

REPORT TO CABINET

Title: **THE PRELIMINARY BUDGET REPORT**
Date: 30 September 2010
Member Reporting: Councillor Kellaway
Contact Officer(s): Andrew Brooker, Head of Finance, 01628 796341
Richard Bunn, Group Accountant, 01628 796510
Wards affected: All

1. **SUMMARY**

- 1.1 This report is being presented earlier in the annual budget cycle than usual because of the challenges presented by the national economic context and in particular the inevitable reduction in Coalition Government funding.
- 1.2 Actual levels of Government support will not be known until the details of the Comprehensive Spending Review are worked through. However, there is a clear consensus amongst Local authority Finance managers that reductions in Government in excess of 30% will need to be accommodated over the next four years.
- 1.3 This report contains an updated Medium Term Financial Plan that attempts to quantify the impact on the Borough of some of the announcements that have been made to date. It needs to be acknowledged that these numbers will change but it is important that, given the undoubted size of the challenge, some early action is taken to review current spending plans.
- 1.4 The report also provides initial estimates of additional spending pressures that have emerged together with proposals to reduce spend in 2011/12 and where possible in 2010/11 to address current year forecast overspends.

2. **RECOMMENDATION: That:**

i) The Medium Term Financial Plan at Appendix A be adopted

ii) Authority be delegated to Strategic Directors and Heads of Service in conjunction with the Lead Members to make the necessary organisational changes required to deliver the first tranche of savings proposals outlined in Appendix B, the impact of which will be included in the 2011/12 Budget 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

2010/11 Budget

- 3.1 2010/11 has seen some budgetary pressures arising from increases in service demands within children's services and adult services as well as reductions in car parking and land charges income. These pressures are derived from demographic and economic factors not unique to this Borough.
- 3.2 The other major "event" that has occurred is the new Governments Emergency Budget the impact of which has been reported Cabinet as detailed announcements are made by Government Spending Departments. To date Area Base Grant worth £914k and Capital Grants worth £1.5m have been withdrawn.
- 3.3 In conjunction with Lead members officers have been working to contain these pressures and grant withdrawals within approved budget. The Service Monitoring report elsewhere on this Agenda reports an overspend of £1.1m.
- 3.4 The Council recognised the potential impact of the recession when setting the budget for both 2009/10 and 2010/11 and set up a reserve to support services affected by the economic climate.
- 3.5 The reserves are available to support short-term pressures. However, items that have a permanent impact on services require longer term funding.

GOVERNMENT SETTLEMENTS

- 3.6 The Government is currently carrying out a Comprehensive Spending Review the outcome of which will be announced on October 20th 2010. Government Spending Departments have been challenged with identifying 25% reductions in their spending plans over a four year period, with options rising to 40% in some areas. The outcome of this review will provide an indication of the level of cuts we might expect in financial support from the Government. However the review will identify Departmental totals with the detail to follow. Discussion with Department for Communities and Local Government (DCLG) officials have revealed that they do not expect to provide detailed information about grants to individual local authorities until early December.
- 3.7 For the past three years local government has benefited from the certainty afforded by three year settlements. The coming period is likely to be different. Not only will there be less money coming from Central Government be it in the shape of specific grants (for specific initiatives), Area Based Grant or Formula Grant but the formulas used to distribute the monies available are also under review.
- 3.8 DCLG has issued a paper entitled "Local Government Finance Formula Grant Distribution Consultation". The consultation document is complex and raises one or two difficult questions. The most challenging one relates to the application of floors and ceilings designed to smooth out the potentially huge discrepancies in what councils are handed from year to year. SIGOMA (Special Interest Group of Municipal Authorities) have taken the opportunity to remind the Minister that for every authority

that is protected by the floor another is denied “its fair share of available funds”. The Royal Borough currently receives £18.798m in Formula Grant which includes £8.72m of “floor damping”. Retention of this damping mechanism is clearly vital to the financial well being of the Council.

- 3.9 The consultation does not suggest removal of damping mechanisms. The questions posed relate to the technical, but nonetheless important point about whether the floor level should be set close to the average change or such that it allows some formula change to come through for authorities above the floor.
- 3.10 The other main changes relate to the area cost adjustment (designed to compensate areas, such as RBWM, for the relatively high cost of providing services in their area) and the movement of funding for concessionary fares from specific to formula grant and from lower-tier authorities to higher-tier
- 3.11 The impact of some of the options modelled for area cost adjustment could have significant impact on the Boroughs funding although how much feeds through into reduced cash is to be determined.
- 3.12 For planning purposes the Medium Term Financial Plan assumes that the Borough will suffer cash reduction of Area Based and Formula Grant of £8.5m over the next four years. This represents a 32% reduction in cash terms and a 37.5% reduction in real terms. Whilst this reduction exceeds some of the reductions quoted in the national press it allows for the possibility that Ministers may decide to protect those areas more reliant on Government Grant than the Borough.
- 3.13 The specific areas for consultation were highlighted in the Service Monitoring report presented to Cabinet last month. The report noted the extent to which the proposed changes would impact on the Borough, and they were mostly negative impacts, would depend on the application of floors and ceilings. If the methodology used in the past continued (and clearly that can't be guaranteed) then the Boroughs Formula Grant might be expected to fall by 8.25% in 2011/12, by £1.55m to £17.25m.
- 3.14 The consultation discusses a number of options around the delivery of funding for Concessionary Travel, the proposals being that the funding currently delivered through Formula Grant is transferred from lower to upper tier authorities and that element delivered through Area Based Grants is delivered through Formula Grant. The Medium Term Financial Plan at Appendix B assumes that the £330k current within Adult & Community Services as specific grant is added to Formula Grant in 2011/12.
- 3.15 Any reduction in Area based or specific grant would be in addition to this sum.

MEDIUM TERM FINANCIAL PLAN

- 3.16 The Medium Term Plan (MTFP) last presented to Cabinet In February has been updated and is shown at Appendix A. It is proposed to bring further updates to Cabinet on a quarterly basis.

3.17 A number of assumptions have been made in compiling this plan in addition to the reduction in Formula and Area Based Grant discussed above including that:

- Council tax will be frozen for next four years
- Staff pay will be frozen for two years
- inflation will rise in accordance with the Bank of England's latest quarterly report
- any increases in the employer pension contributions will be phased in over 6 years (*subject to outcome of the Valuation and the Hutton Review*)

3.18 In line with the Councils financial Strategy it is assumed that any activity currently supported by specific Government grant will stop if the grant funding stream is removed.

3.19 Allowance has been made for:

- limited increase in Adult Social care Demography, the some of the pressure being relieved by the Boyn Grove Resources Centre and the new measures introduced under Transforming Social Care
- additional costs associated with Safeguarding Children
- additional Landfill tax
- loss of Land Charges income arising from Information Officer decision
- increased national Insurance contributions
- the next Local Election

3.20 Over the last two years service pressures arising from the economic downturn have been addressed by means of the Economic Contingency set aside for the specific purpose. As indications are that income levels from the car park and land charges income is not likely to return to pre-recession levels over the coming twelve months allowance has been made in the plan for these income shortfalls with funding being drawn from the Economic Contingency.

3.21 Based on these assumptions a savings requirement of £6m has been identified which has been shared across Directorates pro rata to gross expenditure

Officers have been working with Lead Members on these targets. The outcome of those discussions is summarised below and detailed in Appendix B. This is the first tranche of savings and further proposals are being investigated to meet any potential savings requirements as result of the Comprehensive Spending Review.

	2011/12	2012/13	2013/14
Childrens Services	1,146	75	40
Adult & Community Services	2,414	580	390
Environmental Services	565	585	10
Planning	100	0	0
Policy & Performance	84	0	0
Resources	568	0	0
	4,877	1,240	440

Cabinet is asked to approve the schedule so that work can start on delivering those savings with the dual goal of ensuring that any consultation with service users and staff can take place in time for implementation by 1st April 2011 or sooner where pressures in the 2010/11 Budget remain to be addressed.

Capital Finance

- 3.22 The current capital programme contains a significant proportion of external funding that must, in future, be considered to be at risk. Whilst in the short term some accumulated s106 monies are still available to support some specific activities, 76% of the current £42m programme is support by Grant that is unlikely to be available at the same level in 2011/12 and beyond. In addition to the Manor Green development grants have been used to support the Local Transport Plan and school infrastructure
- 3.23 Detailed proposals will be brought forward when more detail is available on levels of capital funding but the MTFP assumes that only £6m of corporate funding will be available

Interest Rates

- 3.24 Whilst returns on investment income remain low the Council's Policy of increasing the proportion of available cash deposited over longer periods has enabled the cautious 2% returns that are budgeted for to remain achievable in the short to medium term. Whilst the Council is not envisaging the need to borrow to finance its capital programme in the next two or three years (dependant on size of capital programme and level of grant reductions) the cost of borrowing remains at the long term average of 4.5%

School Funding

- 3.25 School expenditure remains a priority for the Government but has not been given the same protection in public announcements as Health and Overseas Aid. Little detail is available ahead of the CSR but the Borough will continue its policy of looking to fund all of its school related expenditure from the Dedicated Schools Grant.

Council Tax Income

- 3.26 The Borough has a clear commitment to keep Council Tax low and the new Government seems likely to reward Councils who freeze Council Tax. Whilst Ministers rarely announce capping limits it has been suggested that Councils setting Council Tax increases above 2% will be capped.
- 3.27 The only increase in Council Tax revenue will, therefore, be from increases in the tax base as new properties are built and improved collection activity.

Reward for Low Council Tax

- 3.28 There have been various announcements from Ministers relating to rewards for Councils who set low Council Tax. While detail is expected to emerge after the CSR current expectation is that the Borough may expect to receive £1.3m. It is far from clear whether this funding will either be recurring or cumulative. For planning purposes it is, therefore assumed, that it is designed to be recurring in the short term but not cumulative. On this basis it is important not to use the money to support recurring expenditure but to set the money aside to cover the inevitable cost of restructuring Council Services

Local Area Agreement Reward Grant

- 3.29 LAA Reward grant was one of the grants reduced as part of the emergency Budget. The current expectation is that £1.29m will be received in the final quarter of 2010/11. It remains part of the Council's Financial Strategy that reward grants are initially placed in the Development Fund to pump-prime future efficiency or service improvement initiatives

4. OPTIONS AVAILABLE AND RISK ASSESSMENT

4.1 Options

	Option	Comments	Financial Implications
1.	Accept the report	This report sets in motion the expenditure reductions required to meet revised assessment of available funding.	Contained within the report
2.	Reject the report	This is not an option without plans to develop alternative proposals as the Council is required to complete its Council Tax making process and set a balanced budget	

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 2010-11
- 4.2.2 The biggest single risk to the Council is the impact of the Comprehensive Spending Review and the associated Formula Grant Distribution consultation discussed in paras. 3.6 to 3.15.

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 The final budget decisions will be discussed as part of regular meetings that are held with both the Windsor and Maidenhead Chambers of Commerce

6. COMMENTS FROM THE OVERVIEW AND SCRUTINY PANEL

Corporate Services Overview & Scrutiny Panel

- 6.1 Awaited

Children's Services Overview & Scrutiny Panel

- 6.2 Awaited

Adult, Community Services and Health Overview and Scrutiny Panel

- 6.3 Awaited

Planning & Environment Overview & Scrutiny

- 6.4 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: None

SUMMARY MTFP 2009-10 TO 2014-15

Headline									
RPI		0.00%		4.00%		3.08%		1.82%	2.06%
Council Tax %		-4.00%		0.00%		0.00%		0.00%	0.00%
Council Tax (£)		995.73		995.73		995.73		995.73	995.73

Detail		2010/11		2011/12		2012/13		2013/14		2014/15
Line	Description	Estimate £'000	Movement £'000	Estimate £'000	Movement £'000	Estimate £'000	Movement £'000	Estimate £'000	Movement £'000	Estimate £'000
1	Base Service Net Expenditure	85,194		85,194		85,194		85,194		85,194
	<i>Inflationary impact</i>									
2	- Employees		0	0	0	0	1,162	1,162	1,185	2,346
3	- Fees & charges, sales and rents		-969	-969	-998	-1,967	-1,028	-2,995	-1,059	-4,054
4	- General		-190	-190	-178	-368	-183	-551	-184	-735
5	- Contracts		2,101	2,101	1,507	3,608	1,154	4,762	1,171	5,933
6	Sub total Inflation	0	942	942	331	1,273	1,105	2,378	1,113	3,491
7	Movement of concessionary fares Grant to General Grant		338	338		338		338		338
8	<i>Potential SERVICE Costs</i>									
	<i>Childrens Services</i>									
	<i>Adult and Community Services</i>									
9	- Demographic impact (Adults)		100	100	200	300	200	500	200	700
	<i>Environmental Services</i>									
10	- Waste disposal		350	350	350	700	350	1,050		1,050
11	- Carbon management agenda		23	23	23	46	23	69	23	92
12	- Impact of rebasing 2010/11 Veolia budget		213	213		213		213		213
13	- Loss of car park income		150	150	-150	0		0		0
	<i>Resources</i>									
14	- Land Charges impact of refunds		50	50		50		50		50
15	- Loss of Land Charges income due to volume changes		100	100	-100	0		0		0
	<i>General</i>									
16	- Pensions increases		218	218	218	436	222	658	227	885
17	- NI Increase		300	300		300		300		300
18	- Local Election		100	100	-100	0		0		0
19	Identified Pressures		456	456	-94	362	858	1,220	504	1,724
20	Other Pressures		787	787	787	1,574	787	2,361	787	3,148
21	Sub total Pressures	0	2,847	2,847	1,134	3,981	2,440	6,421	1,741	8,162
	<i>Potential SERVICE Reductions</i>									
	<i>Adult and Community Services</i>									
	<i>Environmental Services</i>									
22	- New waste contract			0		0		0	-1,000	-1,000
	<i>General</i>									
23	Identified savings 2010/11 Budget		-65	-65		-65		-65		-65
24	REQUIRED Savings	0	-6,051	-6,051	-3,848	-9,899	-5,588	-15,488	-4,022	-19,510
25	Sub total Savings	0	-6,116	-6,116	-3,848	-9,964	-5,588	-15,553	-5,022	-20,575
26	TOTAL BASE SERVICE COSTS	85,194	-1,989	83,205	-2,383	80,822	-2,043	78,778	-2,168	76,610
27	Non Service Costs									
28	Cost of Restructuring									
29	Base Debt Finance cost	5,559	110	5,669	46	5,715	138	5,853	134	5,987
30	Interest on Balances	-663	8	-655	137	-518	-86	-604	44	-560
31	Revenue Contributions to Capital	1,000	200	1,200	200	1,400	200	1,600	200	1,800
32	Environment Agency	130	3	133	3	136	3	139	4	143
33	From/ to reserves									
34	- General									
35	- Economic Contingency		-250	-250	250	0		0		0
36	- Development									
37	Sub Total Non Service Costs	6,026	71	6,097	636	6,733	255	6,988	382	7,370
38	TOTAL BUDGET COST	91,220	-1,918	89,302	-1,747	87,555	-1,788	85,766	-1,786	83,980
39	Support									
40	General Grant Support	-25,944	2,690	-23,592	1,910	-21,682	1,950	-19,732	1,950	-17,782
41	Addition of Concessionary Fares grant		-338							
42	Collection Fund Surplus/ Deficit	502	-252	250		250		250		250
43	Less Special expenses	-1,063	-21	-1,084		-1,084		-1,084		-1,084
44	Sub Total Support	-26,505		-24,426		-22,516		-20,566		-18,616
45	NET BUDGET REQUIREMENT	64,715		64,876		65,038		65,200		65,364
46	Council Tax Base (Band D)	64,992	162	65,154	163	65,317	163	65,480	164	65,644
47	Council Tax Band D (£.p)	995.73		995.73		995.73		995.73		995.73
	Savings shared by gross spend		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Adults	41%	2480	1580	2290	1650				
	Children	16%	970	620	890	640				
	Environment	21%	1270	810	1170	840				
	Resources	15%	910	580	840	600				
	PPP	7%	420	270	390	280				
			6050	3860	5580	4010				
	PPP Savings shared by gross spend									
	Corporate Management	12.81%	50	30	50	40				
	Communications	2.70%	10	10	10	10				
	Performance & Policy	14.48%	60	40	60	40				
	Democratic Services	15.14%	60	40	60	40				
	Planning Services	54.87%	240	140	220	150				
			420	260	400	280				

* Please Note, all SAVINGS shown as POSITIVE

Cost Savings / New or Increasing Income		
ENVIRONMENTAL SERVICES		
Reference No.	Specific Service Area	Headline Description re: saving / reduction INTERNAL

**Savings - 3 Years
budget submission**

2010/11 Service Budget	2011/12	2012/13	2013/14
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£000 £000 £000 £000

(2,835)	75		
86	10		
1,422	45		
2,829	50		
5,693	100	450	
426	25	-	-
207	25		
1,920	50		
309	20		
106	10	10	10
1,258	60		
	470	460	10
	20		
1,900		100	
118	50		
	25	25	
	565	585	10
TOTAL SAVINGS OVER 3 YEARS			1,160

ENVIRONMENTAL SERVICES

1	Parking	Car parking review second year
2	Operations Service	Review operational budgets Land drainage, emergency planning, etc.
3	Operations Unit	Review operating levels
4	Waste Disposal	Reduce tonnages to landfill following impact of incentivised scheme
5	Public Protection	Waste contracts efficiency savings on contract
6	Licensing	Hackney carriage income
7	Traffic Management	Review operational levels Safer roads partnership, etc.
8	Highway Maintenance	Efficiency savings- Highway maintenance & street lighting including advertising on lamp columns
9	Other Highway Services	Review other highway service areas including bridges, street furniture and licensing income.
10	Access	Improved negotiation with provider for renewal of WAMU and Shopmobility Contracts New contract from April 2010
11	Highways & Engineering Unit	Review operational levels and overheads
		TOTAL SAVINGS PREVIOUSLY AGREED
		NEW PROPOSALS
12	Other Highway Services	Highway Records electronic
13	Amenity Litter	Sweeping & Litter Contract procurement
14	CCTV	Shared Services West Berks
15	Other Highway Services	Bus Shelter Contract Re-tender

PLANNING SERVICES

1	Planning Services	Additional savings achieved in 2010/11 following Planning Restructure c/fwd
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	100		
	100	-	-
TOTAL SAVINGS OVER 3 YEARS			100