of the Comprehensive Spending Review period (i.e. actual reduction of 14.3% compared to the planning assumption of 8% for 2011/12 and 10.4% compared to 6% for 2012/13).

5.6 The overall position is further complicated by Government proposals for the relocalisation of business rates from 1 April 2013. There are many uncertainties around these proposals as the details are only beginning to emerge as the Local Government Finance Bill passes through Parliament and the Department of Communities and Local Government publishes a range of consultation papers on implementation. It is highly unlikely that this new means of funding local government will be any more transparent than any of its predecessors, especially as recent announcements indicate that a range of existing specific grants will be absorbed within the new funding arrangements.

5.7 Given this uncertainty three scenarios have been developed for 2013/14. The 'best case' scenario assumes a 2% reduction in Government support, in line with the Comprehensive Spending Review. The 'worst case' scenario assumes a further 5%

reduction in Government support (to 7%) and the 'central case' is midway between these and assumes a 4.5% reduction in Government support.

- 5.8 The Council also receives substantial external funding through a number of specific grants for which the following assumptions have been included within the latest budget projections.

Council Tax Freeze Grant

Whilst there are no plans for a Council Tax Freeze Grant in future years the grant on £1.212m initially received in 2011/12 will continue to be received in each year of the planning period. Up until 2014/15 this is consistent with Government policy announcements and within the financial provision made in the Comprehensive Spending Review. The planning assumption is that the Council Tax Freeze Grant will continue, in some form, into 2015/16, but that the additional Council Tax Freeze Grant of £1.220m received for 2012/13 will be a one off.

NHS Funding for Adult Social Care

The Council will receive £0.932m in 2012/13. Similar provision has also been made in 2013/14, 2014/15 and 2015/16, with the first two years being in line with the Comprehensive Spending Review. The Executive will be aware that this source of income represents a significant budget risk until firm agreement is reached with the PCT for the payment of these funds to the Council.

New Homes Bonus

This funding stream is designed to encourage the development of new properties and will generate £1.434m in 2012/13 based upon the number of new homes built in the two years to October 2011. Each year's bonus is payable for six years. Increases of £0.5m are forecast for each year of the planning period on the assumption that over 300 houses will be built each year. This assumption also represents a considerable budget risk as its impact is compounded by increasing the yield from Council Tax by a similar amount.

Specific Grants

In 2012/13 the Council will receive seven specific grants totalling £13.685m. Although specific, none of these grants are ring fenced. Details of the specific grants are set out in table below:

Table 2: Specific Grants 2012/13

	2012/13 £000
Early Intervention Grant	4,693
Learning Disability & Health Reform	7,951
Community Safety	69
Homelessness	50
Lead Local Flood Authority	153
Extended Rights to Free Travel	75
Housing and Council Tax Benefit Admin	694
Total	13,685

Expenditure associated with these grants has already been incorporated in the base budget and it has therefore been assumed that any reductions in these

grants will be accompanied by an equal reduction in expenditure (either from the grant supported expenditure or elsewhere) so that there is no overall impact on the budget forecasts.

Inflation and Interest Rates

- 5.9 Forecasting future levels of inflation and interest rates is fraught with considerable risk as the outlook for global economic growth is still dominated by exceptional uncertainty in many different dimensions including;
- Continuing Eurozone concerns
 - Global economic growth
 - Unsustainable historically low UK interest rates
 - Persistently high UK inflation
 - Need for further austerity measures to eradicate UK structural deficit
- 5.10 Based on advice from the Council's Treasury Management advisers the Budget projections reflect a rising Bank Rate moving from 1% in late 2013/14 to 4% by 2015/16.
- 5.11 In terms of pay inflation, it has been assumed that the current Government policy of a 1% increase in public sector pay in 2013/14 will be followed through, but that increases of 2% should be factored into the following years reflecting the likelihood that public sector salaries will then track the lower level of prices over the medium term.
- 5.12 The outlook for inflation remains uncertain, especially as the Consumer Price Index at 3% remains above the Bank of England's target rate of 2% and the Retail Price Index is currently 3.5%. The assumption used in the current model is that general inflation will average 2.5% over the three year planning period. However the impact of inflation will be reviewed and forecasts updated as the 2013/14 budget process progresses. A 1% inflation rate translates into higher costs of approximately £500,000.
- 5.13 The Council should continue to remain debt-free in 2013/14 and as such have cash balances that can be invested, in line with the Council's Treasury Management Strategy, in financial markets. Based on the forecasts above the assumption has been made that the Council can achieve a return of 1% on its cash balances during 2013/14. As a guide a variation in the average interest rate of 1% would result in a change to investment income of approximately £150,000.

Fees and Charges

- 5.14 Increases in fees and charges are determined by the overall economic conditions, the willingness of customers to pay the higher charges and continued demand for Council services. For planning purposes it has been assumed that income from fees and charges will increase in line with the Council's general inflation forecasts i.e. averaging 2.5% over the three year planning period. The Council's long term average rate of increase in fees and charges is between 3.25% and 3.75%. If the market will bear increases of this magnitude in 2013/14 this will have a positive impact on the budget forecasts. As a guide, a further 1% increase in fees and charges could be expected to yield an additional £130,000 in 2013/14.

Capital Programme

- 5.15 The indicative Council funded three year General Fund capital programme included with the budget report to Council in February 2012 is £7.88m for 2013/14 and £8.28m for 2014/15. In addition it is anticipated that the Council will continue to generate capital receipts of around £3.0m per annum primarily from the sharing arrangements with Bracknell Forest Homes that were agreed as part of the housing stock transfer. With the scope for generating income from capital receipts limited by both the underlying economic conditions and the availability of surplus land/assets the capital programme has a significant impact on the revenue account with accounting regulations requiring resources to be set aside to cover underlying borrowing costs. Therefore the Council will need in due course to consider whether the indicative capital programme is affordable as part of its overall budget strategy.

Budget Overview

- 5.16 Drawing together the above projections for future commitments and resources provides a starting point for considering the budget strategy for 2013/14 and beyond.

Table 3: 'Central Case' Preliminary Budget Overview 2013/14 to 2015/16

	2013/14 £m	2014/15 £m	2015/16 £m
Base Budget	72.330	75.083	77.682
Known Commitments	-0.680	-0.262	0.099
Loss of Council Tax Freeze Grant	1.220	0	0
Capital Programme/Interest Rates	0.113	0.461	0.440
Inflation	2.100	2.400	2.400
Budget Requirement	75.083	77.682	80.621
Government Support (incl New Homes Bonus)	-22.583	-22.200	-22.276
Council Tax (at current rate with assumed growth in number of properties)	-49.359	-49.920	-50.486
Funding	-71.942	-72.120	-72.762
Funding Gap	3.141	5.562	7.859

- 5.17 The table above indicates, based on currently available information, that the Council faces an underlying funding gap of around £7.9m by 2015/16. However, it should 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 to £2m per annum to the budget for essential service pressures. This would arise, for example, as a result of demographic change and an increase in some demand led services. The most significant uncertainty at present is the proposal to localise Council Tax Benefit. Dependent upon future decisions the impact of this on the Council's revenue budget in 2013/14 could be between zero and £1m. For the purposes of this report it has been assumed that whatever the budgetary impact of this proposal it will be contained within the essential service pressures. This therefore suggests that the total budget gap over the next four years could be up to £13.9m (i.e. over 17% of the budget requirement in 2015/16).

- 5.18 The table above is based on the 'central case' scenario for 2013/14 (see paragraph 5.7). Using the best case scenario the gap would reduce to 2.562m in 2013/14 and under the worst case scenario would increase to £4.219m.

Budget Strategy

- 5.19 When reporting on the financial outturn for 2011/12 earlier on tonight's agenda revenue balances were £10.266m at 31 March 2012. The 2012/13 budget includes plans to spend £0.394m of this reserve on the assumption that the Council is able to spend within budget for the fifteenth consecutive year. Historically £4m has been considered to be the minimum prudent level for revenue balances. There is therefore £5.872m available to support future expenditure.
- 5.20 The forecast for 2013/14 and beyond is extremely uncertain given the pending reallocation of Business Rates, and should therefore be considered as a starting point for budget planning purposes at this early stage.
- 5.21 The focus over the coming months will be on the challenge posed by the likely funding gap in 2013/14. The Council has a track record of delivering efficiency savings and reducing back office costs in order to protect front line services although it is becoming increasingly difficult to achieve similar types of savings year-on-year. This will not be sufficient to bridge the anticipated funding gap so the Council will also need to consider:
- a) taking a firm line to limit future year's pressures
 - b) utilising available balances
 - c) increasing the Council Tax, with each 1% generating £490,000 additional income
 - d) identifying savings to front line services which may result in service reductions or closures.
- 5.22 In practice it is likely that a combination of all four approaches will be required.

Budget Timetable

- 5.23 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 12 – Feb 13
Development of savings proposals	Jul 12 – Nov 12
Provisional settlement	Early Dec 12
Executive agree proposals for consultation	11 Dec 12
Overview and Scrutiny Commission reviews budget proposals	31 Jan 13
Executive considers responses to consultation and agrees final budget proposals	12 Feb 13
Council agrees budget and Council Tax	27 Feb 13

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:

- Financial and economic
- Demands for services
- Staffing
- Information management and information technology
- Other major programmes and projects
- Business interruption/continuity
- Safeguarding of children and vulnerable adults
- Infrastructure and maintenance of assets
- Working effectively with partners, residents, service users, the voluntary sector and local businesses
- Litigation and legislation, and
- Town centre regeneration

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 action 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 Quarterly Service Reports (QSR'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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