

**TO: THE EXECUTIVE**  
**DATE: 16 FEBRUARY 2010**

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**GENERAL FUND REVENUE BUDGET 2010/11**  
**(Chief Executive/Borough Treasurer)**

**1 INTRODUCTION**

- 1.1 As part of the financial and policy planning process, the Executive agreed the draft revenue budget proposals for 2010/11 as the basis for consultation on 15 December. Since then, the proposals have been examined by the Overview & Scrutiny Commission and its Panels and have been placed on the Council's website for public consultation. Over the course of the last two months, a number of issues have also become clearer. This report therefore sets out the basis of the Executive's final budget proposals for 2010/11, to be submitted to the Council for approval on 3 March 2010.
- 1.2 The recommendations of this report are, in part, dependent upon proposals to be considered previously on this agenda in respect of the capital programme 2010/11 – 2012/13. Changes to the proposals included within that report may therefore necessitate revisions to the 2010/11 General Fund revenue budget proposals set out below.

**2 RECOMMENDATIONS**

**That the Executive, in recommending to Council a budget and Council Tax level for 2010/11:**

- 2.1 **Agrees that no changes to the budget proposals are required as a result of the budget consultation (section 7.1).**
- 2.2 **Agrees the provision for inflation of minus £0.068m (section 7.2);**
- 2.3 **Agrees the changes to the budget proposals as set out in Annexe A and Annexe D and in section 7.3;**
- 2.4 **Agrees that the Council should fund the Schools budgets at the level set out in section 8.1 subject to any amendments made by the Executive Member for Education;**
- 2.5 **Includes a general contingency of £1.000m, use of which to be authorised by the Executive Member for Finance, Resources and Assets and Chief Executive (section 9.5);**
- 2.6 **Subject to the above recommendations confirms the draft budget proposals, including changes to incorporate current information in section 7.3 (Annexe D);**
- 2.7 **Approves the total expenditure before allowance for loss of interest from any use of balances of £74.581m, as shown in Table 6 (section 10);**
- 2.8 **Agree the contribution to be made from revenue balances to support revenue expenditure;**

**2.9 Recommends that the Council's total requirement for the Collection Fund, excluding Parish Council precepts, be set as £>>>>m;**

**2.10 Recommends that the Council Tax for the Council's services for each Valuation Band be set as follows:**

Band	Tax Level Relative to Band D	£
A	6/9	>>>>
B	7/9	>>>>
C	8/9	>>>>
D	9/9	>>>>
E	11/9	>>>>
F	13/9	>>>>
G	15/9	>>>>
H	18/9	>>>>

**2.11 Recommends that the Council approves the following indicators, limits, strategies and policies included in Annexe E:**

- The Prudential Indicators and Limits for 2010/11 to 2012/13 contained within Annexe E(i);
- The Minimum Revenue Provision (MRP) Policy contained within Annexe E(ii);
- The Treasury Management Strategy Statement, and the Treasury Prudential Indicators contained in Annexe E(iii);
- The Authorised Limit Prudential Indicator in Annexe E(iii);
- The Investment Strategy 2010/11 to 2012/13 and Treasury Management Limits on Activity contained in Annexe E(iv);
- The revised Treasury Policy Statement contained in Annexe E (v). This revision nominates the Governance and Audit Committee to be responsible for examining and assessing the effectiveness of the Treasury management Strategy and Policies;

**2.12 Recommends that the Council approve the payment of £1.162m for the surrender of the lease of Enid Wood House as set out in section 11.3.3;**

**2.13 Approves the virements relating to the 2009/10 budget as set out in section 15.**

### **3 REASONS FOR RECOMMENDATIONS**

The recommendations are designed to enable the Executive to propose a revenue budget and Council Tax level for approval by Council on 3 March.

### **4 ALTERNATIVE OPTIONS CONSIDERED**

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

## **5 SUPPORTING INFORMATION**

## 5 Basis of Draft Budget Proposals

- 5.1 At its meeting on 15 December 2009, the Executive considered the overall position facing the Council in setting a budget for 2010/11. The Government grant system was fundamentally changed in 2006/07 and the resultant calculation meant that the Council has received only the minimum grant increase every year since (being protected by the “floor” mechanism). In the provisional settlement published in November 2009 the Government confirmed that the formula grant allocations are unchanged from those that were first published in January 2009 and thus are in line with the three-year settlement policy introduced in 2008. As such the cash grant increase for Bracknell Forest in 2010/11 amounts to 1.5% or £386,000. Government support for 2010/11 will therefore be £26.115m. This “floor” increase is clearly less than needed to support the budget pressures facing the Council and is significantly less than the average national increase for local government of 4%.
- 5.2 In this broad context, the Executive published its draft budget proposals that have been consulted on with the public, the Council’s Overview & Scrutiny Commission and Scrutiny Panels, with town and parish councils, business ratepayers, the Schools Forum, the Senior Citizens’ Forum and voluntary organisations’.
- 5.3 Due to the global recession the Council has faced unprecedented pressure on its resources this year. The proposed budget package therefore only addresses pressures arising from the impact of the recession, increases in the number of vulnerable clients or new statutory duties stemming from Lord Laming’s inquiry into safeguarding. All other desirable service developments have been deferred. As in previous years, economies have focused as far as possible on central and departmental support rather than on front-line services. However after 10 years of back office rationalisations, realising total savings in excess of £20m, it is becoming increasingly difficult to find further savings in these areas, which would not compromise the Council’s ability to function effectively. Consequently it has been necessary to look at some reductions in front line services. The medium term financial strategy to bring spending to a level that can be sustained by annually generated revenue remains the priority but this has been affected by the impact of the recession.
- 5.4 The draft budget proposals included some changes to the Commitment Budget (Annexe A) and suggested an approach for inflation, pay awards and fees and charges. It also identified service pressures that needed a response, offset by a significant number of potential economies. The draft proposals for 2010/11 are summarised in table 1. The overall net effect of the proposals will be to increase revenue spending by 0.2%

Table 1: Draft Budget Proposals

Department	Commitment Budget 2010/11	Indicative Capital programme/ decreased interest rate / Contingency	Inflation	Service Pressures / Economies	Draft Budget 2010/11
	£'000	£'000	£'000	£'000	£'000
Chief Executive / Corporate Services	7,885	0	-63	-381	7,441
Children, Young People and Learning	21,433	0	9	-645	20,797
Adult Social Care and Health	26,473	0	-25	318	26,766
Environment, Culture & Communities	35,716	0	11	-592	35,135
Non Departmental / Council Wide	-16,434	1,113	0	-419	-15,740
<b>Total</b>	<b>75,073</b>	<b>1,113</b>	<b>-68</b>	<b>-1,719</b>	<b>74,399</b>

- 5.5 The Executive is also considering its key objectives for 2010/11 that will be included in Service Plans over the coming months. These key objectives are directly derived from the 6 overarching priorities and 13 medium term objectives agreed in 2008 and are updated annually. This year, however, a more fundamental review has been undertaken to reflect the financial realities now being faced. Ambitions have been reduced in some areas and the priority given to some improvements have been reviewed. The budget proposals reflect those policy led changes and prioritisation.

## 6 Local Government Finance Settlement

- 6.1 The final Local Government Finance Settlement was announced on 20 January. It confirmed that the Council is protected by the "floor" mechanism and will therefore receive the minimum grant increase of 1.5%. The level of government support through RSG and NNDR is unchanged from the provisional settlement of £26.115m for 2010/11. Grant increases of 0% have been assumed for 2011/12 and 2012/13 although the possibility of an actual reduction in grant cannot be ruled out at this stage.

### Developments since the Executive Meeting on 15 December 2009

#### 7.1 Consultation

- 7.1.1 The Executive's draft budget proposals have been subject to a process of public consultation since their publication in December. During the six-week consultation period, the draft proposals have been scrutinised by the Council's Overview & Scrutiny Commission and Scrutiny Panels. Extracts from the minutes of these meetings are attached as Annexe B and show the Commission broadly supported the draft proposals presented.
- 7.1.2 The draft fees and charges for 2010/11 have also been considered by the Overview and Scrutiny Commission and no significant issues were raised. As part of the consultation an error was discovered in the proposed fee for the return of stray dogs under Environmental Health. The fee quoted of £33.85 is actually lower than the current fee of £50.05. This will be amended to £51.30 in the revised fees and charges schedules presented to the Council for approval on 3 March. An objection

has been raised to the £7 increase in the hackney carriage license fee by the GMB union. This will be considered at the Licensing and Safety Committee on 8 February and if a reduction in the fee is recommended the budgetary impact will be managed by an allocation from the Contingency Fund.

- 7.1.3 The Council has invited by letter all local businesses to comment on the budget proposals via the Council's website. Any comments will be reported verbally at the Executive meeting and incorporated into the report to the Council meeting on 3 March.
- 7.1.4 Direct email & written responses to the proposals, which were published on the Council's web site, have been received and are available as background papers for Members. The responses are summarised in Annexe C.
- 7.1.5 The Schools' Forum considered the Executive's proposals relating to the Children, Young People and Learning department at its meeting on 28 January. No adverse comments were made by the Forum on the revenue pressures or economies proposed for the department.
- 7.1.6 The re-provision of Downside Resource Centre is subject to further statutory consultation as agreed by the Executive on 19 January.
- 7.1.7 The Executive are asked to confirm that, apart from the proposed fee for the return of stray dogs, there are no specific budget proposals that they wish to change following the budget consultation.
- 7.1.8 One proposal that has generated significant comment and concern is that to remove the subsidy on the 'Look-In' café and to close it from 1 April. A petition on this is expected to be delivered to the Council meeting on 3 March. Whilst it remains difficult to justify a £60,000 subsidy for a café that is only used by a relatively small number of people, particularly bearing in mind the full range of budget pressures faced by the Council, officers have been in discussion with a number of organisations concerning the possible continuation of the facility through the voluntary sector.

## 7.2 Inflation

- 7.2.1 The Executive established a framework for calculating an appropriate inflation provision at its December meeting. This included the following assumptions:
  - the pay award for 2010 is settled at 0% as per the current employers offer (note the current years' pay award was settled at 1%);
  - inflation rates (Retail Price Index) remain at zero or less than zero until early 2011;
  - the current rate of Consumer Price Index is more appropriate for Social Care contracts than the Retail Price Index;
  - fees and charges will increase by 2.5% unless this is inconsistent with the Council's income policy.

Each Department has calculated an inflation allowance on this basis and the individual calculations have been reviewed by the Borough Treasurer to ensure consistency and equity. Under the Executive's draft budget proposals inflation on schools' expenditure is provided for within the Dedicated Schools Budget expenditure, which is funded by the Dedicated Schools Grant.

- 7.2.2 On this basis, the recommended inflation provision remains unchanged at minus £0.068m. The figures for each department are shown in Table 2.

Table 2: Inflation Allocations

<b>Department</b>	<b>2010/11 £'000</b>
Chief Executive/Corporate Services	-63
Children, Young People and Learning (non schools)	9
Adult Social Care and Health	-25
Environment, Culture and Communities	11
<b>Total</b>	<b>-68</b>

### 7.3 Other Revisions to Draft Budget Proposals

7.3.1 Inevitably, in the two months since the Executive published the draft budget proposals, more information has become available. Details of the amendments are set out in paragraphs a) to f) below with the net impact being a decrease in the budget requirement for 2010/11 of £0.118m. These changes have been reflected in the full budget proposals set out in Annexe D or the Commitment Budget (Annexe A).

- a) Employers National Insurance Increases  
The Commitment Budget has been amended to reflect a further 0.5 per cent increase in Employer rates of National Insurance Contributions from April 2011.
- b) Transfer of Responsibilities for the Maintenance of Storage Systems  
Budget transfers from Children, Young People and Learning (£4,000) and Adult Social Care and Health (£14,000) to Corporate Services have been included in the Commitment Budget to reflect the transfer of responsibilities for the maintenance of storage systems.
- c) Area Based Grant  
The Commitment Budget has been updated to reflect changes to the grant allocations for 2010/11. These have no overall effect on the Council's finances. The figures for each department are shown in Table 3.

Table 3: Area Based Grant

<b>Department</b>	<b>2010/11 £'000</b>
Chief Executive/Corporate Services	89
Children, Young People and Learning (non schools)	-188
Adult Social Care and Health	18
Environment, Culture and Communities	1,754
Non Departmental / Council Wide	-1,673
<b>Total</b>	<b>0</b>

- d) Collaborative Procurement  
The Council Wide procurement savings have now been allocated to Adult Social Care and Health based on savings that can be generated on contracts in 2010/11.
- e) Transfer of Programmed Maintenance Work to Capital  
Further analysis has now been carried out on the savings proposal and the saving has been moved from Council Wide proposals to Corporate Services

(-£41,000) and Environment, Culture and Communities (-£208,000).

f) Purchased Care – All Adult Social Care

The pressure reported in Adult Social Care and Health has been reduced to £0.445m as the funding transfer agreed for adults with learning disabilities with the Primary Care Trust exceeds the Councils estimated income by £0.118m (see section 8.2).

8 Other Budget Issues

8.1 Schools Budget

8.1.1 Whilst spending on the Schools Budget – both at individual school level and certain school related functions such as Special Educational Needs placements made outside the Borough - is now funded by the ring fenced Dedicated Schools Grant (DSG), and therefore outside of the Council's funding responsibilities, Local Authorities retain a legal duty to set the overall level of the Schools Budget. In deciding the relevant amount, Local Authorities must plan to spend at least to the level of estimated DSG and can also take account of any accumulated under or overspending on the Schools Budget from previous years.

8.1.2 The level of DSG is calculated by multiplying guaranteed per pupil amounts by the number of pupils in schools at the January prior to the commencement of the relevant financial year. In line with government spending plan cycles, the guaranteed per pupil funding has been confirmed as £4,367 for 2010/11, which equates to an increase in funding of 4.6%. As actual pupil numbers are not yet available, at this stage it is only possible to estimate the likely level of DSG which is forecast at £65.027m in 2010/11

8.1.3 Therefore, it is proposed that the Executive agree a provisional level of Schools Budget for 2010/11 at the anticipated amount of DSG, with the Executive Member for Education authorised to amend the amount once more up to date data is available. As the Schools Budget is fully funded from grant, any such changes would have no impact on the Council's overall funding requirement.

8.2 Permanent Transfer of Commissioning: Adults with Learning Disabilities

8.2.1 Historically many adults with learning disabilities were inappropriately accommodated in NHS Long Stay hospitals. During the 1980s and 1990s most of these hospitals were closed, and as most of the people had social care needs, the responsibility for commissioning care and support was passed to Local Authorities. To support this commissioning function, the associated financial resources were transferred annually from the NHS to relevant Local Authorities under Section 28a of the NHS Act 1977. There were complex arrangements for the return and redistribution of the associated funds as people died: this was particularly complex in Berkshire because of the geographical distribution of people following the closure of Church Hill House, which was in Bracknell.

8.2.2 The *Valuing People Now* consultation led to a change in Government policy. Effective from 2009/10, the Department of Health now requires a permanent transfer of funds from Primary Care Trusts (PCT) to Local Authorities, to be based on 2007/08 spending levels, with appropriate annual uplifts. For 2009/10 and 2010/11, this transfer will be via the PCTs, and from April 2011, will be direct to Bracknell Forest from the Department of Health.

8.2.3 Negotiations have now concluded and the Council will receive £7.599m from the PCT in 2010/11. This is £0.118m more than the estimated grant that had been included in the 2010/11 budget forecast. The estimate had been based on existing costs at the agreed starting position of April 2008. However since that time there has been a reduction in the cases supported by this grant. It is expected that where existing costs funded by grant reduce, the funds will be used to provide services to clients with learning disabilities. This additional income will fund additional clients. However the impact on the Councils budget is to reduce the need to provide its own funding for the anticipated additional clients as previously reflected in the budget proposals published in December 2009. In addition as a result of the transfer the Council will now provide an additional 4 employees to fulfil its responsibilities in further supporting the personalisation agenda for this particularly vulnerable group, including supporting those with continuing health care needs and as a consequence enhance safeguarding arrangements. The transfer includes a tapering arrangement for the portion of baseline funding relating to continuing health care over 4 subsequent years. For 2010/11 this is £0.932m and is dependant on continued eligibility. The formula for distribution post April 2011 has not yet been agreed and therefore until such time as the formula details are known this will remain as a budget risk.

### 8.3 Pensions

8.3.1 Changes in accounting standards (FRS17) on the treatment of pension costs require the inclusion within the total cost of services a charge that represents the economic benefits of pensions accrued by employees. To simplify the presentation of the budget proposals the FRS17 adjustment has not been incorporated at this stage, although they will be included in the supporting information to the Council meeting on 3 March. This will not impact upon the Council's net overall budget or the level of Council Tax.

### 8.4 International Financial Reporting Standards (IFRS)

8.4.1 The Council will need to adopt IFRS in the completion of its annual accounts from 2010/11. In addition, the impact of the standards on PFI arrangements has been brought forward a year and is incorporated into the Statement of Recommended Practice for the 2009/10 accounts. There will therefore be an impact in both 2009/10 and 2010/11. A project is underway to identify the changes required to systems, processes and the accounts.

8.4.2 The introduction of IFRS is seen as a way of improving comparability and introducing best practice and is not intended to have a significant impact on Council finances. With this in mind, the Chartered Institute of Public Finance and Accountancy is consulting on the potential impact of the changes on the General Fund and the Council Tax. Where an impact has been identified, discussions have been held with the government so that regulations can be introduced to mitigate the impact. The areas currently identified where there is likely to be an impact are:

- PFI arrangements;
- leases
- and employee benefits (an accrual will be required for untaken annual and flexi leave at the year end).

8.4.3 Reading Council is taking the lead on the impact for the Waste PFI. Should the PFI meet the new control criteria the associated assets and a corresponding liability will need to be added to the balance sheet. All leases and lease type arrangements will need to be re-examined to see if they are classified correctly. If any are reclassified as finance leases this will also have an impact on the balance sheet (an asset and a



liability will be required where the Council is the Lessee) and in the case of leases where the Council is the lessor, on how the income is treated. Increasing the number and value of assets in the balance sheet will in turn impact on the Council's Capital Financing Requirement and Minimum Revenue Provision (MRP) both of which are discussed in more detail in paragraph 8.5 below.

8.4.4 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2010 are currently being consulted on and include amendments to mitigate the impact of lease reclassifications, on balance sheet PFI arrangements and accruing for short term employee benefits on the General Fund. In summary:

- The new regulation provides that holiday benefits are to be charged to revenue in the financial year in which the holiday absence occurs which is consistent with the current position.
- In the case of finance leases and on balance-sheet PFI contracts, the intention is that the reduction in charge to revenue (an element will now be taken to the balance sheet to reduce the liability) will be matched by an equal increase in MRP resulting from the higher Capital Financing Requirement. This would result in a neutral impact on revenue.
- In the case of finance leases where the Council is the lessor, any income received under existing leases would continue to be treated as revenue income rather than a capital receipt.

8.4.5 These changes will increase the Capital Financing Requirement and MRP but the exact impact is not currently known. The impact in 2009/10 will be reported to the Executive in June as part of the outturn report. As stated above, any changes will have neutral impact on net expenditure and the Council Tax.

## 8.5 Investments

8.5.1 The Council generates interest each year from investing its accumulated cash reserves and working capital. The two factors that influence the amount of interest earned are interest rates and the average level of cash balances held over the year.

8.5.2 With the UK economy still in recession and uncertainty extending to the global economy, it remains very difficult to predict interest rates for the forthcoming year with any confidence. With the UK Base Rate holding at an all-time low of 0.5% since March 2009, the timing of any reversal of the Bank of England's monetary easing policy is hard to judge. However, as countries around the world move out of recession there is a growing consensus view that interest rates will begin to rise around the world, particularly given the inflationary risks associated with the unprecedented monetary and fiscal easing witnessed over the last 12 months. As confidence returns to the markets it is also hoped that credit-risk levels will reduce, enabling the Council to return to a more normal investment strategy, investing funds at more extended maturities and increasing yields as expectations of higher future interest rates are factored into the market. However, in line with new CIPFA Code of Practice on Treasury Management, the Council continues to regard security of the principal sum it invests as the key objective of its treasury management activities.

8.5.3 The 2010/11 budget is based on an average rate of return of 2% and reflects the lower cash balances as a result of the 2009/10 and 2010/11 Capital Programmes. The 2009/10 budget was based on a return of 2.5% and as such expected interest income is projected to fall from £1.30m to £0.665m in 2010/11. After taking into account movements in the commitment budget and the impact of the proposed capital programme this produces a budget pressure of £0.44m. However, should

interest rates not recover as quickly as anticipated, every 1% reduction in the average rate of return would add a £350,000 pressure to the General Fund.

- 8.5.4 The 2010/11 Treasury Management Report attached as Annexe E re-affirms the strategy adopted by the Executive in December 2008 that governs the amount, duration and credit worthiness of institutions that the authority will place investments with during 2010/11. As such the Council will only place deposits with the most highly rated UK Banks and Building Societies up to a limit of £5m and for a maximum period of 364 days. Additionally the Council will be able to invest up to £7m with AAA Money Market Funds and other UK Local Authorities and an unlimited amount through the Government Debt Office Management Deposit Facility. The Annual Investment Strategy is shown in Annex E(iv).
- 8.5.5 Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were produced in November 2009. In addition, the CLG is currently consulting on changes to the Investment Guidance. The revised guidance arising from these Codes has been incorporated within Annexe E, with the CLG proposals being incorporated where these do not conflict with current Guidance. One element of the revised Code of Practice is that the clauses to be adopted as part of the Council's Financial Regulations be amended. The key change is that a responsible body (committee, board or group) be responsible for ensuring effective assessment and evaluation of the treasury management strategy and policies, before making recommendations to Council. The amended clauses set out by the Code are included within the Treasury Management Policy at Annex E (v). The policy proposes that the Governance and Audit Committee be nominated as the responsible body and it is recommended that the amendments be adopted by Council and that they be incorporated within the Council's Financial Regulations at the next available opportunity.
- 8.5.6 The Local Government Act 2003 introduced a revised framework for capital expenditure and financing, underpinned by CIPFA's Prudential Code for Capital Finance in Local Authorities. The Code requires the Council to set a number of prudential indicators and limits relating to affordability, capital investment and treasury management. These require Council approval and are included at Annexe E (i) and within the Treasury Management Strategy Statement at Annexe E (iii).
- 8.5.7 The capital programme is being considered separately on tonight's agenda and proposes new capital expenditure of £8.069m in 2010/11. After allowing for projected capital receipts of £2m in 2010/11 and the cash-flow requirements associated with the Garth Hill redevelopment, but excluding the self-funding Invest to Save schemes, the additional revenue costs will be £100,000 in 2010/11 and £600,000 in 2011/12. These costs remain unchanged from the draft budget proposals but will need to be revised at the meeting if the Executive decides on a different level of capital spending.
- 8.5.8 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments. The regulations issued by the Department for Communities and Local Government (DCLG) require full Council to approve an MRP Policy in advance of each year. The Council is recommended to approve the MRP Policy set out in Annexe E (ii) to the Treasury Management Strategy. The MRP policy has been drawn up to ensure the Council makes prudent provision for the repayment of borrowings (in accordance with the Regulations) and at the same time minimises the impact on the Council's revenue budget.

- 8.5.9 As capital expenditure is incurred which cannot be immediately financed through capital receipts or grant, the Council's borrowing need (its Capital Financing Requirement) and its MRP will increase. In practice the Council is unlikely to borrow externally in the medium term as it has sufficient revenue investments, arising from the Council's reserves and balances to cover this expenditure. However it will still need to make a charge to revenue for this "internal borrowing".
- 8.5.10 The draft budget proposals included an estimate of £0.372m for the Minimum Revenue Provision required to be made in 2010/11. This estimate remains unchanged. The actual charge made in 2010/11 will be based on applying the approved MRP policy to the 2009/10 actual capital expenditure and funding decisions.
- 8.5.11 The use of balances to support revenue expenditure is considered later on in this report. If balances are used then an allowance for loss of interest on these will also need to be made in the revenue budget.

## 8.6 Capital Charges

- 8.6.1 Capital charges are made to service departments in respect of the assets used in providing services and are equivalent to a charge for depreciation. The depreciation charges are included in the base budget figures and are important as they represent the opportunity cost to the Council of owning fixed assets. They must therefore be considered as part of the overall cost of service delivery, particularly when comparisons are made with other organisations. It is also important that these costs should be recognised when setting the level of fees and charges.
- 8.6.2 Capital charges represent accounting entries and not cash expenditure. The Council is therefore able to reverse the impact of these charges "below the line", i.e. outside service department costs, thereby reducing the budget requirement whilst not directly affecting the overall cost of each individual service. This means that the charges do not affect the level of Council Tax. The capital charges in 2010/11 total £8.061m which is a decrease of £0.304m compared to the current year.
- 8.6.3 Changes to capital charges affect internal services recharges (see below) and have therefore not been incorporated into the budget proposals in this report at this stage, although they will be included in the supporting information to the Council meeting on 3 March.

## 8.7 Internal Services Recharges

- 8.7.1 Members' decisions on the capital programme may affect capital charges and this will determine the overall cost of services in 2010/11. Due to their corporate nature, some services do not relate to a single service department, e.g. finance, IT, smartcard, building surveyors, health and safety advisers etc. The budgets for these services are changed only by the specific proposals impacting on the departments responsible for providing them (mainly Corporate Services and Environment, Culture and Communities). However, all such costs must be charged to the services that receive support from them.
- 8.7.2 The impact of these changes in recharges for internal services is neutral across the Council as a whole, since the associated budgets are also transferred to the services receiving them. However, where recharges to ringfenced accounts, specifically to capital and services to Schools, are changed from year to year, this results in a cash surplus or deficit to the General Fund. Overall, in 2010/11, no change in recharges is proposed.

- 8.7.3 The overall level of recharges is dependent upon the Executive's budget proposals being approved. A detailed budget book will be prepared for the approval by the Executive Member for Finance, Resources and Assets exemplifying the budget proposals at the level of detail required to support the scheme of virement, with internal services recharges allocated to the appropriate services.

## 9 Statement by the Borough Treasurer

- 9.1 Under the Local Government Act 2003, the Borough Treasurer (as the Council's Section 151 Officer) must report to Members each year at the time they are considering the budget and Council Tax on:

- a) The robustness of estimates; and
- b) The adequacy of reserves.

In addition, the recently issued CIPFA guidance on Local Authority Reserves and Balances states that a statement reporting on the annual review of earmarked reserves should be made to Council at the same time as the budget. The statement should list the various earmarked reserves, the purpose for which they are held and provide advice on the appropriate level.

### Robustness of estimates

- 9.2 These arrangements formalise the detailed risk assessments that are undertaken throughout the year and included in the budget preparations and the Council's Corporate Risk Register.

This identifies a number of key risk areas including:

- demographic and socio-economic changes
- impact of demand led services
- impact of the South East plan
- town centre redevelopment
- non achievement of income projections
- financial settlement and funding pressures
- loss of systems and data
- business continuity incidents
- IT and information security/identity breach
- failure to control Implementation of major projects (including Garth hill)
- impact of litigation
- potential failure of key contractors
- effective safeguarding of children and vulnerable adults
- timing of benefits inspection during the implementation of the new system

The budget includes resources sufficient to enable the Council to monitor these key risks and where possible to minimise their effects on services in accordance with the strategic risk actions plans. Specific risk reduction measures that are in place include the following:

- Budget Setting Process
  - Production and regular monitoring of a robust medium-term financial strategy
  - Regular analysis of budgets to identify legislative, demographic, essential and desirable service pressures / enhancements

- Detailed consideration of budgets by officers and Members to identify potential budget proposals
- Robust scrutiny of budget proposals prior to final agreement
- Ensuring adequacy and appropriateness of earmarked reserves
- Budget Monitoring
  - Robust system of budgetary control with regular reporting to the Corporate Management Team (CMT) and through the Performance Monitoring Reports (PMR's) to Members
  - Exception reports to the Executive
  - Annual review of the Councils' budget monitoring arrangement by external audit to ensure they remain fit for purpose
  - Taking corrective action during the year to ensure the budget is delivered every year (as in the current year and 2006/07, 2005/06 and 2000/01)
  - Specific regular review by Group Accountants of particularly volatile budget areas

9.3 The Borough Treasurer receives regular updates from Group Accountants on the largest and most volatile budget areas which could place the overall budget most at risk and makes arrangements to report these through the regular monthly budget monitoring process. The most significant risks in the 2010/11 budget have been identified as the following:

- **Demographics** – the number of “demand” led adult and child client placements, the impact of new housing developments, changing service provision of social care encouraging people to seek support;
- **Income** - specifically in Planning and Building Control Fees, Leisure Facilities, Car Parks, Land Charges, Continuing Health Care funding from PCT and Housing Planning Delivery Grant. Down turn in economy affecting property market and subsequently various income streams to the Council.
- **Major schemes / initiatives** – progress with the Town Centre redevelopment, Waste Management PFI, major school redevelopment proposals, achievement of major savings proposals;
- **Inflation** – the provision is based on estimates of inflationary pressures at the current time;
- **Treasury Management / Investments** – return on investments is affected by cashflow and the level of the Bank rate. There is also still uncertainty surrounding the Council's loss on its investments in Icelandic Banks (see section 11.3);
- **Uninsured losses** – the Council's insurances cover foreseeable risks. However, some risks are uninsurable, including former County Council self-insured liabilities and mandatory excesses;
- **Contractual Issues** – disputes, renewal of major contracts.
- **Legislative Changes** – for example, the Department of Health published a consultation document in November 2009 on the proposed Personal Care at Home Bill. The intention of the Bill is that Councils' will no longer be able to charge for the personal care element of someone's home care if they have a critical need for home care.

Table 4 identifies the Borough Treasurer's estimate of the scale of some of the risks that the Council faces.

Table 4: Risk Areas

Risk	£m
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Pay award – the budget assumes that there will be no pay award in April 2010, however, if this was agreed at 1% then the additional cost would be	0.5
Interest Rates – the budget assumes that market interest rates will increase gradually throughout 2010 consistent with a gradual economic recovery, however, if rates remain at 0.5% then the additional cost would be	0.4
Demand led services – past experience has shown that it would not be unusual to see increased costs in Adults Social Services or Children Looked After of	0.3
Inflation – the budget includes an overall reduction in costs associated with price changes however a 1% increase in inflation could lead to additional costs of	0.3
Other risks – based on the experience of the past 10 years the Council will face unspecified risks amounting to	0.5
<b>Total</b>	<b>2.0</b>

- 9.4 The probability of some of the above risks occurring is high. However it is unlikely that all will occur at the same time as has been evidenced in the demand led budgets over the past few years. The measures in place, set out in paragraph 9.2, lead the Borough Treasurer and CMT to conclude that the budget proposals have been developed in a sound framework and are therefore robust. However, it needs to be recognised that not all adverse financial issues can be foreseen looking almost fifteen months ahead, e.g. the impact of changes in demand led services or severe weather conditions. Indeed the adverse economic conditions experiences over the past twelve months, and the uncertainties that this brings, are expected to continue in the following twelve months. It is therefore prudent to include, as in previous years, a contingency sum within the budget proposals.

#### Contingency

- 9.5 In setting the budget for 2009/10, the level of general contingency was increased to £0.390m. This has proved insufficient to meet all the in year pressures, arising mainly from the impact of the recession, and departments have been required to find in-year savings during the year. In the draft budget proposals it was proposed to increase the contingency to £0.700m. As £0.263m of the 2009/10 contingency was allocated on an ongoing basis, this represented an increase of £0.573m. The Chief Executive and CMT have reflected upon the outlook for the economy as a whole and its impact on the Council and the risks contained within the proposed budget. As a result, the Borough Treasurer recommends that the contingency be set at £1.000m, an increase of £0.300m on the draft proposals. This level of contingency reflects the experience of the Council during 2009/10 where in year savings of £1.639m were required to balance the budget.

#### Earmarked Reserves

- 9.6 Earmarked Reserves are sums of money which have been set aside for specific purposes. These are excluded from general balances available to support revenue or capital expenditure. The Council had £7.104m in Earmarked Reserves at the start of 2009/10 which were approved by the Executive and the Governance and Audit Committee in June 2010. The Borough Treasurer has undertaken a review of existing earmarked reserves and Annexe F sets out each reserve considered. The Borough Treasurer will review again the earmarked reserves in light of the changing risks facing the organisation as part of the 2009/10 closedown process and any

changes will be presented to the Executive and the Governance and Audit Committee.

# 10 Total Expenditure

- 10.1 Table 5 summarises the budget changes for each Department, assuming that all items outlined above and detailed in Annexes A to F are agreed, but before changes to capital charges and internal services recharges are incorporated within service department budgets.

Table 5: summary of budget changes

	Revisions to draft budget proposals (Section 7.3) £'000	Capital Programme /Investments (Section 8.4) £'000	Contingency (section 9) £'000	Total Changes Identified £'000
Chief Executive/Corporate Services	45	0	0	45
Children, Young People and Learning	194	0	0	194
Adult Social Care and Health	-202	0	0	-202
Environment, Culture & Communities	1,566	0	0	1,566
Non Departmental / Council Wide	-1,721	0	300	-1,421
Inflation (Section 7.2)	0	0	0	0
<b>TOTAL</b>	<b>-118</b>	<b>0</b>	<b>300</b>	<b>182</b>

These figures are therefore added to the draft proposals to produce a final budget proposal for each department as shown in Table 6.

Table 6: Draft Budget Requirement 2010/11

Department	2010/11 Draft Proposals (Table 1) £'000	Changes Identified (Table 5) £'000	Revised Budget Proposals £'000
Chief Executive/Corporate Services	7,441	45	7,486
Children, Young People and Learning	20,797	194	20,991

Adult Social Care and Health	26,766	-202	26,564
Environment, Culture & Communities	35,135	1,566	36,701
Non Departmental / Council Wide	-15,740	-1,421	-17,161
<b>Total</b>	<b>74,399</b>	<b>182</b>	<b>74,581</b>

- 10.2 The total budget requirement in 2010/11 if the Executive agreed all of these proposals would be £74.581m before the loss of interest on any revenue balances that might be used. This compares with income of £72.658m from Revenue Support Grant and Business Rates and Council Tax at the 2009/10 level.

## 11 Funding the Budget Proposals

- 11.1 As indicated above, the proposals within this report would set the Council's planned expenditure (including levying bodies) £1.923m above the income that would be generated before any increase in Council Tax. This gap will need to be bridged by some combination of the following three options:

- a) an increase in Council Tax;
- b) a contribution from the Council's Revenue balances;
- c) further expenditure reductions.

### 11.2 Council Tax

- 11.2.1 In terms of options, each 1% increase in Council Tax in 2010/11 will generate £0.465m of additional revenue to reduce the budget gap. A rise of just over 4% would be required if the Council decided to bridge the funding gap outlined above purely by raising the level of Council Tax.

- 11.2.2 Council Tax increases are subject to capping rules. The capping criteria are not announced prior to the setting of Local Authority Council Taxes. This means that in approving the Council Tax, the Council has to judge what will be the capping limit. In previous years this has been set at 5% but current opinion in Local Government is that it will be reduced to 3% in 2010/11. Certainly, any increase in excess of this would be very likely to be subject to intense government scrutiny, despite the fact that the Council has historically levied one of the three lowest Council Taxes of all Unitary Authorities in the Country. Even with a 5% increase, the Council Tax in Bracknell Forest would remain one of the lowest in the Country.

### 11.3 Use of Balances

- 11.3.1 The Council needs to maintain reserves to aid cashflow and to protect itself from fluctuations in actual expenditure and income. An allowance for cashflow is reasonably easy to calculate. However, an allowance for variations against planned expenditure is more difficult.

- 11.3.2 In deciding the level of any contribution from balances, the Executive will wish to have regard to the level of balances available. The Council's general balances at the start of 2010/11 are expected to be £9.6m. This is made up as follows:

Table 7: General Reserves as at 31 March 2010

	£m
General Fund Balance at 1 April 2009	10.4
VAT repayments and Enid Wood House lease surrender	1.3
Planned use in 2009/10	<u>(2.3)</u>



- 11.3.3 The surrender of the lease for Enid Wood House is close to completion. The Executive on 15 September 2009 approved the terms of surrender of the lease which included the payment of £1m to the property owner. Final negotiations with the owner on the compensation for the surrender of the lease have been completed and it has been agreed that the Council will pay £1.162m. As a result of the surrender of the lease the Council will save annual property costs of £0.250m including rental and also eliminate any liability on the Council for dilapidations. As such this still represents very good value for the Council. The cost of the surrender can be funded from within the current year's budget. Taking into account additional VAT refunds received in January and the final figure for Enid Wood House a net addition of £1.3m is now expected to be made to reserves during the current year. This is an increase of £0.1m compared to the December report.
- 11.3.4 A number of pressures have arisen in the current year which totalled £2.3m before CMT introduced an in year savings package to bring the budget back into balance. Approximately half resulted directly from the recession. The latest projection reported to CMT in January is that the savings package has worked and an under spend of £0.4m for 2009/10 is now forecast. This projection however does not include the impact of the severe weather which has resulted in additional refuse collection and gritting costs and the loss of income. The additional pressure is currently estimated as £0.2m. The weather has also created a significant number of potholes and CMT has recommended the release of £0.1m for repairs. Subject to any changes in the projections, the release of a further £0.1m for pothole repairs will be recommended before the year end. It is therefore unlikely that there will be any other impact on the general reserves other than the planned withdrawal built into the budget.
- 11.3.5 The Council has investments of £2m with Heritable and £3m with Glitnir which are both Icelandic banks that have been put into receivership/administration. At this point in time, recovery rates have not been fully disclosed and negotiations are still ongoing with the respective institutions. The Council took advantage of the Capital Finance Regulations to defer the impact of the potential loss on General Reserves. In 2010/11 the loss which is currently projected to be approximately £0.5m will need to be charged to the General Reserve. This projection is based on the best case scenario. In the worst case the loss could be as high as £2.5m although the probability of this is considered low by industry experts. An application has recently been made to capitalise the loss and the outcome of this application should be known before the Council considers the final budget proposals and sets the level of Council Tax on 3 March 2010.
- 11.3.6 The Council is working closely with the LGA and the administrators in order to maximise the return of these deposits. The administration of Heritable Bank is being undertaken in the UK and as such is being expedited relatively quickly. Approximately £600,000 has been recovered to date and a final recovery of up to 80% is expected. The administration of Glitnir Bank is being progressed in Iceland under Icelandic law and as such is proving to be more protracted and complex.
- 11.3.7 An approach has been made to Bracknell Forest in connection with its Glitnir deposit by a foreign bank to buy this claim based on the assumption that Priority Creditor status will not be granted to local authority deposits and as such will be significantly less than the potential 100% that would be achievable should the Council retain its claim. There is a risk that, should any individual claim be sold in this manner, the firms seeking to buy local authority claims in Glitnir may be linked to non-preferential creditors keen to acquire an interest in the preferential creditor group, or that they

may sell on claims to such entities. There could potentially be risks adverse to the interests of the remaining public sector depositors, should creditors with different interests acquire a significant proportion of public sector depositors' claims. Taking this into consideration, the Council declined the offer of further negotiations with the interested financial institution and will pursue its case for full recovery of its deposits.

- 11.3.8 The Council has, in the past, planned on maintaining a minimum prudential balance of £4m. However, with the uncertainty surrounding the recovery of Icelandic funds and high level of risks contained within the budget, it would be advisable to consider a much larger sum for the minimum prudential reserve. Therefore, it would be prudent to minimise the use of reserves when balancing the 2010/11 budget. As indicated above, Members should recognise that there is an impact of using balances in support of revenue expenditure relating to the loss of investment income, every £1m of balance used costs £0.010m in the first year and £0.020m in a full year. Funding ongoing expenditure within the 2010/11 revenue budget from balances will therefore increase the level of savings that will be required in subsequent years.

## 12 Collection Fund

- 12.1 The Collection Fund is the account which holds all revenues produced from local taxes and pays to each Local Authority the cash required to cover its precepts. Any surplus/deficit on this Fund must be added to the calculation of the Budget Requirement for the next year. It is estimated that there will be a nil balance on the Council's Collection Fund at the end of this financial year.

## 13 Preceptors' Requirements

- 13.1 At the time of writing this report, the Thames Valley Police Authority and Royal Berkshire Fire Authority had not yet determined their budget and precept for 2010/11. These will be determined on the 19 February for the TVPA and the 17 February for the RBFA. The tax for a Band D property for Thames Valley Police Authority in 2009/10 was £151.27. The tax for a Band D property for Royal Berkshire Fire Authority in 2009/10 was £55.11. In addition to this, Parish Councils will be setting their precepts during February. The average of these in 2009/10 was £59.98. The TVPA, RBFA and all Parish precepts will be reported to the Council meeting on 3 March 2010.

## 14 Summary of Matters for Decision

- 14.1 The table in Annexe G outlines the Council's budget requirement based on the figures shown in Table 5 above. The outcome of the Executive's deliberations will be recommended to the Council meeting on 3 March regarding the budget and Council Tax level for 2010/11. These will be incorporated in the formal Council Tax Resolution required by the Local Government Finance Act 1987. However, the following matters need to be determined at this stage in order to allow the Executive to recommend a budget to the Council for 2010/11:
- (a) confirmation of the draft budget proposals, taking account of issues raised during the consultation period (section 7.1) and revisions identified to reflect current information (sections 7.2, 7.3), set out in detail in Annexe A and D;
  - (b) confirmation of the impact of reduced investment rates on the budget (section 8.5);
  - (c) the level of the corporate contingency (section 9.5);

- (d) subject to (a) to (c) above to determine the appropriate level of revenue reserves to be retained and the consequent use of balances to support the budget in 2010/11 (section 11.3).
- 14.2 Dependent upon the decisions made by the Executive concerning these issues, it may be necessary to adjourn the meeting to enable officers to calculate the appropriate figures to include in the recommendations.
- 15 Budget Monitoring - Virement requests
- 15.1 A virement is the transfer of resources between two budgets but it does not increase the overall budget approved by the Council. Financial Regulations require formal approval by the Executive of any virement between £0.050m and £0.100m and of virements between departments of any amount. Full Council approval is required for virements over £0.100m. A number of virements have been made since the December Executive meeting which require the approval of the Executive. These have been previously reported to the Corporate Management Team. Details of the virements between departments are set out in Annexe H and summarised in Table 8.

Table 8: proposed virements

	<b>Reorganisation £'000</b>	<b>Council Wide £'000</b>	<b>Total £'000</b>
Corporate Services/Chief Executive's	-18	14	-4
Children, Young People and Learning	18	9	27
Non Departmental / Council Wide		-23	-23
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>

## **16 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 16.1 The Local Government Finance Act 1992 requires the Council to set the level of the Council Tax by 11 March each year. It is impossible to achieve this without having agreed an affordable revenue budget for the year in question.

### Borough Treasurer

- 16.2 The financial implications of this report are included in the supporting information.

### Equality Impact Assessment

- 16.3.1 The Council's budget proposals impact on a wide range of services. A detailed consultation was undertaken to provide individuals and groups the opportunity to comment on the draft proposals details.
- 16.3.2 Full equality impact assessments are attached at Annexe I for the closure of the Look-in Cafe and the re-provision of Downside Resource Centre.

## Strategic Risk Management Issues

- 16.4 The Borough Treasurer's Statement in Section 9 sets out the key risks facing the Council's budget and the arrangements in place to manage these risks, including maintaining an appropriate level of reserves and contingency.

## **17 CONSULTATION**

- 17.1 Details of the consultation process and responses received are included in section 7.1.

### Background Papers

Executive 15 December 2009

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