

Report Title:	Revenue Budget 2020/21
Contains Confidential or Exempt Information?	No - Part I
Member reporting:	Councillor Hilton, Lead Member for Finance and Ascot
Meeting and Date:	Full Council - 25 February 2020
Responsible Officer(s):	Duncan Sharkey, Managing Director and Terry Neaves, Interim S151 Officer
Wards affected:	All

REPORT SUMMARY

1. This report sets out the council's proposed budget for 2020/21 and spending plans for 2021/22 - 2024/25.
2. The revenue budget along with the Capital Programme represents considerable investment in the Royal Borough. Future spending plans are set against clear policy objectives under the banner of 'creating a borough of opportunity and innovation' of continuing to protect the most vulnerable in the community and investing in the future economic development and regeneration opportunities while increasingly ensuring that the council recognises its commitments with regard to climate resilience and its overall environmental impact.
3. The council is facing a significant financial challenge. Like many councils, it is experiencing growth in demand for Children's Services and Adult social care. Together with other pressures this means that the total cost of services, before inflation, are forecast to increase by £11.693m in 2020/21 compared to 2019/20, approximately 12% of the net council budget.
4. The position for the Royal Borough is more acute than other councils, due to its very low level of reserves. These are barely adequate to cover its current risks and are insufficient to cover future projected funding shortfalls in 2021/22 and beyond. Uncertainty around future central government funding and the relatively low level of provision for bad debts and appeals adds to the scale of this risk.
5. The council therefore needs to urgently consider the affordability of its services and ensure that service users meet the cost of the services they receive where they can afford to do so as is the case in other neighbouring councils. This report include an outline transformation plan and it is essential that the council is committed to transforming its services to keep within the ever tighter financial constraints it is likely to face.
6. The council has identified substantial savings in 2020/21 of £5.826m to partially offset budget pressures in 2020/21. While every attempt has been made to protect key services, these savings will inevitably impact on service levels in some areas. This, together with council tax and grant increases and a £2.218m contribution from reserves, enables the council to set a balanced budget for 2020/21.

7. If the government funding settlement for 2021/22 to 2023/24 reduces funding for the council and does not give flexibility to increase council tax above 2%, the council will not be in a position to set a balanced budget in 2021/22, unless further significant savings are identified and delivered. If the council cannot set a balanced budget in 2021/22 or if its financial position markedly deteriorates in 2020/21 to a point reserves did not cover any overspend, the Council S151 Officer would have to issue a s114 notice.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That full Council:

Notes and takes into account the statutory s25 statement of the S151 officer in paragraph 5 in determining its:

- I) Proposed budget for 2020/21;**
- II) Longer term financial plans for 2021/22 – 2024/25;**
- III) Level of reserves**

Notes:

- a) The comments from the Overview and Scrutiny Panels on the proposed budget;**
- b) Equality impact assessments have been taken into consideration and has informed the final budget proposals.**

Approves:

- i) The Budget Strategy and medium-term financial projections as set out in Appendix A;**
- ii) The 2020/21 budget of £94.677m and the associated contribution from reserves of £2.218m as set out in paragraph 4.5;**
- iii) The Proposed growth in service budgets of £11.693m as set out in Appendix E including a contingency of £1.700m as set out in para 4.6.5;**
- iv) The proposed opportunities and savings of £5.826m as set out in Appendix F;**
- v) The Business rate tax base calculation, as detailed in Appendix G;**
- vi) The calculations for determining the council tax requirement for the year 2020/21 in accordance with the Local Government Finance Act 1992 as set out in Appendix K;**
- vii) An increase in council tax of 3.99% increasing the band D charge from £1,036.07 to £1,077.41 for the Royal Borough of Windsor and Maidenhead in 2020/21, based on:**

- a. A 1.99% increase in base council tax in 2020/21
 - b. An additional 2.0% to reflect an increase in the Adult Social Care Precept;
- viii) Approves the policy and the special expenses precept of £34.31 for 2020/21 for the unparished areas of Windsor and Maidenhead in accordance with Section 35 of the Local Government Finance Act 1992 as set out in Appendix M;
- ix) Notes the following Precepts
 - a. Parish Precepts Appendix L
 - b. The Police and Crime Commissioner for Thames Valley - £216.28 (para 4.21.3)
 - c. The Royal Berkshire Fire Authority –£67.60 (para 4.21.3);
- x) The council plan for transformation and use of flexible capital receipts as set out in Appendix J;
- xi) The allocation of the £122.475m dedicated schools grant as set out in Appendix H. The Director of Children’s Services and S151 officer in consultation with the Lead Members for Finance and Children’s Services be given delegated authority to amend the total school’s budget to reflect the actual Dedicated Schools Grant levels once received;

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 This report sets out the financial plans for the Royal Borough of Windsor and Maidenhead and its budget requirement for 2020/21 and associated council tax level for 2020/21.
- 2.2 The report is linked to four other reports on this agenda.
 - a) **Council Tax Reduction Scheme** sets out the proposed level of discount for Council Tax Support included within the 2020/21 budget proposals.
 - b) **Fees & Charges report** sets out the proposed increases in Fees and Charges that have been included within the 2020/21 budget proposals.
 - c) **The Capital Programme report** sets out the council’s plan for capital investment in 2020/21 and the indicative five year plan up to 2024/25.
 - d) **The Treasury Management Strategy** sets out how the council will fund and afford its planned level of capital investment in 2020/21 and beyond. This also assesses the affordability of capital investment plans in the context of the revenue budget and its Prudential Indicators.
- 2.3 The policy and financial context for setting the budget is set out within the Budget Strategy, which forms part of this report.

- 2.4 The report proposes a total budget of £94.677m and associated band D council tax of £1,077.41.
- 2.5 This budget will require some £2.218m to be taken from reserves to support the budget during 2020/21. This will bring the level of general fund reserves to £6.521m.
- 2.6 While much work has been done to make the budget more sustainable, further work is still required. The report sets out a budget strategy in Appendix A for delivering more sustainable council finances.

3. KEY IMPLICATIONS

Table 2: Key Implications

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
Services delivered within approved budget	Budget overspend >£250,000	Budget variance +/- £250,000	Budget underspend >£250,000 <£1,500,000	Budget underspend >£1,500,000	31 March 2021

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 Introduction

- 4.1.1 This report sets out the budget for the Royal Borough of Windsor and Maidenhead for 2020/21 together with spending projections up to 2024/25.
- 4.1.2 This budget is set during a period of considerable uncertainty in the medium term, particularly around future funding for councils. A government spending review is planned in 2021/22 which is expected to include changes to the allocation and retention of business rates. This could impact significantly on the overall funding for the council in 2021/22 and beyond.
- 4.1.3 Pressures around spending on Children's Services and Adult Social Care have had a major impact on council spending plans and the scale of this impact in 2020/21 and beyond continues to be uncertain.

4.2 Current Position

- 4.2.1. The Royal Borough of Windsor and Maidenhead has focussed on managing costs and delivering value for money. This means that it is a low spending council in comparison to its nearest statistical neighbours.

4.3 Financial Context

- 4.3.1. Like many councils, the Royal Borough faces considerable financial challenges, particularly increasing numbers and costs of supporting vulnerable people and children in care. However, the council's level of reserves are low which means that it has less time and potentially fewer options than others to bring its budget into balance. These issues are set out within the Budget Strategy at Appendix A, which includes the medium-term financial forecast. This is explained in detail later in the report.
- 4.3.2. The Royal Borough's pension funding level is estimated to be 73.7% with an overall deficit of £85.5m. The Berkshire Pension Fund has one of the highest proportional deficits of all council pension funds which means that all Berkshire authorities must make significant employer's deficit recovery contributions each year to reach a fully funded level by 2040. The council's contribution to this deficit is £4.217m in 2020/21, in addition to the standard employer's pension contributions.
- 4.3.3. The Royal Borough has made a substantial commitment to the regeneration of Maidenhead and to the development of the local economy. To fund this important investment borrowing has substantially increased which are impacting on the revenue budget.
- 4.3.4. In the current year council spending has come under considerable pressure and a year-end overspend of £3.408m is projected based on spending to December 2019 as shown in Appendix B. In the main this is due to projected service pressures of £2.153m in adults and children's social care. The council has also found it harder to deliver savings than it had expected, which has also meant that some savings targets have not been achieved. These additional pressures are reflected in the 2020/21 budget.

4.4 Policy Context

- 4.4.1. The council will still be spending over one hundred million pounds in 2020/21 delivering services to the residents of Windsor and Maidenhead and investing in the future of the borough through major capital schemes.
- 4.4.2. It is important that the council considers how best it can continue to meet its policy objectives within the tighter financial constraints that it faces.
- 4.4.3. This will undoubtedly require a level of prioritisation and these budget plans focus on the following key policy objectives:
- (i) Protecting the most vulnerable and ensuring that the council can continue to meet its significant and growing commitment on Children's Services and Adults Social Care;

- (ii) Creating opportunities across the borough and continuing to invest in its regeneration and development;
- (iii) Enabling the council to meet its existing capital commitments as well as starting to invest in new technology to help it become more efficient and innovative in the way it delivers services in the future;
- (iv) Ensuring that the council adopts a more sustainable and carbon neutral approach to the environment in line with its commitments around climate change.

4.4.4. These policy objectives are not achievable without sustainable council finances. The proposals within this report have been developed to help make the finances of the council more financially viable in the future.

4.4.5. The council has had to consider the affordability of the services it provides, adopting the principle of 'the user pays', so council tax-payers do not have to subsidise non-core council services.

4.5 Proposed Budget 2020/21

4.5.1. The proposed budget for the Royal Borough of Windsor Maidenhead is set out in the table below, with further detail provided in the Directorate budgets in Appendix C and changes are analysed in Appendix D.

	Base Budget 2019/20 £'000	Other Changes £'000	Savings	Proposed Budget 2020/21 £'000
Managing Director	2,754	399	(114)	3,039
Resources*	7,860	3,612	(708)	10,764
Adults, Health & Commissioning	46,411	4,266	(2,365)	48,312
Childrens Services Place	21,980	2,634	(1,429)	23,185
	2,150	(134)	(810)	1,206
Total Service Budgets	81,155	10,777	(5,426)	86,506
Capital Financing	4,778	1,232		6,010
Pension Deficit Recovery	4,017	200		4,217
Transfer to (from) reserves	3,458	(5,676)		(2,218)
Central and One-Off Budgets	459	(297)		162
Net Council Spend	93,867	6,236	(5,426)	94,677
Financed By:-				0
Special Expenses	1,094	123		1,217
Council Tax	70,819	3,189		74,008
Locally Retained Business Rates	16,312	(997)		15,315
Collection Fund Surplus (deficit)	3,091	(3,204)		(113)
Income from Trading Companies	210	0		210
New Homes Bonus	2,089	13		2,102
Government Grants	315	1,687		2,002
Parish Equalisation Grant	(63)	(1)		(64)
Total Financing	93,867	810	0	94,677

* Included in the Resources Directorate budget is the £1.700m contingency and £1.181m for demographic growth in Adult Care and Children's Social Care

4.5.2. The budget is based on the following key assumptions:

- Inflation is expected to increase by 2.4% (R.P.I.).
- No pay award is provided for in 2020/21 with provision for a consolidated increase provided in each year thereafter.
- The cost of new borrowing is expected to be 1.5% throughout the year.
- No change in grant or business rate criteria is anticipated in 2020/21.

4.6 Budget Pressures

4.6.1 Next year cost pressures are expected to amount to some £11.693m. These are driven by a number of factors:

- a) **Previous spending decisions**– for example high borrowing costs due to substantial capital investments made by the council.
- b) **Demographic changes** – as the population of the Royal Borough increases, demands on its services will also increase. To an extent this will be matched by additional council tax income.
- c) **Spending pressures on Children’s Services and Adult Care** are placing increased pressure on council budgets.
- d) **External changes beyond the council’s control**, such as changes to grant allocations from central government.
- e) **Under-delivery of savings** – some of the savings identified for 2019/20 have not been delivered and therefore have an impact on the 2020/21 budget.
- f) **Under-achievement of income targets** – in some cases it has not been possible to deliver increased income even by setting higher charges.

4.6.2 The table below summarises the main cost pressures that are reflected in the 2020/21 budget and exceed £200,000. Further detail is provided in Appendix E.

Growth and Pressures 2020/21	
Scrutiny Panel/Description	£000
Adults Childrens and Health	
Children's Services	
Cost of Children's Placements	1,238
Children's employee budgets shortfall, including agency costs	590
Non achievement of children's savings now included in 2020/21 budget	356
Legal costs arising from children's complex court cases	223
Adult Social Care	
Care costs for adults with learning disability	896
Residential and nursing care placements	406
Personal budget for homecare and daycare	402
Costs above inflation of block nursing home contracts	329
Communities	
Temporary Accommodation costs	200
Corporate	
Contingency	1,700
Adults and Children's Demography	1,181
Housing subsidy debtors	360
Ten Pin bowling site income	237
Infrastructure	
Parking income shortfall	550
Pressures under £200k	3,025
Total growth and pressures	11,693

4.6.3 Pressures of £1.957m in Capital Financing costs have been mitigated by changing the Minimum Revenue Provision Policy (MRP) to an annuity basis, reducing the required provision by £1.451m in 2020/21. Capitalising interest on large schemes with a project life of more than two years until they come

into use has mitigated it by a further £0.475m to give a net additional cost for 2020/21 of £31,000.

4.6.4 Further pressure has been avoided by not making an allowance for a staff pay-award to council, Optalis and Achieving for Children employees in 2020/21. Provision has been made in each of the future years of the budget strategy for a pay-award however this will be reviewed for affordability each year.

4.6.5 The above pressures include a contingency for pressures that are less certain and will be managed centrally. This totals £1.700m as set out in the table below:

Contingency	£'000
Savings Delivery	1,300
Potential Increases in Contract Costs	400
Total	1,700

4.6.6 The savings contingency is based on a risk-based assessment of savings and covers potential shortfalls in delivery and slippage. This will be managed centrally with Directors still expected to deliver their proposed savings that have been removed from their budgets. Savings will be monitored and reported to Cabinet as part of the budget monitoring process.

4.6.7 If the council is able to make better progress in delivering on its savings plans, then it will need less of this contingency and any unused contingency can then be added to reserves to help rebuild them.

4.6.8 Pressures also include a budget of £1.181m for demographic growth. This includes £0.750m in Adult Social Care and £0.431m in Children's Social Care. This amount will be held centrally and allocated based on actual growth in each service through the year.

4.7 Proposed Savings

- 4.7.1 In total the council proposes to deliver £5.826m of savings. The main areas of proposed savings over £200,000 are set out below and all savings are shown in detail in Appendix F.

Opportunities and Savings above £200k	
Efficiency Description	Estimated saving 2020/21
	£000
Optimise costs of placements for children in the care of the local authority	700
Remove Advantage Card discounts for parking.	650
Deliver adult social care transformation programme	495
Transform youth and early years services to be targeted at the most vulnerable	450
Review of Council Tax Reduction Scheme Discount levels	330
Additional Management Fee from Countryside	300
Charging for Resident's Parking Permits, £50 each and £70 for second permit, £100 for third and subsequent permits. Also apply and increase charges for all visitor vouchers	250
Increase green waste annual subscription charge to £65 per annum in line with neighbouring authority charges.	250
Post Deletions	231
Focus customer service in Windsor at Windsor Library Increase the use of 24/7 digital options on the council website Align Library opening hours to service demand Align call centre opening hours to service demand	220
Other Savings under £200k	1,950
Total Savings	5,826
Collection Fund Savings - see paragraph 4.7.3	(400)
Total General Fund Savings in the 2020/21 Budget	5,426

- 4.7.2 An assessment of all savings has been carried out to assess their deliverability during 2020/21 and accordingly a sum of £1.300m has been set aside as a contingency against non-delivery of these savings. For example, some savings may not be able to be delivered from the start of the financial year. This forms part of the contingency set out above.
- 4.7.3 Potential savings of £400,000 have been included in the above table relating to additional collection fund income. This includes a review of the council tax reduction scheme (£330,000) and a reduction in empty properties relief (£70,000). Although these savings will take effect from April 2020, they have been agreed after the setting of the Council Tax base in January 2020.
- 4.7.4 These additional savings cannot be taken into account when setting the budget for 2020/21 but the surplus on the collection fund of £400,000, generated by the savings, will partly replenish the reserves in 2021/22 that have been used to balance the 2020/21 budget. This means effectively £1.818m of reserves will have been used to balance the 2020/21 budget.

4.8 Funding

- 4.8.1 Over 70% of funding for the council is from Council Tax paid by residents.
- 4.8.2 Cabinet set the Council Tax Base at 68,691 properties an increase of 338 (0.5%) over the 2019/20 base. The council is projecting a collection rate of 99.5%.
- 4.8.3 The council projects that there will be a deficit of some £142,000 on the Collection fund in 2019/20 to be met by the major precepting bodies. The share for the Royal Borough is £113,000 and this has been taken into account within the budget for 2020/21.

4.9 Business Rates

- 4.9.1 The next largest funding stream relates to Business Rates. The council is estimating that it will collect some £90m of Business Rates in 2020/21. 50% of this is returned to Government and 1% passed to the Fire Authority.
- 4.9.2 In theory the council should retain the remaining 49% but Business Rates are re-distributed across the country based on assumed need and a top-up and tariff system equalises business rate income across the country.
- 4.9.3 The council is only estimated to benefit from £15.3m of Business Rates in 2020/21, around 17% of the total collected, as a large tariff is applied to the Borough. This re-distributes business rates to more deprived councils that collect less business rates and receive top-up funding.
- 4.9.4 Business rates income can be subject to significant volatility; one or two empty properties or appeals can have a substantial impact on the level of business rates collected. This makes it difficult to predict with accuracy the level of business rate income. A specific reserve of £0.750m is available to manage this volatility.
- 4.9.5 The council is required to prepare an estimate of business rates income by 31.01.20 that is submitted to MHCLG via the NNDR 1 form that is attached as Appendix G. This statement shows an estimated deficit of £1.767m in 2019/20, £1.214m relating to 2018/19. Provision has been made within the 2019/20 accounts to cover this deficit so that it does not impact on the 2020/21 revenue budget.
- 4.9.6 Berkshire local authorities were successful in securing business rates retention pilot status for a second year in 2019/20, retaining 74% rather than 49% business rates, albeit with a larger tariff. This meant the council had a one-off benefit of £1.530m that will not recur in future years.

4.10 Business rates reliefs

- 4.10.1 During 2019/20 it is expected that the council will have awarded over £800,000 through discretionary business rate relief to local businesses. The council intends to continue, as in previous years, to maintain all locally controlled discretionary business rate reliefs for 2020/21.

4.11 Revenue Support Grant

4.11.1 In the past Revenue Support Grant was added to the council's annual funding but the council, like many others, will not receive this grant in 2020/21.

4.11.2 The Government uses a complex formula to allocate funding to councils. This formula includes a wide range of social, economic and demographic factors. Due to the Royal Borough having a low level of deprivation the Government previously notified the council that it would have "negative RSG" in 2020/21 of £2.200m. The Government settlement identified additional funding to protect any council from having negative RSG, benefiting the council.

4.11.3 Under the new Fairer Funding, planned to be introduced in 2021/22, it is possible that the council will lose this protection.

4.12 New Homes Bonus

4.12.1 The council receives new homes bonus as an incentive for housing growth, this equates to an expected £2.102m as part of the financial settlement in 2020/21 and this amount has been assumed in the budget for the year.

4.13 Adult Social Care Funding

4.13.1 The council will receive a £1.687m share of the £1bn of extra government funding in 2020/21 in addition to the additional funding of £1.480m provided by the 2% precept increase for social care.

4.13.2 It will also continue to receive the previous Adult Social Care Grant of £0.814m.

4.13.3 The Adult Social Care budget relies on £9.777m of Better Care Funding (BCF) via the NHS, £1.803m improved Better Care Funding (iBCF) and £0.476m for Winter Pressures from government.

4.14 Medium Term Funding Risks

4.14.1 The funding formula that allocates money to councils is extremely complex. The formula assesses each authority's "need" for funding and then assumes a standard level of council tax will be raised locally to offset this, which we estimate is based on the average band D tax of £1,465.

4.14.2 This clearly disadvantages councils who set a Council Tax below this level and favours those with higher council tax levels. This estimated standard level of council tax is some £388 above the Council tax that the Royal Borough set under existing Council Tax limits. Effectively this means that the Government assumes that the council is generating £26.600m more funding when it allocates grant to the Royal Borough.

4.14.3 The council faces the following funding risks:

- (i) The 2020 spending review may not deliver additional funding to the Royal Borough unless there is a fundamental review of the way that the formula operates (as explained above).

- (ii) Any review of the business rates threshold could reduce the level of business rates that the council can retain. Business Rates retention is planned to be reviewed in 2021/22, delayed due to the General Election where it is proposed councils will retain 75% of their Business Rates. This will include a business rates reset which could mean that any gain the council has made since the scheme was implemented in 2013/14 would be re-distributed based on need. The council could be £1.600m pa worse off under any proposals if they are implemented immediately as set out in the more pessimistic range of projections.
- (iii) The council is likely to lose funding from this as a larger tariff will be applied and/or additional burdens placed on it, e.g. the Public Health Grant maybe removed.
- (iv) The new homes bonus is expected to reduce significantly from £2.102m in 2020/21 to £284k in 2021/22, £220k in 2022/23 with funding removed completely from 2023/24 onwards.

4.14.4 Overall this creates a risk that future council central funding will reduce, which is reflected in the medium-term financial projections for 2021/22 and beyond.

4.14.5 On a more positive note, there is some potential for this loss of funding to be mitigated if the government relaxes council tax limits or provides flexibility for a further additional precept to meet additional costs relating to children's and adult social care.

4.15 Schools Budgets

4.15.1 The Dedicated Schools Grant (DSG) is made up of four blocks of funding: Schools, High Needs, Early Years and the Central School Services block.

4.15.2 The Indicative settlement for the Royal Borough for 2020/21 (including Academy schools) is currently £122m, an increase of £5m when compared to the 2019/20 final settlement.

4.15.3 The deficit brought forward on the High Needs Block to 2019/20 was £0.783m. Significant pressure remains in the High Needs block and based on current cohort of provision and early indications of future demand the deficit to be carried forward to 2020/21 is forecast to increase, potentially exceeding 1% of the total DSG. If the cumulative deficit exceeds 1% local authorities are required to submit a recovery plan to the DfE.

4.15.4 Appendix H provides more detail about the dedicated schools grant allocations and associated reserves levels.

4.16 Income

4.16.1 The proposed fees and charges for 2020/21 are set out earlier on this agenda and their impact is reflected within this report.

4.16.2 Overall the following principles have been used to review fees and charges:-

- a) **Charges should be broadly in line with other neighbouring councils** – in some cases charges set by the borough are lower than neighbouring

councils. Charges have therefore been reviewed to bring them into line with other councils.

- b) **Charges should reflect cost increases incurred by the council**, accordingly the majority of charges have been increased by 3% in line with estimated inflation.
- c) **Charges should recognise demand for the service** – in some cases where income is falling, increasing charges can have a negative impact on overall income.

4.16.3 The table below summarises the main sources of income for the council over £100,000, estimated values in 2020/21.

	£'000
Parking	10,244
Property Income	3,995
Planning & Development	1,473
Green Waste Subscribed Collection Service	840
New Roads and Street Works Inspections/Permits	720
Marriage and Civil Partnership Ceremonies	402
Cemeteries and Churchyards	321
Highway Licences	292
Local Land Charges	253
Temporary Traffic Regulation Orders	154
Hire of Public Halls	113

4.16.4 This above analysis excludes recovered social care fees.

4.17 Reserves & Financial Risks

4.17.1 Councils hold reserves for the following reasons:-

- a) **Covering unforeseen spending pressures** – for example a major flood or other incident could have a big, uninsurable, impact on council services. This would place undue pressure on the current year's budget.
- b) **Manage general risk and uncertainty** – councils operate in very uncertain times, where there can be significant changes to in year funding. This means that councils need to hold reserves to protect themselves against big funding shifts and buy them time to bring their budget into balance.
- c) **Meeting known risks and future commitments** – often these are known as earmarked reserves. These are reserves held for a specific purpose, for example an insurance reserve.
- d) **Holding monies on behalf of other bodies** – the schools revenue balances are an example of this.

4.17.2 RBWM has total reserves of some £22.359m, which are split between general reserves of £9.489m and earmarked reserves of £12.870m. These are set out in the table below:-

	£000
General Reserve	7,220
NNDR Volatility Reserve	2,269
Total Usable Reserves	9,489
Insurance Fund	2,095
Schools Revenue Balances	1,312
General DSG Reserve	(917)
Earmarked DSG Reserve	134
Earmarked Capital Grant	4,023
Community Infrastructure Levy – For Capital use only	4,429
Better Care Fund	317
Public Health Reserve	88
Optalis Development Reserve	81
Brexit Funding	299
Graves in perpetuity maintenance fund	8
Arthur Davies Nature Reserve Fund	123
Old Court Maintenance Fund	25
Capital Receipts Unapplied	853
Total Earmarked Reserves	12,870
Total Reserves	22,359

4.17.3 The table below shows how the budget proposals will impact on the level of general fund reserves.

	£000
General Reserve	7,220
Release of NNDR Volatility Reserve (balance £0.750m)	1,519
Projected General Reserves 31.03.20	8,739
Proposed Use of Reserves required for 2020/21 budget	(2,218)
Projected General Fund Reserve balance 31.03.21	6,521

4.17.4 Reserves represent tax-payers' money that has not yet been spent on delivering services. This means that care should be taken when building reserves and ensuring that their level can be justified.

4.17.5 This has to be balanced against the important role that reserves can play in managing risks and uncertainty. Reserves play an important part in helping councils adjust their financial position to manage sudden changes in funding, without having an immediate and adverse impact on service users.

4.17.6 There is no mathematical formula for assessing the level of reserves but clearly the financial risks that the council faces can provide a guide as to the level of reserves that the council should maintain.

4.17.7 The projected level of reserves set out above are barely above the council's minimum level of reserves of £6.370m, which are assessed based on the analysis set out in Appendix I.

4.17.8 The council has low levels of reserves, which provide very limited scope to manage the pressures that the council faces. The council cannot immediately bring its reserves to a more realistic level.

4.17.9 Over time the council must plan to increase reserves. A reasonable guide to this would be to have:-

- a) A minimum level of reserves of £6m to meet the council's unforeseen and immediate spending pressures. This also needs to reflect the low level of earmarked reserves
- b) A budget management reserve of £7m to ensure that the council has sufficient funds to meet its underlying budget deficit for at least two years.
- c) A transformation reserve to manage the changes required to reduce overall council spending to a more manageable level. The aim would be to set this at £1m
- d) Earmarked reserves to cover unquantified risks, such as Business Rates revaluation that can be backdated

4.17.10 The table below shows the financial impact of the above assessment.

	£m
a) General Reserve - Minimum Level	6.0
b) Budget Management Reserves	7.0
c) Transformation Reserve	1.0
Target Level of Sustainable Reserves	14.0

4.17.11 Given the financial challenges that the council faces, it will not be possible to rebuild reserves within this budget, although it is important that the council looks to rebuild reserves to the level outlined above in the medium to long term.

4.18 Medium Term Financial Projections

4.18.1 The financial decisions and budget that is set for this year will have implications for the future financial viability of the council. This section shows the projected impact on council finances over the next 5 years up to 2024/25.

4.18.2 The table below shows the projected savings required during the period of the MTFS above those already agreed:

Summary Year-End Position	2020/21	2021/22	2022/23	2023/24	2024/25	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Savings Target	7,643	4,223	2,637	4,758	3,572	22,832
Savings Identified	(5,426)	(2,035)	67	-	-	(7,394)
Use of Reserves(from)/to	(2,218)					
Savings Required	-	2,188	2,703	4,758	3,572	15,438
Savings required cumulative	2,218	4,405	7,109	11,866	15,438	
Estimated Year End Reserves	6,521	2,115				

From the above table it is clear that the council will:-

- (i) Need to deliver ongoing additional savings of some £3m to £4m in each of the following three years
- (ii) Reserves will fall below a minimum level and may be depleted completely if the council is unable to deliver against its savings target in these years.

4.18.3 The table shows that without additional savings, council tax income, business rates or grant income the council would not have sufficient reserves to set its 2022/23 budget.

4.18.4 There is also a risk that if there is an unforeseen spending event or budget pressure, reserves could be depleted sooner.

4.18.5 These projections are based on mid-range assumptions. If more pessimistic assumptions are used the deficit could be even greater. In particular there is a significant risk around a future spending review, unless the amount of resources allocated overall to councils increases.

4.18.6 This is balanced by the potential for other more favourable funding outcomes, which are used on the more optimistic assumption. This includes:-

- (i) Greater flexibility in council tax setting
- (ii) Retaining existing thresholds for business rates

4.18.7 The following table shows the potential impact on the budget deficit using

- (i) more pessimistic assumptions based on the loss of £1.600m in Business Rates from 2021/22 and negative RSG of £1.700m in 2020/21 increasing to £3.400m in 2024/25.
- (ii) more optimistic assumptions based on an additional 4% flexibility to increase council tax (together with a further ASC levy).

	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
<u>Optimistic Assumption</u>				
Budget Deficit	2,915	1,131	3,100	1,828
Cumulative Budget Deficit		4,046	7,146	8,974
<u>Base Assumption</u>				
Budget Deficit	4,405	2,703	4,758	3,572
Cumulative Budget Deficit		7,109	11,866	15,438
<u>Pessimistic Assumption</u>				
Budget Deficit	7,410	2,195	4,249	3,063
Cumulative Budget Deficit		9,605	13,854	16,917

4.18.8 The above table demonstrates the impact of Government decisions on spending levels, which can have a significant impact on the future sustainability of council spending.

4.18.9 At this stage the council has to plan on the basis of the base projection but it is important be aware of the potential range of future outcomes.

4.19 Budget Strategy

4.19.1 The medium-term financial projections indicate that the council faces a significant financial challenge to make its budget more sustainable in the medium to long term.

4.19.2 This challenge is set out within the proposed Budget Strategy at **Appendix A**, which explains the financial challenge that the council faces and highlights the key steps that the council needs to take to make its budget more sustainable. These are summarised below:-

- a) Fund basic capital needs from revenue rather than capital. A large share of the capital programme funds day to day maintenance and replacement of council assets. The Royal Borough should aim to provide capacity within the revenue budget to enable it to fund this spending from revenue.
- b) Ensure that the long-term consequences of capital spending are clearly understood along with their impact on the revenue budget. It is essential that this impact is considered carefully before funding significant capital investment.
- c) Consider increasing Council Tax levels in line with Government limits
- d) Ensure that council fees and charges are in line with other neighbouring authorities and keep pace with inflation.
- e) Maintain a realistic level of reserves that reflect the financial risks that the council faces)

4.19.3 Given the level of financial challenge that the council faces, it may not be possible to achieve the aims set out within the Strategy in one year.

4.19.4 The delivery of the Strategy in 2020/21 will also rely heavily on having robust plans to implement the significant savings that form part of the budget proposals.

4.19.5 Once the 2020/21 budget is set, further steps need to be taken to identify additional savings and budget reductions to bring the budget into balance during 2020/21 and beyond. These include: -

- a) A review of contracts – the council delivers a large share of its services through third party contracts. This includes a review of existing council contracts to ensure that they provide value for money and that the service level within them is affordable, whilst maintaining quality service provision.
- b) A review of managerial and discretionary services. This means that there is a need to challenge current service provision and consider a range of delivery options and service levels. The council is already

implementing a system of vacancy control, which will challenge the need to fill vacancies as and when they arise.

- c) A review of delivery options for Children’s and Adult Social Care. Given the substantial share of the council budget that is spent in this area, the council needs to ensure that the current delivery model is appropriate and whether there are any other viable options that it can pursue.
- d) Review of the council property portfolio. A substantial and increasing share of the council’s budget is taken up with servicing debt. The council will need to consider whether it is able to liquidate some of its assets to reduce the heavy burden of debt repayments.

4.19.6 The council also needs to make its case to the Government for more assistance to enable it to manage the increased pressures that it faces. This includes

- a) Protecting existing council funding in the form of government grants and business rates
- b) Lobbying government to ensure that central funding better reflects the demographic pressures that the Royal Borough is facing around Children’s and Adult Social Care
- c) Seeking greater flexibility to raise council tax to help offset the cost and demographic pressures that the Royal Borough is facing. This needs to reflect the fact that the Royal Borough has the lowest level of Council tax nationally as a unitary authority.

4.19.7 The outline transformation plan set out in Appendix J sets out the council’s initial plans to transform its services within these tighter financial constraints. These will be developed further during 2020 and it is proposed that the council earmarks capital receipts to fund the potential costs of change outlined within the outline plan.

4.20 Council Budget 2020/21 and Associated Council Tax level

4.20.1 The table below shows the band D council tax for RBWM over the last five years and how the current level of band D council tax compares to neighbouring Berkshire Authorities.

	2015/16	2016/17	2017/18	2018/19	2019/20
Council Tax	£906.95	£925.09	£961.46	£1,008.16	£1,036
(ASC Precept included above)	(nil)	(£18.14)	(£45.89)	(£74.74)	(£74.74)

Band D Council Tax Levels 2019/20					
RBWM	Bracknell	Slough	Wokingham	West Berkshire	Reading
£1,036	£1,304	£1,367	£1,484	£1,505	£1,627
100%	126%	132%	143%	145%	157%

4.20.2 Local authorities have the flexibility to increase their core band D council tax by up to 2%, without the requirement to undertake a referendum of its residents. The increase, if approved, will increase base Council Tax by 1.99%.

4.20.3 In 2020/21 local authorities are also allowed to increase their Council Tax by an additional 2% for the Adult Care precept.

4.20.4 Councils also have the further option of a local referendum if they wish to increase council tax above this level. The council incurs the costs of the referendum, which can range from £0.5m to £1m and would have to agree two budgets, one with the 1.99% increase and one with the proposed increase.

4.20.5 The Royal Borough is heavily reliant on Council Tax income, which meets over 75% of its budget requirement. The table below shows the revenue that the varying levels of Council Tax will produce in 2020/21.

	Band D Council Tax	Increase	Council Tax Income	Impact on Proposed Budget Positive/(negative)
No Council Tax Increase	£1,036	£nil	£66.170m	(£2.647m)
4% Increase	£1,077	£41	£68.817m	-
10% increase – would require a referendum	£1,140	£104	£72.787m	£3.970m
41% increase to achieve an average band D Council Tax – would require a referendum	£1,465	£429	£100,817m	£32.000m

The budget is based on setting the Council Tax in line with the Council Tax limit for 2020/21

4.21 Parish Precepts and Special Expenses

4.21.1 Part of the council area is parished. These parishes set their own precept and certain council related spending is charged direct to Parishes. These precepts are charged in addition to the Council Tax for the Royal Borough and are set out in Appendix L

4.21.2 Windsor and Maidenhead towns are not parished and where the council delivers services specific to these areas this is charged as a special expense. These are set out in Appendix L.

Police and Fire Precepts

4.21.3 In addition to the above precepts, the Royal Borough also collects precepts on behalf of the Police and Fire service. These precepts have not been set but provisional amounts are set out in the table below.

	Estimated Increase	Band D Precept
PCC for Thames Valley	4.85%	£216.28
Royal Berkshire Fire Authority	1.99%	£67.60

5. LEGAL IMPLICATIONS

5.1. The provisions of the Local Government Finance Act 1992 (LGFA 1992) set out what the council has to base its budget calculations upon and require the council to set a balanced budget with regard to the advice of its Chief Finance (section 151) Officer. The setting of the budget is a function reserved to Full Council which will consider the draft budget which has been prepared by the Cabinet. Once the budget has been agreed by Full Council the Cabinet cannot make any decisions which conflict with it, although virements and in-year changes can be made in accordance with the council's Finance Procedure Rules (set out in Part 8 of the council's Constitution).

5.2. Section 30(6) LGFA 1992 provides that the council must set its budget before 11 March in the financial year preceding the one in respect of which the budget is set.

5.3. The provisions of section 25, Local Government Act 2003 require that, when the council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (section 151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. It is essential, as a matter of prudence that the financial position continues to be closely monitored.

5.4. Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered as agreed and that new expenditure is contained within available resources.

- 5.5. Members, who are two months or more in arrears with their Council Tax, must declare this to the full Council meeting and must not vote on budget recommendations, as to do otherwise can be a criminal offence.

6. Chief Financial Officers Robustness/S25 Report

- 6.1. Section 25 of The Local Government Act 2003 includes the following statutory duty in respect of the budget report to Full Council:

“the Chief Financial Officer (CFO) of the authority must report to it on the following matters:

- a) the robustness of the estimates made for the purpose of the calculations; and
- b) the adequacy of the proposed financial reserves.”

- 6.2. The Council is required to take this report into account when making that decision.

- 6.3. Section 26 of the same Act places an onus on the Chief Finance Officer to ensure the Council has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

Overall Conclusion

- 6.4. The Interim Section 151 Officer, having taken external advice from the Chartered Institute of Finance and Accountancy (CIPFA) considers:

- a) the estimates in 2020/21 to be robust subject to the risks set out in the report below and;
- b) the level of reserves are barely adequate to cover unforeseen demands.

- 6.5. The financial challenges facing the Royal Borough are substantial. These are set out within this report and the associated financial strategy. This has had an impact on the budget preparation in the following ways:

- a) Ensuring that spending plans are robust and realistic – this includes taking account of demographic pressures;
- b) Ensuring that pressures currently experienced within the current year (2019/20) are realistically reflected within the 2020/21 budget;
- c) Ensuring that realistic targets are set for income that recognise market conditions and do not over-inflate income targets;
- d) Ensuring that there is coverage in reserves for areas of high volatility e.g. business rates income.

- 6.6. The council has taken reasonable steps to identify deliverable savings in 2020/21 and has not avoided difficult decisions in proposing the budget to Full Council.

- 6.7. Current projections for future grants and Council Tax levels show that council reserves will fall below an adequate level to meet unforeseen pressures in 2021/22 unless prompt action is taken to further reduce council spending.
- 6.8. The Medium-Term Financial Strategy as it stands is not therefore sustainable and further prompt action is required to develop further plans to reduce spending in 2021/22.
- 6.9. The Section 151 officer will need to monitor closely the delivery of the savings and the viability of the further transformation plans when considering whether to issue a S114 notice in the future i.e. in the event that the Council does not have sufficient resources to fund its statutory duties.

Robustness of Financial Estimates

- 6.10. The budget is set in a period of considerable uncertainty. Estimates are based on current information available, but it is important that the council is aware of the significant risks it faces in terms of central funding and business rates in the medium term. A new Government makes it even harder to plan realistically.
- 6.11. The budget process has identified substantial budget pressures of £11.693m. In part these reflect a thorough review of existing council spending that takes into account: -
 - (i) Current levels of over-spending
 - (ii) Pressures on the delivery of income targets
 - (iii) Non-delivery of certain savings targets.
- 6.12. Income targets have been reviewed to ensure that they are realistic, which has scaled back certain income targets within budget plans.
- 6.13. Business Rates income is subject to considerable volatility and a Business Rates volatility reserve of £0.750m has been set aside to manage this volatility.
- 6.14. While every attempt has been made to identify all the pressures that will impact on the 2020/21 budget, there are concerns around the level of pressure emerging in the areas of Children's and Adult Social Care.
- 6.15. These services are outside the direct control of the council and further work is required as a matter of urgency to better understand the pressures that the council faces in these areas and receive satisfactory assurance that these are being managed and controlled effectively.
- 6.16. The budget proposals rely on the delivery of substantial savings. A risk-based assessment of these savings has been carried out and a provision of £1.300m has been made for non-delivery of total savings based on this risk assessment.
- 6.17. In providing the challenge on savings and the level of contingency consideration has been given to previous years' estimates and outturn reported.

2019/20 £3.4m overspend reported based on December 2019 projections and £0.6m of unbudgeted costs charged against the general fund reserve.

2018/19 *£4.1m overspends in service budgets and £0.3m of one-off costs charged against the general fund reserve.*

- 6.18. Given the level of savings identified and previous under-delivery of savings, the council needs to assure itself that there are robust plans and processes to deliver and report on the delivery of savings during 2020/21.
- 6.19. Given the scale of the financial challenge in 2020/21 it is essential that the council takes advantage of the flexibility to increase its council tax by a total of 3.99%.(including the ASC precept). Failure to do this would result in the loss of some £2.647m of funding in 2020/21 and in future years. This would significantly worsen the council's financial position.

Adequacy of Reserves

- 6.20. Council reserves are barely adequate to address the level of financial risk that the council faces.
- 6.21. In comparison to other unitary councils, the level of reserves is one of the lowest as a proportion of net revenue expenditure. The council's reserves at 31.03.20 are projected to reduce to approximately 10% of net expenditure
- 6.22. CIPFA's resilience index highlights the level of reserves in the Royal Borough as being high risk.

As a comparison at 31.03.18 the Royal Borough's revenue reserves (excluding schools and public health) as a proportion of net revenue expenditure were 15%, Bracknell Forests were 45% and Wokingham 56%.

- 6.23. The report sets out a more realistic level of reserves required. It will take some time for the council to achieve this level given the financial challenges that it faces.
- 6.24. The council has significant outstanding debt which includes approximately £4.700m for Housing Benefits overpayments. Although payment plans are in place for some of this debt, it only has provision of £0.800m for debt write-offs. Again this could impact on the overall level of reserves if bad debts exceed this provision.
- 6.25. The council collects £89m of Business Rates pa, there is a risk of outstanding backdated revaluation appeals exceeding the provision for appeals, this could impact on the in-year council budget or its level of reserves.
- 6.26. The above risks would not be as significant if the council had higher reserves, that could cover these risks without impact on the revenue budget or taking reserves below an adequate level.
- 6.27. For greater financial stability, the council needs to have available reserves over and above the general reserve to cover its projected deficit for two years. Based on current projections the council would need to have additional reserves of some £7m to achieve this.
- 6.28. Further work is required to develop more sustainable council finances. The budget strategy sets out the scale of the financial challenge that the council

faces and outlines the action that the council needs to take to make its finances more sustainable.

- 6.29. Cabinet is committed to this work and realises that this remains an ongoing challenge for the council that cannot wait until the next 2021/22 budget setting process.
- 6.30. It is essential that this Budget Strategy gets the support of the council and that there is genuine commitment to take forward the strategy.
- 6.31. Indeed, if further action is not taken there is a risk that further reserves will be needed to support the 2020/21 budget as they have been required to be used in the previous two years. This will depend on:
 - (a) The delivery of savings proposals
 - (b) Controlling spending on children and adult social care.
 - (c) The development of viable transformation plans
 - (d) Future government funding announcements in 2020/21 and the potential to increase council tax beyond 2%.
- 6.32. The Section 151 officer will need to monitor the above position very closely to ensure that the council still has sufficient funding to meet its statutory commitments. If this is not the case then this would result in the Section 151 officer issuing a S114 notice.

7. RISK MANAGEMENT

- 7.1. Given the level of financial uncertainty and current service pressures, there is clearly a risk that the current budget may prove difficult to deliver.
- 7.2. This risk has been mitigated by trying to ensure that budget estimates are realistic and reflect current activity, along with known demographic and economic pressures.
- 7.3. A key risk for the council is that its finances are not sustainable in the long term and it does not have enough reserves to enable it to effectively manage the financial risk that it faces in the medium term.
- 7.4. The budget strategy sets out the steps that the council needs to take as a matter of urgency to make its finances more sustainable. This includes the need to build its reserves to a more realistic level in the medium term.

8. POTENTIAL IMPACTS

- 8.1. This report contains proposals related to staff or service provisions and may involve changes to policy or service delivery. Equality impact assessments have been completed where appropriate.

9. CONSULTATION

- 9.1. Consultations will take place with the local chambers of commerce in February 2019.

9.2. Consultations on the savings proposals in this report took place with the following Overview and Scrutiny Panels:

- Communities - 28/01/20
- Adult, Children and Health – 29/01/20
- Infrastructure – 03/02/20
- Corporate – 04/02/20

The feedback from these panels can be found in Appendix N

10. TIMETABLE FOR IMPLEMENTATION

10.3. Residents will be notified of their council tax in March 2020. Budgets will be in place and managed by service managers from 1 April 2020.

Table 3: Implementation timetable

Date	Details
By 31 March 2020	Residents notified of their Council Tax.
1 April 2020	Budgets will be in place and managed by service managers.

11. APPENDICES

11.1. The table below details the Annexes to this report

Appendix	
A	Budget Strategy (including Medium Term Financial Projections)
B	Projected Budget Outturn 2019/20 (December)
C	Directorate Budgets 2020/21
D	Budget Movements
E	Growth and Budget Pressures
F	Opportunities and Savings
G	Business Rates Projections – NNDR1
H	Allocation of Dedicated Schools Grant (DSG)
I	Reserves Risk Assessment
J	Transformation Plan – use of Flexible Capital Receipts
K	Statutory Council Tax Calculations
L	Parish Precepts
M	Special Expenses for non-parished areas
N	Overview and Scrutiny panel's comments

12. BACKGROUND DOCUMENTS

12.1. None

13. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Date returned
Cllr Hilton	Lead Member for Finance	23/01/20	28/01/20
Cllr Johnson	Leader of the Council	23/01/20	27/01/20
Duncan Sharkey	Managing Director	23/01/20	27/01/20
Russell O'Keefe	Director of Place	23/01/20	24/01/20
Terry Neaves	Interim Section 151 Officer	23/01/20	23/01/20
Elaine Browne	Head of Law	23/01/20	28/01/20
Nikki Craig	Head of HR, Corporate Projects & ICT	23/01/20	28/01/20
Louisa Dean	Communications	23/01/20	28/01/20
Kevin McDaniel	Director of Children's Services	23/01/20	28/01/20
Hilary Hall	Director of Adults, Commissioning & Health	23/01/20	28/01/20
Karen Shepherd	Head of Governance	23/01/20	23/01/20
	Other		

REPORT HISTORY

Decision type: Key decision	Urgency item? No	To Follow item? Not applicable
Report Author: Terry Neaves, Interim S151 Officer, 01628 796222		