

**TO: THE EXECUTIVE**  
**DATE: 22 SEPTEMBER 2015**

**UNRESTRICTED**

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**MEDIUM TERM FINANCIAL STRATEGY 2016/17 – 2020/21**  
**(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 next step towards setting a budget for the 2016/17 financial year and beyond.

**2 RECOMMENDATIONS**

- 2.1 **That the Commitment Budget for the period 2016/17 to 2020/21, summarised in Annex A of the report be approved.**
- 2.2 **That the proposed budget process and timetable for 2016/17 as set out in paragraphs 5.17 to 5.19 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 2016/17 and beyond.

**4 ALTERNATIVE OPTIONS CONSIDERED**

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

**5 SUPPORTING INFORMATION**

Resources

- 5.1 There are a number of inherent difficulties in medium-term financial planning, in terms of accurately estimating both available resources and spending needs. Following the General Election in May 2015 the Government announced a Spending Review to be concluded and published on 25<sup>th</sup> November 2015. Its aim will be to identify savings required to eliminate the national deficit by 2019-20 and is expected to contain large reductions in public expenditure. As with past Spending Reviews, the information provided will be at a Government Department level and it will be of limited value in terms of identifying the impact on Bracknell Forest as an individual authority. This detail will be provided as part of the provisional Local Government Financial Settlement (LGFS) which is expected to be announced in December (the 2015/16 provisional LGFS was published on 17<sup>th</sup> December 2014).
- 5.2 The changes announced in the LGFS are likely to be significant and include reforms to the funding mechanism with the possibility of changes to specific grants, the New Homes Bonus regime and the Council Tax Freeze scheme. As such there is a high level of uncertainty surrounding both the quantum of funding available to Local Authorities and the distribution of funding, both of which may substantially reduce the resources available to Bracknell Forest. It is likely however that a settlement beyond one year will be announced, which will at least provide some certainty around future resources that the Council can use for its medium term planning strategy.

- 5.3 Given the complexities of the funding mechanism used to distribute resources to local authorities it is increasingly difficult to predict the likely impact of the Spending Review decisions. For planning purposes an estimate of the reduction in central government support has been incorporated within these Budget Projections reflecting a further cut of £3.0m in 2016/17. For the remaining period of the Commitment Budget a reduction of 6% overall in government support has been assumed. This would amount to an overall reduction over the next five years of a real terms cut of 30%. The progress made over the coming months by the Treasury, Government Departments and the LGA with respect to the Spending Review will be closely monitored and any further evidence that could be used to update the various scenarios will be modelled and shared as part of the on-going Budget Process.
- 5.4 The Council identified a range of significant risks in preparing the 2015/16 Budget and it was deemed prudent to increase the contingency fund from £1m to £2m. Whilst the Council continues to face uncertain times, given the level of reserves held by the Council and progress made on some of these factors, it is proposed to reduce the level back to £1m from 2016/17 onwards. This position will be reviewed following the announcement of the Spending Review.
- 5.5 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 (CTFG)

It is unclear whether any future support to freeze the Council Tax from 2016/17 onwards will be provided by the Government. It has been assumed that the existing funding received by the Council up to 2015/16 with respect to this initiative will be maintained, but that there will be no new support going forward.

#### Other Specific Grants

Some of the largest specific grants received by the Council are the ring-fenced Public Health, NHS funding streams and Better Care Fund, totalling over £11m in 2015/16. It has been assumed that these funding streams will be used to support services and initiatives within the health and social care area and as such are financially neutral for planning purposes at this stage in the budget cycle.

#### New Homes Bonus

This non-ringfenced grant is designed to reward and encourage development of new properties in local communities and will generate £3.3m for Bracknell Forest Council in 2015/16. Each year's bonus is payable for 6 years. An increase of £0.6m has been incorporated at this stage of the budget process, bringing the total level of budget support to £3.9m. The funding mechanism was initially designed to deliver a rolling 6-year's worth of funding, as such with the scheme starting in 2011/12, that years funding will fall out in 2017/18. On the assumption that the funding stream will continue and that growth levels remain in line with the recent trend of new housing delivery, there will be no additional growth in funding from this grant. However, given the medium-term plans for growth in the borough there may be increase in the overall amount received – however this will depend upon the timing of housing completions, alternatively there may be adjustments made to the scheme as part of the Spending Review. This should become clear as part of the 2016/17 LGFS in December.

#### Inflation and Interest Rates

- 5.6 Forecasting future levels of inflation and interest rates is fraught with considerable risk as the outlook for global economy continues to recover from the long-term economic shocks of 2008. The greatest risk faced by the UK and the USA is the “unwinding” of the monetary easing that has been in place for many years. Historically low interest rates

and never-before attempted quantitative easing now represent challenges to be overcome as both economies continue to grow.

- 5.7 Based on the most up-to-date information and commentary from respected economists and the Governor of the Bank of England himself, UK interest rates may begin to rise in the new year, however any changes are likely to be minimal given the level of private sector debt (in particular personal levels of mortgage debt) and as such are unlikely to have a material impact on the Council's investment income over the short-term.
- 5.8 Whilst the Councils retains significant levels of surplus cash, the Capital Programme embarked on by the Council in 2015/16 – including the investment in the Town Centre regeneration and related highway works, the development of the Binfield Learning Village and the re-development of the Coral Reef Water World, will see these levels of surplus cash substantially depleted over the next 12 to 18 months. As a result the Council will no-longer be debt-free and will have to borrow to fund its on-going capital commitments. With borrowing rates still at historically low levels and unlikely to significantly rise in the coming 18 months, the Council will be borrowing at a relatively fortuitous time. However with long-term borrowing rates close to 3%, there will be a material interest cost that will need to be factored into the Council's forward budget projections. The actual level of debt-servicing costs will depend both on future levels of interest rates and more importantly in the short-term the actual timing of the need to borrow which will itself depend on the progress on the various capital schemes. The figures included within the Commitment Budget are a best estimate at this stage and will be closely monitored and updated as the major capital schemes progress and economic conditions change.
- 5.9 The outlook for inflation, over the period covered by the Commitment Budget, remains benign and is currently significantly below the 2% target set by the Monetary Policy Committee. In the short-term, expectations are for inflation to remain below target and only approach this level over the next 2 -3 years. The Consumer Price Inflation rate has been measured at close to zero for the past two months, with the Retail Price Index fixed at 1%. Given the underlying economic conditions (strong price competition on food, falling oil-prices and favourable Sterling exchange rates) this is unlikely to change over the short-term. Allowances for budget increases due to inflation are calculated based on September indices as an estimate has been made at this stage of 0% for CPI and 1% for RPI. This translates into a non-pay inflationary pressure of £0.3m. The final figure will be updated once the September figures are published. However given inflationary pressures elsewhere, for example the introduction of the National Living Wage, it may prove difficult to sustain cash-limited budgets in areas of contracted out services.
- 5.10 In terms of pay inflation, it has been assumed that there will be a 1% increase in public sector pay in 2016/17 and for the near future. An increase of 1% in pay represents an additional cost of £0.5m

#### Fees and Charges

- 5.11 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 RPI. The Council's long term average rate of increase in fees and charges is between 2% and 3%. If the market will bear increases of this magnitude in 2016/17 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 £0.2m in 2016/17.

### Business Rates

- 5.12 Following the transfer of a significant business ratepayer on to the Council's local valuation list approximately £6m of additional income was added to the local collection of business rates. The 2015/16 base-budget was supported by an on-going transfer of £3m annually from this additional income on top of a one-off transfer of £3.988m from accumulated surpluses. Given the known risks surrounding business rates projections and outstanding appeals and revaluations it is prudent to limit transfers to the on-going £3m.

### Capital Programme

- 5.13 The indicative Council funded three year General Fund capital programme included with the budget assumptions are £8m each year (excluding the commitments made on Coral Reef, Town Centre regeneration and Binfield Learning Village in 2015/16 – which are separately allowed for in the proposals). The long-term capital programme will be funded from a combination of capital receipts and borrowing. For 2016/17 an estimate of proceeds arising from Community Infrastructure Levy have been included along with a contribution from the Councils Right-To-Buy/VAT sharing agreement with Bracknell Forest Homes (which will end in 2018) and the sale of surplus assets. With the scope for generating income from capital receipts limited by 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 an indicative capital programme of approximately £8m is affordable as part of its overall budget strategy.

### Budget Overview

- 5.14 Drawing together the above projections for future commitments and resources provides a starting point for considering the budget strategy for 2016/17 and beyond.

Table 1: Preliminary Budget Overview 2016/17 to 2020/21

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Base Budget	79,179	83,030	85,493	88,050	90,053
Known Commitments (see Annex A)	524	797	692	381	119
Add back one-off use of NNDR Reserves	3,988	0	0	0	0
Reduction in Contingency Fund	-1,000	0	0	0	0
Additional New Homes Bonus	-602	0	0	0	0
Capital Programme/Interest Rates	141	466	365	72	60
Inflation	800	1,200	1,500	1,550	1,600
<b>Budget Requirement</b>	<b>83,030</b>	<b>85,493</b>	<b>88,050</b>	<b>90,053</b>	<b>91,832</b>
Government Support	28,265	26,399	24,564	22,716	20,879
Council Tax (inclusive of yield increase)	47,704	48,106	48,585	49,085	49,585
<b>Funding</b>	<b>75,969</b>	<b>74,505</b>	<b>73,149</b>	<b>71,801</b>	<b>70,464</b>
<b>Funding Gap</b>	<b>7,061</b>	<b>10,988</b>	<b>14,901</b>	<b>18,252</b>	<b>21,368</b>

- 5.15 The table above indicates, based on currently available information, that the Council faces an underlying funding gap of around £21m by 2020/21. 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 £2.0m per annum to the budget for essential service pressures. This is expected to increase to £3.1m in 2016/17 following the decision taken by the Council this year in respect of Childrens Social Worker pay and conditions. This therefore suggests that the total budget gap over the next five years may be £32m (i.e. approximately 40% of the budget requirement in 2015/16).

- 5.16 The total budget gap of £32m makes no allowance for the anticipated housing growth over the medium term or increased business rate and car parking income arising from the redevelopment of the town centre. Whilst it is difficult to predict the precise timing of this additional income it will have a positive impact potentially reducing the total gap over five years to nearer £25m

#### Budget Strategy

- 5.17 When reporting on the financial outturn for 2014/15 general balances were approximately £10.9m at 31 March 2015. The 2015/16 budget includes plans to spend £0.9m of this reserve on the assumption that the Council is able to spend within budget for the eighteenth consecutive year. Historically £4m has been considered to be the minimum prudent level for revenue balances. There is therefore £6m available to support future expenditure. The earmarked Business Rates Reserve has a balance of £13.7m at the 31<sup>st</sup> March 2015 and this is expected to be reduced to £6.7m after allowing for the effect of outstanding appeals and revaluations.

- 5.18 The focus over the coming months will be on the challenge posed by the likely funding gap in 2016/17. 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. Each 1% increase above this level will generate approximately £0.47m additional income, although the need to hold a referendum for excessive increases (previously regarded as 2%) will severely limit this as an option
- d) identifying savings to front line services which may result in service reductions or closures.
- e) utilising some of the business rate surplus from previous years.

- 5.19 In practice it is likely that a combination of approaches will be required.

#### Budget Timetable

- 5.20 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:

Developing a new Council Plan and the associated Service Plans	Jul 15 – Feb 16
Development of savings proposals	Jul 15 – Nov 15
Provisional settlement	Late December 15
Executive agree proposals for consultation	15 Dec 15
Overview and Scrutiny Commission reviews budget proposals	28 Jan 16

Executive considers responses to consultation and agrees final budget proposals 9 Feb 16

Council agrees budget and Council Tax 24 Feb 16

## **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 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 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.

### Contacts for further information

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### Doc. Ref

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