

REPORT TO CABINET

Title: **THE PRELIMINARY BUDGET REPORT**
Date: 22 October 2009
Member Reporting: Councillor Kellaway
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Peter Brown, Chief Accountant, 01628 796207
Wards affected: All

1. **SUMMARY**

- 1.1 The preliminary budget report sets the context for discussions that have been held over the past weeks as part of the process for setting the Budget for 2010/11 which will go to Cabinet on 11th February 2010 and Council on 23rd February 2010.
- 1.2 2010/11 marks the end of the Government first three-year grant funding settlement. This gave a degree of certainty year on year but also showed a significant real-term reduction in financial support. Speculation grows about public sector spending. It now seems inevitable that the Council will receive a significant reduction in the level of financial support from the Government in the period 2011/12 and beyond. Whilst it is very difficult to predict the level of these reductions it is important that the Council starts to plan for such an eventuality.
- 1.3 The report discusses increased costs arising from such diverse areas as the effect of the recession, reduction in interest rates and waste disposal and considers how the Council Tax base may vary.
- 1.4 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.
- 1.5 In the light of the significant pressures the Council is facing the final section seeks approval for the cost reductions that have been discussed at the Budget Steering Group with Strategic Directors.

2. **RECOMMENDATION**

That Cabinet:

- 2.1 **Note the content of the Report**
- 2.2 **Approves the cost pressures**
- 2.3 **Delegates authority to Strategic Directors and Heads of Service to make the necessary organisational changes required to deliver the savings proposals.**

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

Residents can be assured that members have all relevant information necessary to provide a context for their budget discussion over the next few months. The Council can deliver a sustainable budget within available resources whilst maintaining its commitment to set low Council Tax levels.

3. SUPPORTING INFORMATION

Background

2009/10 Budget

- 3.1 2009/10 has seen significant budgetary pressures arising from increases in service demands within children's services and benefit support. By and large these pressures have been recession led and have been outside of the Council's control. These pressures arise from:
- Stagnant property market: increase in housing accommodation enquiries and rental loans; lower than expected increase in occupation of new property (thereby affecting Council Tax base) and lower income from developers (Section 106) and land charges.
 - Rising unemployment: increases in benefit claims; increase demand for adult and children's services as personal finances reduce; reduced income from car parks, leisure centres and council property as organisations close and spending profiles changed.
 - Sustained low interest rates: loss of income to support council services
- 3.2 To the end of September 2009 these pressures approached £1m.
- 3.3 The Council recognised the potential impact of the recession when setting the budget for 2009/10 and set up a reserve to support services affected by the economic climate. This has been further enhanced with a number of in year savings, largely arising from lower than expected pay award and contract inflation.
- 3.4 The reserves are available to support short-term pressures. However, items that have a permanent impact on services require longer term funding and this is only achieved by increasing the demand on the council tax. Appendix A includes a list of ongoing costs that impact on 2010/11 that require Cabinet approval to include in the budget process.

GOVERNMENT SETTLEMENTS

- 3.5 2010/11 is the final year of a current 3-year settlement. As for the current year there is some movement of specific grant to area based grant expected but whilst these are still in debate, they should be cost neutral. One exception is a new area based grant in respect of preventing extreme violence £131k for which an equal value growth is submitted, as most of this grant is distributed to our partners.
- 3.6 The anticipated increase is 1.5% in 2010/11, which is approximately in line with our expected increase in the inflation on council run services. The Formula Grant methodology continues to assume that Councils will deliver 3% cash releasing efficiency measures. Since the 'Gershon' targets were introduced, the Borough has

remained ahead of its cumulative targets; in common with most other authorities the ability to continue to meet this repeating target will become increasingly challenging.

3.7 The expected formula grant is summarised as:

	2009/10 £'000	% Increase	£'000	2010/11 £'000	% Increase
Formula Grant Base	18,257			18,536	
Floor Increase		1.75	278		1.5
Technical Adjustments	279		-15	263	
Formula Grant	18,536			18,799	
Area Based Grant	5,445			7,014	Note 1
Total External Support	23,981			25,813	

Note 1 – Reflects movement of Supporting People Grant to ABG (£1.723m), the one year introduction of preventing extreme violence grant (£131k) and the end of Extended Schools Start Up Grant (£341k reduction)

MEDIUM TERM FINANCIAL PLAN (MTFP)

3.8 The MTFP has been under constant review since it was last updated as part of the 2009/10 Budget report. The volatility in inflation rates, interest rates, and the uncertainty of the 2009/10 pay award has significant impact on the MTFP, which can show significant fluctuations between each iteration.

3.9 As discussed earlier in this report the level of public expenditure over the next few years is the subject of much speculation. It is clear that levels of Government support will be reduced, what is not clear is by how much. Given this uncertainty, the consideration of the MTFP is deferred until Council Tax setting Cabinet meeting in February

Inflation

3.10 The 2009 Budget statement from the Treasury saw significant variations in RPI and CPI inflation over the short term and predicted the RPI at September 2009 would be (-)3% with a return over the longer term to (+)2%. However, recent inflationary pressures have arisen. As this report was written the latest available inflation data showed that in August the year on year change in RPI was (-) 1.3%. Looking forward inflation is expected to rise, by all commentators, the rate of that rise being the subject of debate

3.11 Officers will continue to review inflation assumptions up to publication deadlines for the Council Tax setting Cabinet in February.

Pay Awards

- 3.12 Despite negative inflation rates and increasing unemployment level, and after significant negotiation the 2009/10 national pay award of 1% increase was eventually agreed.
- 3.13 Pressure remains on local authority budgets nationally and a number of authorities have moved away from the national review process settling for a local method that introduces greater certainty and transparency into the budget setting process. The Royal Borough is also committed to do so and negotiations with staff are ongoing. Once finalised an increase in pay will be built into the budget and enable more certainty when setting the budget for 2010/11 and onwards.
- 3.14 It is important to note, however, 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.

Pensions Increase

- 3.15 Employer Pension contributions are currently set until April 2011 at their current level 14.7%. Since the initial impact of the stock market decline the fund has bounced back so that the fund is currently 70% funded and improving. However, it is important to remember that the actuaries take a longer, 40-year, view on the fund performance rather than short-term gains and losses.
- 3.16 The actuarial review in 2010 will determine the need for increase in the Employer contribution rates. There are a number of circumstance and alternative funding proposals that could delay or eliminate any increase and the Pensions Fund Manager is discussing these with the actuaries

Service Pressures

- 3.17 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.
- 3.18 Service Pressures identified to date are outlined in the attached Appendix B.

Capital Financing

- 3.19 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.
- 3.20 Historically, the Council spends £1.3m per annum on 'short life assets', Leisure Centre equipment; IT Hardware; Vehicles etc. It is anticipated that this may reduce to £1m with the further IT infrastructure investment following a number of invest to save initiatives. The base budget for 2009/10 includes provision for a £800k contribution to the Capital Fund and an increase of £200k would therefore achieve this £1m target.

- 3.21 Recurring Highways, Streetlights and Property expenditure remains funded from capital resources. It remains a longer-term objective of the Council to fund a greater proportion of these costs from revenue, thereby, saving financing costs.
- 3.22 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.
- 3.23 Continued capital investment is required in the Council's infrastructure. Therefore, surplus assets will be identified wherever possible and where appropriate those assets will be sold to support the Council's Capital programme. Before assets are sold the Council will ensure that it is the right time to sell but more importantly whether these assets can be better used to generate revenue for the Council.
- 3.24 Where capital receipts or grants are not available to help fund the capital programme, the Royal Borough will have little alternative but to borrow funds, especially to finance priority infrastructure maintenance and development. Decisions on how the programme is funded 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.
- 3.25 A significant proportion of the capital programme has over the past few years been funded from s106 contributions. 2008/09 saw significant reduction in the level of receipts due to the economic climate and the impact of the proposed Community Infrastructure Levy is uncertain. Therefore, the Royal Borough cannot assume that the level of receipts attracted in the recent past will continue.

Fees & Charges

- 3.26 Under the current climate no increase in Fees & Charges is proposed beyond car parking changes, agree at the September Cabinet, and those are included in the savings proposals. Last year the government announced a temporary reduction in VAT that affected a number of council charges. This reduction end in January and therefore a full list of Fees and Charges will be tabled for approval as part of the council tax setting process in February.

Efficiency Savings

- 3.27 The Governments Comprehensive Spending Review 2007 assumes that 3% cashable efficiency savings are available in each of the three years 2008/9 – 2010/11 some £3m pa. The Royal Borough has delivered cashable savings in excess of this target and plans to deliver further savings in 2010/11 (Appendix B). In common with most other local authorities delivering the same annual value if savings becomes harder as the base budget shrinks. A time will come when value based efficiencies are not achievable without affecting the long-term sustainability of service provision.

- 3.28 In order that the proposed savings can be delivered in an orderly manner and that the Council can benefit from the measures at the earliest practicable opportunity authority to start implementing these proposals immediately is sought.

Interest Rates

- 3.29 Interest Rates have an important impact on Council Finances. However, recent decline in rates will have no effect on the cost of borrowing as the Council's long term loans were taken out at fixed rates some while ago and further borrowing is not anticipated in the near future
- 3.30 The more important impact is on the interest that the Council earns on its cash balances. The recent steep decline in interest rates, to the historically low level of 0.5%, and the use of cash reserves to fund the capital programmes makes it difficult to accurately assess future income levels from this source. Interest on these balances has declined significantly over the past year and some of the longer-term investments are due to end at the end of this year. Recent short-term investments have attracted interest at 1.5% and if this continues the Council will earn around £600k in a year on its average cash balances. Many "experts" are predicting that interest rates will rise again shortly but budgeting for that increase is a risk.
- 3.31 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. These reserves then being available to support short-term projects, deficits arising from changes in the economic environment or to pump prime alternative savings proposals.

COUNCIL TAX INCOME

- 3.32 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 2009/10 nearly 74.3% of the Councils Gross Budget Requirement (that element funded from Formula Grant, Area Based Grant and Council Tax) was funded from Council Tax. This is the 2nd highest compared to other unitary authorities where the average is 48.5%.
- 3.33 Annual increases in Council Tax on individual properties are 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 over compensated for) in its grant distribution models.
- 3.34 The Council has a very clear commitment to aim to keep its tax increase below RPI; in August the year on year change was (-) 1.3%.
- 3.35 The taxbase for 2010/11 is the subject of a report to Cabinet in December. It is expected that it will reflect 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.
- 3.36 Members should note that, dependent on tax base, 0.5% in Council Tax generates approximately £340k revenue for the Council.

SCHOOL FUNDING

- 3.37 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.
- 3.38 RBWM's 2009-10 DSG allocation was £75.873 million. The 2010-11 allocation will be determined by pupil numbers in January 2010 but latest estimates suggest an increase in total pupil numbers of around 70 compared with 2009-10. The unit rate on which DSG is calculated is fixed for the period 2008-11 and will increase from £4,193 per pupil in 2009-10 to £4,378 in 2010-11, a rise of 4.4%. This compares with an increase of 3.8% per pupil in the previous year.
- 3.39 The minimum increase schools can expect to receive in their 2010-11 budgets is 2.1% per pupil, as defined by the Minimum Funding Guarantee set by the Department of Children Schools and Families (DCSF). Once this school guarantee and other unavoidable inflation and contractual pressures have been met, any balance of DSG funding available, known as 'headroom', must be allocated either to schools directly or to central services within the Schools Budget, such as out-borough independent special school placements, and central behaviour support services. The allocation of the Schools Budget is the subject of consultation each year with the Schools Forum.
- 3.40 The main calls on DSG funding in 2010-11 after uplifting budgets for inflation and adjusting for pupil numbers are likely to be:
- a) The one-off cost (approximately £700k) of implementing the new admissions policy for rising 5s in reception from September 2010. (DSG generated in future years is expected to cover the full year effect).
 - b) Any DSG deficit carried forward from the 2009-10. Latest projections suggest the 2009-10 central schools budget may be overspent by £600k. The DSG reserve at the start of 2009-10 was £146k.
 - c) Continuing anticipated pressures on the out-of-borough special school placements budget
 - d) An additional cost of around £200k related to the implementation of the new early years single funding formula.
- 3.41 The Council is responsible, in consultation with the Schools Forum, for determining the split of the DSG grant between expenditure on central functions and delegated funding to schools. However, DCSF regulations determine the minimum amount authorities must delegate to schools. Plans to delegate less than this amount must have Schools Forum approval.

4. OPTIONS AVAILABLE AND RISK ASSESSMENT

4.1 Options

	Option	Comments	Financial Implications
1.	Accept the report	This report is for	Contained within the

¹ School Finance (England) Regulations 2008 cover the three year period 2008-11

	Option	Comments	Financial Implications
		information and explains what factors affect the budget making decision	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

4.2.2 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

5. CONSULTATIONS CARRIED OUT

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

5.2 A series of discussions co-ordinated by the Budget Steering Group have taken place with Lead Members and Strategic Directors

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

6. COMMENTS FROM THE OVERVIEW AND SCRUTINY PANEL

6.1 Awaited

7. IMPLICATIONS

7.1 The following implications have been addressed where indicated below.

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

Background Papers:

Savings Proposals

Item No (1)	Specific Service Area (2)	Description (3)	2009/10 Service Budget (4) £'000	2010/11 (Full or part year) (5) £'000	2011/12 (Full year) (6) £'000	20012/13 (Full year) (7) £'000
ENVIRONMENTAL SERVICES						
1	Access	Improved negotiations within providers to reflect opportunities for additional external/commercial funding.	123	30	25	-
2	General	Explore external funding	-	35		
3	Licensing	Re-base level of Hackney carriage income	(132)	60	-	-
4	Operations Service	Review operational budgets Land drainage, emergency planning, etc.	100	10	10	-
5	General	Review operating costs Admin Buildings Energy savings etc	224	70		
6	General	Review Directorate operating levels and overheads	5,890	200	220	235
7	Highways Maintenance	Efficiency savings- Highway maintenance & street lighting	1,026	65	30	-
8	Other Highway Services	Review other highway service areas including bridges, street furniture, licensing and consultancy costs	335	50	20	-
9	Parking Services	Car parking service review	3,572	200	150	-
10	Public Protection	Refuse & Recycling contract negotiations.	5,570	100	100	
11	Traffic Management	Review operational levels Safer roads partnership, etc.	195	30	25	-
12	Waste Disposal	Reduce tonnages to landfill following impact of recycle initiatives.	2,554	75	75	75
13	Fleet Management	Continuation of pooled cars scheme Following success of pilot scheme.	-	25	25	-
TOTAL ENVIRONMENTAL SERVICES			19,457	950	680	310

Savings Proposals

Item No	Specific Service Area	Description	2009/10 Service Budget	2010/11 (Full or part year)	2011/12 (Full year)	2012/13 (Full year)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			£'000	£'000	£'000	£'000
PLANNING						
1	Building Control	Reduced volume of Structural Engineering referrals		5		
2	Development Control	Review Planning Application process		73	20	15
3	Planning Policy / Cons	Reduce service level of conservation work by sharing with other authorities		15		
4	Planning Units	Review Unit operating levels and overheads		134	145	13
5	Transport Policy and Planning Implementation - s106	Project management Charge for s106 payable by developer for site supervision		10		
6	Building Control	Introduction of Charge for Demolition Notices		5	5	
		Savings impact on 2010/11	-	242	170	28