

2009/10 Budget Analysis

2008/9 BASE BUDGET

	Schools Block	Total Learning & Care	Total Community Services	Total Corporate Services	Unallocated	Environment Agency	Interest Receipts	Transfer of Annual Provisions	Debt Charges from Borrowing	TOTAL
	0	48,183	22,564	14,406	0	130	-472	900	4,986	90,321
BUDGET PRESSURES 2009/10										
Inflation	1,058	1,785	981	279		3	-388			3,718
Landfill tax (net)			372							372
Specific Grant to ABG		1,851	-42	42						1,851
Contribution towards short lived assets								100		100
Debt Management								0	652	652
Full year effect of capital programme		41	165	417						623
Demographic Pressure		575			0					575
Restructure					100					100
- Manifesto Commitments					63					63
Directorate pressures		728	770	171						1,669
Raise Schools Budgets to DFES Funding Level	2,163									2,163
Dedicated Schools grant	-3,221									-3,221
	0	4,980	2,246	909	163	3	-388	100	652	8,665
BUDGET SAVINGS 2009/10										
Savings Target					-4,776					-4,776
	0	0	0	0	-4,776	0	0	0	0	-4,776
Net pressures and savings 2009/10	0	4,980	2,246	909	-4,613	3	-388	100	652	3,889
TOTAL BUDGET REQUIREMENT 2009/10	0	53,163	24,810	15,315	-4,613	133	-860	1,000	5,638	94,210

2010/11 Budget Analysis

BUDGET PRESSURES 2010/11

	Schools Block	Total Learning & Care	Total Community Services	Total Corporate Services	Unallocated	Environment Agency	Interest Receipts	Transfer of Annual Provisions	Debt Charges from Borrowing	TOTAL
Inflation	451	304	4	126		3	175			1,063
Specific Inflation	175	1,380	730	45			-40			2,290
Landfill tax (net)			427							427
Local Election - Prep				50						50
Contribution towards short lived assets								400		400
Debt Management								0	310	310
Full year effect of capital programme		192	15	20						227
Demographic Pressure		300			1,000					1,300
Member Contingency					500					500
Raise Schools Budgets to DFES Funding Level	3,424									3,424
Dedicated Schools Grant	-4,050									-4,050

BUDGET SAVINGS 2010/11

Target Savings

					-3,780					-3,780
	0	0	0	0	-3,780	0	0	0	0	-3,780

Pre-allocations pressures and savings 2010/11

	0	2,176	1,176	241	-2,280	3	135	400	310	2,161
--	---	-------	-------	-----	--------	---	-----	-----	-----	-------

Net pressures and savings 2010/11

	0	2,176	1,176	241	-2,280	3	135	400	310	2,161
--	---	-------	-------	-----	--------	---	-----	-----	-----	-------

TOTAL BUDGET REQUIREMENT 2010/11

	0	55,339	25,986	15,556	-6,893	136	-725	1,400	5,948	96,371
--	---	--------	--------	--------	--------	-----	------	-------	-------	--------

APPENDIX B

Budget Pressures Summary 2009/10

Service Group	Service	Short Description of Proposal	Potential proposals Impact	Amount 2009/10
LEARNING AND CARE DIRECTORATE				
Adult Services	Across all adult services	New post	New post to implement the National Framework for Continuing Health Care	39
Adult Services	Across all adult services	2 New posts	2 New posts to implement the Deprivation of Liberty Safeguards (DOLS) legislation	68
Children & Young People	Home to School Transport	Increased contract costs	Funding for additional numbers of children with a special educational need who require transport to & from school. And for the additional cost of fuel for such transport	120
Learning and Care Units	All services	Managed vacancy factor to be reduced over the next 3 years		501
			Total Pressures (Learning and Care)	728
COMMUNITY SERVICES DIRECTORATE				
Leisure Services	Leisure Centres	Loss of LPSA reward funding for SMILE	Funding of successful programme required from year 6, following BMI and LPSA support	30
Libraries, Information, Arts & Heritage	Library & Information Services	Reduced level of income	Reduction due to changes in audio visual technology	10
Highways & Engineering	Traffic Management	Loss of LPSA funding for Traffic Management	Loss of revenue support for Traffic Management schemes	30
Highways & Engineering	Public Transport Support	Revenue impact of real time passenger information	Revenue impact of capital scheme	50
Parking	Coach & Car Parks	Volume change in overall use		170
Public Protection	Environmental Health	Loss of Smoke Free grant		15
Public Protection	Environmental Health	Cost of Orbit Link to CSC		15
Streetcare & Operations	Streetscene	Use of Commuted sums for Highway Drainage	Only £30k remaining, but dependant on new contributions	100
Asset Management	Commercial Estates	Loss of Rent Costains		80
Asset Management	Commercial Estates	Business rates re empty properties	Change in NNDR legislation for empty properties	50
Community Service Units		Managed Vacancy factor to be deleted		90
Parking	Coach & Car Parks	Hines Meadow Service charges	Current negotiations with Sainsbury's	130
			Total Pressures (Community Services)	770
CORPORATE SERVICES DIRECTORATE				
Finance	Housing Benefits	Discretionary Housing Payments		50
	Local Land Charges	Long term impact of HIPS	The Government set the fee for personal searches at £11, which is too low to cover our costs; while full searches are £120. By offering block discounts on full searches, it was hoped that more providers would opt for a full search, as opposed to a personal search, however, Solicitors and HIPS providers are not interested in offering block bookings without significant discounts, which would not be affordable to the Council.	100
Democratic	Community Safety	Increase in Admin support required		3
Democratic	Community Safety	End of LPSA Funding	Loss of share of Domestic Violence Co-ordinator post	18
			Total Pressures (Corporate Services)	171

REPORT TO CABINET

Title: THE PRELIMINARY BUDGET REPORT

Date: 18 December 2008

Member Reporting: Councillor Hilton

Contact Officer(s): Andrew Brooker, Head of Finance, 01628 796341
Peter Brown, Chief Accountant, 01628 796207

Wards affected: All

1. SUMMARY

- 1.1.1 The preliminary budget report sets the scene for discussions to be held in various Council forums in coming weeks prior to setting the Budget for 2009/10 which will go to Cabinet on 12th February 2009 and Council on 24th February 2009.
- 1.1.2 The report discusses the impact of the “credit crunch” on Council service delivery, which at present is marginal. However it is widely acknowledged that the causes of this particular recession are different from any experienced in the past, this means that future impact has to be uncertain. The only certainty is that it is likely to have a negative impact on the Councils financial position.
- 1.1.3 The report covers Government settlements and reminds members that we are in the middle of a three-year settlement. Whilst this brings a degree of certainty it highlights an ongoing real-term reduction in the level of financial support from the national Government with the consequential impact on Council tax payers
- 1.1.4 The section under the Medium Term Financial Plan outlines some the assumptions that have been made and issues under consideration in preparing the budget. The section covers inflation, service pressures, capital financing and the challenging efficiency agenda.
- 1.1.5 The section headed Council Tax Income complements the Council Tax Base report elsewhere on this agenda and reinforces the Councils commitment to keeping Council Tax increases below the level of inflation.
- 1.1.6 The report concludes with a section on School Funding and rehearses some of the challenges that the Council faces, together with the School’s Forum in agreeing to the distribution of the Dedicated Schools Grant. School Budgets will face some of the challenges facing other Council services with below inflation increases in per capita funding, falling pupil rolls and emerging cost pressures, principally from complex SEN placements.

2. RECOMMENDATION

That Cabinet notes the content of the Report

What will be different for residents as a result of this decision?

No decision taken but residents can be assured that members have all relevant information necessary to provide a context for their budget discussion over the next two months. The Council restates its commitment to keep Council Tax increases below RPI as measured in the previous September.

3. SUPPORTING INFORMATION

3.1 Background

“CREDIT CRUNCH”

3.1.1 Budgets for the next two years at least will be set against a background that has not been experienced in recent years, significant economic insecurity. There are a number of well-publicised issues impacting the national and global economies that have been well rehearsed in the press over recent weeks. In summary, therefore, we are facing:

- Reduction in property values
- Rising unemployment
- Volatility in stock markets
- A significant increase in inflation over the past six months to a figure (5.0% RPI September 2008) well above the Bank of England’s target rate.
- Admission from Bank of England that the national economy is entering recession
- Inflation likely to show a significant fall in coming months
- Interest Rates likely to be subject to further cuts globally in an attempt to reverse the move towards recession
- Loss of confidence having an impact on inter bank lending which, in turn, is impacting on availability of credit.

3.1.2 Such a range of challenges leaves few Council services untouched but some of the main risk areas that have been identified include:

- Income from Commercial Estates
- Income from Leisure Centres
- Demand for Housing Support – Bed & Breakfast and Housing Benefit
- Car Park income
- Investment income
- Cost of contracts – a number are driven by September RPI particularly in Adult Social Care
- Land Charge and Development Control income.
- Level of Developer contributions

3.1.3 At present service monitoring has identified minimal impact: some increase in activity for Housing Policy; one of our commercial estate tenants has gone into liquidation and car park volumes have not reached anticipated levels.

3.1.4 The Council has some challenging decisions to make. At one end of the range of options the Council could establish a provision to reflect all the uncertainties in next

years gross budget requirement. However, if council Tax commitments are to be honoured this would have the consequence of reduced spending on services and service reductions would inevitably be required to make room for this provision. At the other end of the range would be to reflect the current healthy levels of reserves and wait for a clearer picture to emerge. A more proactive approach would be to identify one off measures/investments that can be taken to protect, as far as possible, current income/service levels. An example might be to provide additional resources for Housing Policy or CAB so that residents at risk of being made homeless get the necessary advice promptly. These measures, being relatively short term, could be funded from Reserves.

GOVERNMENT SETTLEMENTS

- 3.1.5 Next year will be the second in the current 3-year settlement so the Council can be relatively confident that it knows what level of support it can expect from Central Government.
- 3.1.6 The budget report to Council in February 2008 talked at some length about the revision that had been made to Department for Communities and Local Government's (DCLG) funding mechanism, which shifted significant levels of funding away from those authorities it perceived to have the ability to raise additional revenue for themselves. In common with many local authorities in the South East the Borough can expect minimal increases in general grant in coming years whilst the current funding regime is in place. The increases proposed reflect changes in responsibility but no provision is made for increase to the number of service users (demographic pressures) or capital financing costs and minimal allowance is made for price increases (1.75% in 2009/10 and 1.5% in 2010/11). It is clear therefore, with the impact of inflation on Council run services expected to be 4.1% next year, that this alone represents a real term reduction in funding of £600,000, close to 1% on Council Tax.
- 3.1.7 A technical adjustment to the Formula has been made as reported to Cabinet earlier in the year. As part of the national Government initiative to provide local authorities with greater freedom over the use of grant, a range of previously service specific grants have now been moved into a new category of grant, the Area Based Grant, which can be used for any purpose. These monies have not, at this stage, been allocated through DCLG's Formula Grant methodology to avoid any redistribution but guidance requires Councils to account for the grant as External Support, as we do Formula Grant, rather than as service specific grants.

3.1.8

	2008/9 £'000		£'000	2009/10 £'000	% Increase	£'000	20010/11 £'000	% Increase
Formula Grant Base				18,257			18,536	
Floor Increase			319		1.75	278		1.5
Technical Adjustments			-40	279		-15	263	
Formula Grant	18,257			18,536			18,799	
Area Based Grant	5,200			7,136	Note 1		6,980	Note 2
Total External Support	23,457			25,672			25,779	

Note 1 – Reflects movement of Supporting People Grant to ABG (£1.723m)

Note 2 – Reflects end of Extended Schools Start Up Grant (£341k reduction)

3.1.9 As reported in the Council Budget report the Formula Grant methodology assumes that Councils will deliver 3% cash releasing efficiency measures. Over the last four years since the 'Gershon' targets were introduced, the Borough is ahead of its cumulative targets; in common with most other authorities this remains a challenging target going forward. The assumed saving from the 'programme' is in excess of £3m each year,

MEDIUM TERM FINANCIAL PLAN (MTFP)

3.1.10 The MTFP has been under regular review since it was last updated as part of the 2008/9 Budget report. The version shown in Appendix A includes updated inflation and service pressure assumptions.

3.1.11 The MTFP is a planning document which allows 'what if' questions to be asked. A number of assumptions have had to be made about some important issues, notably:

- Inflation
- Pay awards
- Pensions increase
- Service pressures
- Capital financing
- Council Tax revenue

Inflation

- 3.1.12 CSR07 included the assumption that inflation would be 2.7% as it applies to the public sector over the three-year settlement period (2008/9 – 20010/11). This has proved an optimistic assessment. Current assumptions indicate that inflation will impact on Borough Services at 4.1% next year although it is anticipated that this will fall by 2010/11. Whilst current predictions are that inflation, by whatever measure, will fall over coming months it is important to note that a number of the Councils contracts are inflated by measure of inflation taken in September each year, as are State Pensions.
- 3.1.13 Inflation going forward is clearly difficult to predict but a working assumption has been made of 3% for future years.

Pay Awards

- 3.1.14 Pay awards nationally are becoming contentious. The settlement negotiations due for implementation in April 08 are currently being mediated through ACAS. An interim award of 2.45% has been agreed by LG Employers. Provision was made for a 2.5% award in the 2008/09 Budget.
- 3.1.15 A similar provision is currently being proposed in 2009/10. Although RPI is currently at 5% and Union Representatives are already preparing above inflation pay claims it is anticipated that falling inflation and the prospect of economic recession will enable Employers to contain much of this pressure.
- 3.1.16 It is important to record that provision of an additional 1% for pay (in non-school services) would cost close to £600k. Given the fact that Government support is unlikely to increase and that the Council has a clear commitment regarding Council Tax increases this additional provision would be at the expense of further efficiency measures.
- 3.1.17 For future years 2.5% pay awards have been allowed for

Pensions Increase

- 3.1.18 Employer Pension contributions are currently set until April 2011 at their current level 14.7%. There is clearly some concern that the stock market turbulence will require an increase in both employer and employee contribution rates. Between May 2008 and September 2008 the fund lost £209m of its value (14%). However it is important to remember that:
- The Berkshire Fund started at a relatively high level of funding
 - Each month more cash is received from Employers and Employees contributions, which currently exceeds outgoing pension payments. This creates the opportunity to take advantage of some relatively cheap investment opportunities
 - The current low level of stock market enables, over the long term (30 years), a relatively optimistic view to be taken of future investment growth
 - The Actuaries and Pension Fund Manager take a long-term view (“40 years rather than 40 days”).

- 3.1.19 It is currently assumed therefore that there will be no requirement to increase Employer contribution rates in the foreseeable future but this will only be confirmed by the actuarial review in 2010.

Service Pressures

- 3.1.20 Every effort will be made, as always, to contain service pressures within existing budgets but national issues such as demographic pressures and waste management legislation are largely unavoidable. Allowance is, therefore, made for these additional costs.
- 3.1.21 Service Pressures identified to date are outlined in the attached Appendix B.

Capital Financing

- 3.1.22 The Council continues with its long term objective to fund a greater proportion of its capital spend from Revenue. This ambition is reflected in the MTFP in the form of additional annual revenue contributions to the Capital Fund.
- 3.1.23 Historically, the Council spends £1.3m per annum on 'short life assets', Leisure Centre equipment; IT Hardware; Vehicles etc. Looking forward some significant technical investment in IT should enable this sum to be reduced to an average of £1m per annum. The base budget for 2008/09 includes provision for a £900k contribution to the Capital Fund. An increase of £100k would enable the initial objective of funding all short life assets from Revenue.
- 3.1.24 There remains significant recurring expenditure on Highways, Streetlights and Property that are currently funded from capital resources. It remains an objective of the Council to fund a greater proportion of these costs from revenue, thereby saving financing costs. This ambition is still reflected in the MTFP.
- 3.1.25 Government Departments announced as part of the 3-year settlement its spending allocations 2010/11. Whilst some of these allocations come to the authority in the form of grants most are in the form of 'supported Capital Expenditure', the revenue cost of which is, in theory, reflected in Formula Grant assessments. However, as the Council is below the grant floor, there will be no increase in grant to cover these allocations. Consequently, the impact of all capital financing directly impacts on the Council Tax.
- 3.1.26 Cabinet received at its October meeting an update on its Asset Management Plan. There will be a continued emphasis on ensuring that maximum benefit is obtained for the Council's physical assets. Surplus assets will be identified wherever possible and where appropriate those assets will be sold to support the Council's Capital programme but only where appropriate. Before assets are sold the Council will ensure, especially in the current economic climate, that it is the right time to sell but more importantly whether these assets can be better used to generate revenue for the Council.
- 3.1.27 In the short term in order to finance priority infrastructure maintenance and development the Council will have little alternative to borrowing funds. Decisions over whether this is funded short term (utilising cash reserves) or longer term (utilising PWLB loans) will be taken by the Head of Finance in conjunction with Lead

Members as part of his Treasury Management responsibilities. An assumption, carried forward from previous MTFP's is that £6m of capital spend will require corporate funding each year.

- 3.1.28 A significant proportion of the capital programme has over the past few years been funded from s106 contributions. Renewal of this source of finance must be at some risk in the short term given the present economic climate.

Fees & Charges

- 3.1.29 A report on Fees & Charges appears elsewhere on this agenda but the Medium Term Plan assumes that income from Fees & Charges will keep pace with inflation. It is however part of the Council Financial Strategy to review those fees which carry an element of subsidy for service users.

Efficiency Savings

- 3.1.30 CSR07 assumes that 3% cashable efficiency savings are available in each of the three years 2008/9 – 2010/11. Para 3.1.9 quantifies this at £3m pa.
- 3.1.31 In order to meet the cost of emerging service pressures, principally driven by demographic pressures, and the increased cost of services, driven by inflation, without any significant increase in financial support from DCLG, whilst keeping to Council Tax increase commitments means that efficiency savings in excess of those indicated in CSR 07 will be required. Directorates have been asked to identify savings of £4.7m in order to provide the Council with the flexibility to set a Council Tax in line with its public commitments.
- 3.1.32 April 2004 when the phrase “Gershon Savings” was first introduced into the Local Government Finance vocabulary the Council has identified efficiency savings of £11m, against a target of £10m. However in common with most other local authorities the scope for further efficiencies is becoming more difficult to identify
- 3.1.33 In recent years the efficiency agenda has been addressed by a combination of wide ranging “corporate initiatives” and smaller scale reviews carried out by individual service managers. If the savings targets going forward are to be delivered it is important for the Council to adopt and resource a new strategy for delivering these efficiencies.

Interest Rates

- 3.1.34 Interest Rates have an important impact on Council Finances. Current changes to interest rates will have no effect on the cost of borrowing as the Council's long term loans were taken out at fixed rates.
- 3.1.35 The more important impact is on the interest that the Council earns on its cash balances. Currently volatility in interest rates makes it difficult to plan ahead. The recent Treasury Management report that Cabinet received showed that the Council could have average cash balances approaching £35m. The reductions in bank base rate, if reflected in reduced investment income, will result in a reduction of £700k in investment income per annum. Many “experts” are predicting that interest rates will rise again in 18 months time but budgeting for that increase is a significant risk.

- 3.1.36 The decision that the Council will need to make when it sets its budget is to what extent it maintains its longer term approach of making a cautious assessment of its investment income so that in times of higher levels of investment income, “windfall” receipts are taken into reserves, and when interest rates fall the revenue budget is supported from reserves.

COUNCIL TAX INCOME

- 3.1.37 Council Tax is the most important source of revenue for the Council, and funds a greater proportion of Council spend than most other authorities. In 2008-9 78% of the Councils Gross Budget Requirement (that element funded from Formula Grant and Council Tax) was funded from Council Tax. When compared to all other local authorities this is the 7th highest of all 388 Local Authorities in England, the average being 43.6%.
- 3.1.38 Annual increases in Council Tax on individual properties is supplemented by increases in the taxbase (increase in the number of properties on which the tax is levied). It is perhaps this fact that DCLG have recognised (but arguably overcompensated for) in its grant distribution models.
- 3.1.39 The Council has a very clear commitment to keep its tax increase below RPI as measured in the previous September; this is consistent with the increase in State Pensions and Benefits. RPI increased by 5% in the year to September 2008
- 3.1.40 The taxbase for 2009-10 is assessed elsewhere on this agenda but suffice it to say it reflects the general slowdown in the housing markets. At present collection rates are being maintained although this is one of the risks that needs to be assessed in the Budget report.
- 3.1.41 Members should note that, dependent on tax base, 0.5% increase in Council Tax generates approx £340k additional revenue for the Council.

SCHOOL FUNDING

- 3.1.42 The main source of school funding is the ring-fenced Dedicated Schools Grant (DSG). The grant must be used in support of the Schools Budget as defined in regulations¹, and is supplemented by other sources of funding such as standards fund grants, and Learning and Skills Council funding for sixth forms.
- 3.1.43 RBWM's 2008-09 DSG allocation was £73.044 million. The 2009-10 will be determined by pupil numbers in January 2009 but latest estimates suggest a fall in total pupil numbers of around 130 compared with 2008-09. The unit rate on which DSG is calculated is fixed for the period 2008-11 and will increase from £4,040 per pupil in 2008-09 to £4,193 in 2009-10, a rise of 3.8%. This compares with an increase of 4.6% per pupil in the previous year.
- 3.1.44 The minimum increase schools can expect to receive in their 2009-10 budgets is 2.1% per pupil, as defined by the Minimum Funding Guarantee set by the DCSF. In practice most schools will see increases above the minimum level and in accordance with known inflationary uplifts used to set the Council's budget. The level of DSG
-

funding available once inflationary and contractual pressures have been met is known as 'headroom'. In the past headroom has been used to fund new initiatives and priorities both in schools and central services (subject to the Central Expenditure Limit - CEL) as discussed with Schools Forum.

- 3.1.45 For 2009-10 the level of headroom is likely to be significantly less than in previous years because
- a) the per pupil increase in DSG funding in 2009-10 is lower than it has ever been previously
 - b) the cost of out-of-borough special school placements has risen significantly due to an increase in the number of high cost placements, and is facing a pressure of up to £600k or more in 2009-10. Funding for this can only come from DSG headroom or from a reallocation of existing resources within the Schools Budget. The scale of this budget pressure is such that little or no headroom may be left for other priorities. Any net increase in the out-of-borough SEN budget is likely to impact on the relative balance of resources between the ISB and central DSG expenditure. Schools Forum would need to formally approve this allocation if it resulted in the central expenditure limit being exceeded.

3.1.46 Members will recall that the CEL, determines the minimum amount authorities must delegate to schools. The Council is responsible, in consultation with the Schools Forum, for determining the split of the grant between expenditure on central functions, (e.g. special educational needs, excluded pupils, early years education and childcare in the non-maintained sector) and delegated funding to schools (the

4. OPTIONS AVAILABLE AND RISK ASSESSMENT

4.1 Options

	Option	Comments	Financial Implications
1.	Accept the report	This report is for information and explains what factors affect the budget making decision	Contained within the report
2.	Reject the report	This is not an option. The Council is required to complete its Council Tax making process	

4.2 Risk assessment

4.2.1 A number of the risks associated with the preparation of the budget are discussed in the body of the report. Individual risk assessments have been made for the detailed proposals being made for inclusion in the Budget for 2009-10

The biggest single risk to the Council is the impact of the "Credit Crunch" which is outlined in paragraphs 3.1.1 to 3.1.4 above.

4.2.2

5. CONSULTATIONS CARRIED OUT

5.1.1 Budget proposals are being guided by Manifesto commitments made before the May 2006 elections

5.1.2 Regular meetings are held with both the Windsor and Maidenhead Chambers of Commerce

6. COMMENTS FROM THE OVERVIEW AND SCRUTINY PANEL

6.1.1 N/A

7. IMPLICATIONS

7.1.1 The following implications have been addressed where indicated below.

Financial	Legal	Human Rights Act	Planning	Sustainable Development	Diversity & Equality
✓ or N/A	✓ or N/A	✓ or N/A	✓ or N/A	✓ or N/A	✓ or N/A

Background Papers:

Authorisation:

	Legal	Finance	Planning	Property	Procurement	DMT
Name:						
Date Approved:						

	Directors Group	Lead Member	Ward Cllrs (if Appropriate)	Leader's Office	Scrutiny Panel
Name:					
Date Approved:					