

TO: THE EXECUTIVE
DATE: 15 FEBRUARY 2011

GENERAL FUND REVENUE BUDGET 2011/12
Chief Executive/Borough Treasurer

1 INTRODUCTION

- 1.1 As part of the Council's financial and policy planning process, the Executive agreed the draft revenue budget proposals for 2011/12 as the basis for consultation on 14 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.
- 1.2 Over the course of the last two months a number of issues have also become clearer, in particular the details of the Local Government Financial Settlement which had only been published 24 hours before the Executive meeting. In the event, the 2011/12 settlement was unprecedented both in terms of its complexity and in the scale of funding changes and reductions. This report therefore builds on the 'core package' agreed by the Executive in December, in the light of the consultations and the final details of the settlement itself, to set out the basis of the Executive's final budget proposals for 2011/12. These will be submitted to the Council for approval on 2 March 2011.
- 1.3 The recommendations of this report are, in part, dependent upon proposals to be considered previously on this agenda in respect of the capital programme 2011/12 – 2013/14. Changes to the proposals included within that report may therefore necessitate revisions to the 2011/12 General Fund revenue budget proposals set out below.

2 RECOMMENDATIONS

That the Executive, in recommending to Council a budget and Council Tax level for 2011/12:

- 2.1 Confirms the original budget proposals that have been subject to consultation since 14 December (section 7.1);**
- 2.2 Agrees the provision for inflation of £0.545m (section 7.2);**
- 2.3 Agrees the additional budget proposals as set out in Annexe A and Annexe D and in sections 6.3 and 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 is to be authorised by the Chief Executive in consultation with the Borough Treasurer in accordance with the delegations included in the Council's constitution (section 9.5);**
- 2.6 Subject to the above recommendations confirms the draft budget proposals;**

- 2.7 Approves the total expenditure before allowance for loss of interest from any use of balances of £76.248m, as shown in Table 6 (section 10);**
- 2.8 Agree a contribution of £1.590m 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 £48.473m;**
- 2.10 Recommends no change in the Council Tax for the Council’s services. The Valuation Bands therefore remain as follows:**

Band	Tax Level Relative to Band D	£
A	6/9	729.30
B	7/9	850.85
C	8/9	972.40
D	9/9	1,093.95
E	11/9	1,337.05
F	13/9	1,580.15
G	15/9	1,823.25
H	18/9	2,187.90

- 2.11 Recommends that the Council approves the following indicators, limits, strategies and policies included in Annexe E:**
- **The Prudential Indicators and Limits for 2011/12 to 2013/14 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 2011/12 to 2013/14 and Treasury Management Limits on Activity contained in Annexe E(iv);**
- 2.12 Approves the virements relating to the 2010/11 budget as set out in section 16.**

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 2 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 14 December 2010, the Executive considered the overall position facing the Council in setting a budget for 2011/12. At the time the Executive agenda was published, the Provisional Local Government Financial Settlement had not been announced and therefore the report was based on a number of assumptions regarding government funding. However, the report explained that the proposals contained in the report represented a 'core budget package' that would be needed under almost all funding scenarios. As the provisional settlement was published 24 hours before the Executive meeting, members were also informed at the meeting that further savings were likely to be required.
- 5.2 In this broad context, the Executive published its draft budget proposals and these 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 Over 50's Forum and voluntary organisations.
- 5.3 Given the financial constraints on the Public Sector, the proposed budget package sought to contain expenditure as far as possible. Unavoidable pressures relating to Adult Social Care and the resultant increase in client numbers, the economic climate and additional requirements on the Council stemming from legislation were all accommodated. However new proposals were also included to enhance the support given to the victims of domestic violence and their families (£0.100m) and to invest in developing additional support for carers within the Borough (£0.100m).
- 5.4 As in previous years, economies focused as far as possible on central and departmental support rather than on front-line services. This approach is very much in line with Government thinking and a number of very public statements by the Prime Minister and other senior Ministers that Council's should avoid 'knee-jerk' reactions to the financial tightening and that savings should be sought in ways that do not simply result in a wholesale closure of facilities. In large measure, the savings package included in these proposals achieves this and the negative impact on front line services is minimised. However it is becoming increasingly difficult to find further savings in these 'back office' areas, which would not compromise the Council's ability to function effectively.
- 5.5 The draft budget proposals also included some changes to the Commitment Budget and suggested an approach for inflation, pay awards and fees and charges. The draft proposals, which reflect the Council's current key objectives, are summarised in table 1.

Table 1: Draft Budget Proposals

Department	Commitment Budget 2011/12	Transfer of Learning Disability Funding to Grants	Indicative Capital programme/ decreased interest rate / Contingency	Inflation	Service Pressures / Economies	Draft Budget 2011/12
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive / Corporate Services	6,933	0	0	0	-329	6,604
Children, Young People and Learning	19,129	0	0	0	-165	18,964
Adult Social Care and Health	25,690	7,599	0	0	-573	32,716
Environment, Culture & Communities	36,425	0	0	0	-984	35,441
Non Departmental / Council Wide	-12,808	0	494	646	506	-11,162
Total	75,369	7,599	494	646	-1,545	82,563

6 Local Government Finance Settlement

6.1 The final Local Government Finance Settlement was announced on 31 January 2011. The 2011/12 settlement was unprecedented both in terms of its complexity and in the scale of funding changes and reductions. The complexity arises because the funding previously provided through almost all specific grants and the Area Based Grant has either been:

- transferred into a new funding stream;
- reduced;
- transferred and reduced, or
- cut completely.

6.2 Other key features of the settlement include a reduction in the number of specific grants, from over 80 to less than 10 alongside the unringfencing of most of these grants. In practice this means that although the government may allocate funding for a particular purpose, the Council is at liberty to use it in a way that it considers most appropriate for its local need.

6.3 In overall terms, the impact of the settlement on the Council can be summarised as follows.

- The Council's Formula Grant (which includes the redistributed business rates) will be £26.092m. This is £4.188m less than would have been expected had all of the specific grants and Area Based Grant been transferred into the Formula Grant on a pound for pound basis.
- Council Tax Freeze Grant – the Council will receive £1.212m of grant if it holds its Band D Council Tax at the 2010/11 level.
- The Council will receive £7.765m as a result of the learning disability transfer.
- There is £1.891m of specific grant and Area Based Grant which has either been cut or whose future still remains undecided. Those grants that have been cut include Social Care Reform, School Development Grant and Extended

Schools Start up Grant. Grants whose future remains uncertain include the Music Service and Extended Rights for Free Travel.

- A number of unringfenced specific grants have been created and the Council will receive £0.757m for these, £0.096m more than the previous cash amount. These include grants that are nominally for Benefits Administration, Homelessness and Flood Defence.
- A large number of specific grants and a significant part of the former Area Based Grant have been transferred into a new Early Intervention Grant. The most significant grants transferred are Sure Start, Early Years and Childcare, Connexions, Short Breaks and Think Family. The amount the Council will receive is £4.283m, which is £1.033m less than if the grants had been transferred on a pound for pound basis.
- £7.395m of former specific grants will now be paid directly to schools as a part of the Dedicated Schools Grant. These grants include the School Standards Fund and School Development Grant, most of which would have been passed onto schools under the previous funding arrangements. The future of the specific grant for Free Entitlement for 3-4 Year Olds (£0.735m) remains uncertain, but this too could be transferred into the Dedicated Schools Grant.
- In addition to the previously mentioned Council Tax Freeze Grant the Council can expect to receive two additional funding streams in 2011/12. The New Homes Bonus, designed to encourage the development of new properties, is expected to generate £0.600m based upon the number of new homes built in the year to October 2010. The settlement also includes £0.961m of funding which has been allocated to the Primary Care Trust, but which will be transferred to the Council to invest in social care services to benefit health. This funding will, in large measure, be used to meet the additional pressures faced by Adult Social Care and Health identified in the report that would otherwise cause additional pressures on health spending.

6.4 The impact of the provisional settlement relative to the draft budget proposals currently being consulted on is outlined in the table 2.

Table 2: Impact of the provisional settlement relative to the draft budget proposals

	£000
Grant Reductions	
Formula Grant	4,188
Less amount included in pre settlement forecasts	(2,100)
Specific or Area Based Grant (or future uncertain)	1,891
Early Intervention Grant	1,033
Grant Increases	
Learning disability transfer	(166)
Specific Grants	(96)
New Sources of Income	
New Homes Bonus	(600)
Health Funding for Social Care	(961)
Net Reduction in Funding	3,189

6.5 Following the Chancellors' Emergency Budget in May 2010 the Council was required to make in years savings of £1.035m. The full year impact of these savings which

were agreed in July 2010 is £1.320m. This is not taken account of in the above table and the budget published for consultation specifically stated that these savings would be retained to help meet the expected reduction in Area Based Grant and specific grants in 2011/12. As such the £1.320m can be used to offset the net reduction in funding identified above, leaving an additional funding gap of £1.869m from the position set out in the 14 December report.

- 6.6 Alongside the 2011/12 local government settlement the Government set out provisional funding allocations for 2012/13. This indicates further grant reductions across the sector with a reduction in general formula grant of a £2.97m for Bracknell Forest. This is in line with the Floor reduction of 10.4% after taking into account a further top-slice of grant relating to Academy Funding of £0.255m. However there will be an increase in specific grants in 2012/13, with the Early Intervention Grant increasing from £4.283m to £4.547m and the Learning Disability and Health Reform Grant increasing from £7.764m in 2011/12 to £7.949m in 2012/13. Whilst the Spending Review covers a period of four years, the Local Government Finance Settlement allocated funding for only 2-years. The Government intends to consult during 2011 on a widespread reform of the Local Government finance system to be put in place ready for 2013/14.

Developments since the Executive Meeting on 14 December 2010

- 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 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 2011/12 have also been considered by the Overview and Scrutiny Commission and no significant issues were raised. Since December two new fees relating to photo plaque memorials have been added at the cemetery and crematorium. These came into effect from January under the Director of Environment, Culture and Communities delegated powers. As part of the consultation it was also discovered that three existing charges for copies of cremation services were omitted from the December schedules for the cemetery and crematorium. These will be included in the papers presented to Council.
- 7.1.3 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. A meeting was also held with the Bracknell Forest Over 50's Forum. The responses are summarised in Annexe C.
- 7.1.4 The Schools' Forum considered the Executive's proposals relating to the Children, Young People and Learning department at its meeting on 3 February. No changes to the proposals were suggested by the Forum.
- 7.1.5 The Executive are therefore asked to confirm that, apart from the fee changes at the cemetery and crematorium, there are no specific budget proposals, included in the 'core package' published on 14 December, that they wish to change following the consultation period.

7.1.6 Of course, work has been undertaken throughout the consultation period on ways of addressing the additional funding gap of £1.869m that the final settlement resulted in. Proposals to address the gap are set out in paragraph 7.3 below and have been subject to a separate consultation meeting and working group established by the Overview and Scrutiny Commission on the 9 February, the results of which will be fed back to the Executive at its meeting. The Children's services elements of the new proposals were also reported to the Schools Forum meeting on 3 February.

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:

- Freezing pay budget lines, although an allowance has been made for a £250 increase for employees earning less than £21,000 in line with the guidance given by the Chancellor in the Emergency Budget;
- Having zero inflation in certain areas e.g. furniture, equipment and consultants;
- Using the Consumer Price Index for a number of budget lines rather than the Retail Price Index;
- Increasing fees and charges by 3.5% unless this is inconsistent with the Council's income policy.

7.2.2 Inflation allowances have been reviewed further by the Borough Treasurer and the Corporate Management Team and some changes have been made. The most significant changes relate to restricting inflation on adults and children care packages and removing inflation on home to school transport in the expectation that the retendering process will result in prices being kept within the existing budget. As a consequence the recommended inflation provision has reduced to £0.545m, of which £0.103m is being funded from the energy price reductions transferred on a recurring basis into the Contingency during 2010/11. The Departmental analysis is shown in Table 3.

Table 3: Inflation Allocations

Department	2011/12 £'000
Chief Executive/Corporate Services	70
Children, Young People and Learning (non schools)	76
Adult Social Care and Health	-61
Environment, Culture and Communities	360
Non Departmental /Council Wide (Pay element)	100
Total	545

7.2.3 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.

7.3 Other Revisions to the Draft Budget Proposals

7.3.1 Inevitably in the two months since the Executive published the draft budget proposals more information has become available, in particular the release of the Local Government Finance Settlement and the need to find further savings to meet an additional funding gap of £1.869m as outlined in Section 6. Details of the suggested amendments to the draft budget proposals are set out in paragraphs a) to k) below

with the net impact being an increase in the budget requirement for 2011/12 of £4.560m. These changes have been reflected in the full budget proposals set out in Annexe D and the Commitment Budget (Annexe A). The new proposals included in Annexe D are shaded to distinguish them from the December proposals that formed part of the consultation process.

- a) The full year effect of 2010/11 in year savings
The Commitment Budget has been reduced by £0.244m to reflect the full year impact of the in-year savings decisions taken during 2010/11.
- b) Area based grant and specific grant amendments
The Commitment Budget has been updated to reflect changes to grant allocations for 2011/12 (£6.013m). The changes to existing specific grants and area based grant are outlined in more detail in section 6. This adjustment also reflects the additional £0.212m of unringfenced specific grant for Benefits Administration, Homelessness, Flood Defence and Learning Disabilities.
- c) CCTV Service
The transfer of the service from Environment, Culture and Communities to Corporate Services has been reflected in the Commitment Budget.
- c) Postage Savings
Budget reductions have been reallocated from Corporate Services to other departments within the Commitment Budget to match the pattern of spend.
- d) Children Young People and Learning
Further savings have been identified and are summarised in table 4. Further details are included in Annexe D.

Table 4: Additional Children Young People and Learning savings proposals

Description	Proposed Saving £'000
Connexions	-100
Targeted Mental Health	-100
Preventative and Early Intervention Board (formerly the Children's Fund)	-15
Short Breaks for Disabled Children	-88
Children's Centres	-120
Early Years Workforce	-78
Early Years Sustainability	-80
Two Year Old Offer Early Learning and Childcare	-32
Child Trust Fund	-1
Youth Opportunity Fund	-25
Think Family	-33
LSC Transfer	-93
Extended Schools Start-Up	-78
Total	-843

- e) Supporting People Programme

Reductions in a number of service areas within the programme are now proposed. An efficiency saving has also resulted from re-tendering the homelessness floating support services. The net impact is a saving of £0.080m.

- f) Services funded by former Social Care Reform Grant
Although the three year funding will cease at the end of 2010/11, all plans for personalisation have been achieved and commitments will also cease at that time. This will enable a saving of £0.346m to be made.
- g) Corporate Services
Additional savings totalling £0.048m have been identified within Corporate Services. These include additional legal services income, a further reduction in court costs, a reduction in subscriptions and a range of savings within ICT and Revenue services.
- g) Car Park season ticket income
A major purchaser of season tickets will now be re-locating at the end of July rather than in December. This has increased the loss of income projection for 2011/12 by £0.044m.
- h) Reduction in catering profitability at the leisure centre and golf course
The inability to raise charges (for competitive reasons) to match the increase in costs has resulted in a reduction in profitability and therefore an additional budget pressure (£0.023m).
- i) Winter Maintenance
There has been a reduction in the cost of the winter maintenance weather forecasting joint arrangement following the award of a new contract (-£0.004m).
- j) Dementia Advisory Service
Additional funds to fund a dementia adviser during 2011/12 to help drive further improvements in the service have been provided (£0.035M).
- k) Refuse collection contract
The estimated savings have been reduced by £0.010m due to increases in fuel costs.

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 the per pupil funding rates that the Department for Education (DfE) determines for each local authority by the actual January pupil numbers. At this stage, only the DSG per pupil rate is confirmed and this is unchanged from the 2010/11 value of £4,367.

- 8.1.3 For 2011/12, the current range of school improvement grants, some of which have spending restrictions and are paid to schools during the course of the year, will be added into mainstream DSG funding and paid to schools from April without any spending restrictions. The total value of grants involved is £7.395m, which equates to £494 per pupil. When added to the core per pupil funding rate of £4,367, this makes a final DSG funding value of £4,861. Based on the provisional estimate of pupil numbers from the January school census, it is anticipated that £73.532m of DSG will be received in 2011/12.
- 8.1.4 In addition to the DSG, schools may also receive funding through the new Pupil Premium grant that is targeted towards disadvantaged pupils. Schools will receive £430 for pupils that are either looked after or eligible to a free school meal and £200 for pupils whose parents are in the armed forces. Overall, Bracknell Forest schools are estimated to receive £0.528m from this new grant.
- 8.1.5 It is proposed that the Executive agree a provisional level of Schools Budget for 2011/12 at the anticipated amount of DSG and Pupil Premium grant, with the Executive Member for Education authorised to amend the amounts 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 undertaken by the previous Government led to a change in policy which from April 2009 required NHS learning disability budgets and associated commissioning responsibility for social care for adults to be transferred to local authorities. Last year the funding was received by East Berkshire Primary Care Trust and then transferred to the Council during the year. For 2011/12, for the first time, funding will be allocated directly to Councils by the Department of Health
- 8.2.3 The draft budget assumed that this funding would be provided as part of the general grant settlement. Matching income of £7.599m was therefore removed from Adult Social Care and Health to reflect this change. In the event, this funding has actually been provided as a specific grant within the Finance Settlement and has therefore been added back to the Adult Social Care and Health budget at the increased level of £7.765m.
- 8.3 Pensions
- 8.3.1 Accounting standards on the treatment of pension costs (IAS19) require the inclusion within the total cost of services of a charge that represents the economic benefits of pensions accrued by employees. To simplify the presentation of the budget proposals the IAS19 adjustment has not been incorporated at this stage, although

they will be included in the supporting information to the Council meeting on 2 March. This will not impact upon the Council's net overall budget or the level of Council Tax.

8.4 Investments

- 8.4.1 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.
- 8.4.2 Short term interest rates are expected to remain at their current low levels until at least the 3rd quarter of 2011. Recent conflicting data on economic activity, with last quarter's GDP showing a much greater reduction (negative growth - blamed on December's extreme winter weather) than predicted, set against a substantial rebound in manufacturing data, has led to erratic predictions in future interest rate movements. The danger of a double-dip recession has still not receded and the crisis in the euro-zone, the prospects of tight economic policies in the UK and tenuous consumer confidence means the Monetary Policy Committee are aware of the risks of increasing rates too soon. However the Bank of England admits that inflation will remain above target until 2012 and remains a key risk to the future course of interest rates. Nevertheless, the perceived need to counter the fiscal squeeze via accommodative monetary policy suggests that barring a further deterioration of the current situation, the Monetary Policy Committee will be prepared to hold rates at very low levels until the latter stages of 2011. Within this framework, the Council continues to regard security of the principal sum it invests as the key objective of its treasury management activities.
- 8.4.3 The 2011/12 budget is therefore based on an average rate of return of 0.9% and also reflects the lower cash balances as a result of the 2010/11 and 2011/12 Capital Programmes. The 2010/11 budget was based on a return of 2.0% and as such expected interest income is projected to fall from £0.769m to £0.209m in 2011/12. After taking into account movements in the commitment budget and the impact of the proposed capital programme this produces a budget pressure of £0.456m. However, should interest rates not recover as quickly as anticipated, every 0.1% reduction in the average rate of return would add a £0.020m pressure to the General Fund.
- 8.4.4 The 2011/12 Treasury Management Report attached as Annexe E re-affirms the strategy adopted by the Executive in December 2010 that governs the amount, duration and credit worthiness of institutions that the authority will place investments with during 2011/12 with one exception. Following the review of the Treasury Management Strategy by the Governance and Audit Committee on the 25th January it was proposed that the Council's counterparty list could be enlarged, without any material increase in risk, through the addition of the part-nationalised UK Banks. This would result in both Lloyds TSB (the Council's current banker) and the Royal Bank of Scotland being included on the Council's lending list. This would add greater diversification to the Council's deposit takers and offer a slightly increased return, thus reducing the risk associated with the Council's interest budget. With this minor change, the Council will still only place deposits with the most highly rated UK Banks and Building Societies up to a limit of £7m 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 highlighted in part (iv) of Annex E.
- 8.4.5 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).

- 8.4.6 The capital programme is being considered separately on tonight's agenda and proposes new capital expenditure of £10.227m in 2011/12. After allowing for projected capital receipts of £2m in 2011/12, but excluding the self-funding Invest to Save schemes, the additional revenue costs will be £0.029m in 2011/12 and £0.268m in 2012/13. This is a reduction in revenue costs of £0.009m in 2011/12 compared to the draft proposals resulting from changes made to the capital programme since December. Costs will need to be revised at the meeting if the Executive decides on a different level of capital spending.
- 8.4.7 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 (CLG) 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. The MRP policy was reviewed by the Governance and Audit Committee and no changes were proposed.
- 8.4.8 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".
- 8.4.9 The draft budget proposals included an estimate of £0.551m for the Minimum Revenue Provision required to be made in 2011/12. This estimate remains unchanged. The actual charge made in 2011/12 will be based on applying the approved MRP policy to the 2010/11 actual capital expenditure and funding decisions.

8.5 Capital Charges

- 8.5.1 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.
- 8.5.2 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 2011/12 total £9.484m which is a decrease of £1.423m compared to the current year.

8.5.3 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 2 March.

8.6 Internal Services Recharges

8.6.1 Members' decisions on the capital programme may affect capital charges and this will determine the overall cost of services in 2011/12. 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.

8.6.2 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 2011/12, no change in recharges is proposed.

8.6.3 The overall level of recharges is dependent upon the Executive's budget proposals being approved. A detailed budget book will be prepared for 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:

- financial and economic factors, in particular the need to maintain services whilst achieving significant savings over the next four years
- impact of demand led services
- staffing and the need to recruit, train and retain staff with the relevant skills and expertise
- IT infrastructure availability and information accuracy and security
- failure to design, monitor and control the implementation of major programmes and projects
- business continuity incidents
- effective safeguarding of children and vulnerable adults
- effective maintenance of assets including the highways infrastructure
- working effectively with partners, residents, service users, the voluntary sector and local businesses
- impact of litigation and legislation

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 action 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 arrangements 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 2010/11, 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 2011/12 budget have been identified as the following:

- **Demographics** – the number of “demand” led adult and child client placements, the rising cost of looked after children, increasing support pressures resulting from people living longer, the impact of new housing developments and changing service provision of social care encouraging people to seek support;
- **Income** - specifically in Planning and Building Control Fees, Leisure Facilities, Car Parks, Commercial Property, Land Charges and Continuing Health Care

funding from the PCT. The down turn in the economy affecting the 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 and the 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 11.6);
- **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, contract inflation and renewal of major contracts;
- **Legislative Changes** – for example, the continuing impact of the personalisation agenda and the reorganisation of the NHS and its impact on Council funding and services;
- **Independent external providers** – changes in provision by independent service providers may result in increased costs to the Council;
- **Service interdependencies** – the potential impact of service reductions in one area on the demand for other services provided by the Council.

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. 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 2010/11, the level of general contingency was increased to £1.000m. The commitment budget includes a sum of £1.393m for the contingency which is derived from the original 2010/11 contingency of £1.000m plus ongoing transfers into the contingency relating to the in-year savings package and energy price reductions. The energy price reductions have now been taken into account in the calculation of the inflation provision for 2011/12. The addition in relation to in-year grant savings has been used to help meet the removal of Area Based Grant and the reduction in specific grants next year. Therefore this leaves £1.000m in the contingency.

9.6 The financial risks facing the Council are at a similar overall level to those experienced last year. During the next year the Council will continue to face significant risks on its budget particularly in relation to demand led budgets. 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 remain at £1.000m. The cost of looked after children has been identified as a key risk area for the budget and up to £0.500m of the Contingency could be drawn on to meet any associated additional costs that arise during the year.

Earmarked Reserves

9.7 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 £9.247m in Earmarked Reserves at the start of 2010/11 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 Annex 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 2010/11 closedown process and any changes will be presented to the Executive and the Governance and Audit Committee as part of the closure of the accounts.

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

	Inflation (Section 7.2)	Revisions to draft budget proposals (Sect 7.3 & 8.2) £'000	Capital Programme /Investments (Section 8.4) £'000	Contingency (Section 9) £'000	Total Changes Identified £'000
Chief Executive/Corporate Services	70	-28	0	0	42
Children, Young People and Learning	76	-1,249	0	0	-1,173
Adult Social Care and Health	-61	-7,552*	0	0	-7,613
Environment, Culture & Communities	360	129	0	0	489
Non Departmental / Council Wide	-546	5,661	-9	-393	4,713
TOTAL	-101	-3,039	-9	-393	-3,542

* includes £7.765 m of specific grant for learning disabilities transferred back into Adult Social Care and Health (see section 8.2)

These figures are added to the draft proposals, along with the new homes bonus and health funding income (outlined in Section 6), to produce a final budget proposal for each department. This is summarised in Table 6.

Table 6: Draft Budget Requirement 2011/12

Department	2011/12 Draft	Changes Identified	New Homes Bonus	Health funding for	Council Tax Freeze Grant	Revised Budget
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	Proposals (Table 1) £'000	(Table 5) £'000	(Section 6) £'000	Social Care (Section 6) £'000	(Section 6) £'000	Proposals £'000
Chief Executive/Corporate Services	6,604	42	0	0	0	6,648
Children, Young People and Learning	18,964	-1,173	0	0	0	17,791
Adult Social Care and Health	32,716	-7,613	0	-961	0	24,142
Environment, Culture & Communities	35,441	489	0	0	0	35,930
Non Departmental / Council Wide	-11,162	4,713	-600	0	-1,212	-8,261
Total	82,563	-3,542	-600	-961	-1,212	76,248

10.2 The total budget requirement in 2011/12 if the Executive agreed all of these proposals would be £76.248m before the loss of interest on any revenue balances that might be used. This compares with income of £74.565m from Revenue Support Grant, Redistributed Business Rates and Council Tax at the 2010/11 level. The total budget requirement is therefore £1.683m above the level of income for 2011/12.

11 Use of Balances

11.1 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.

11.2 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 2011/12 are expected to be £7.4m. This is made up as follows:

Table 7: General Reserves as at 31 March 2011

	£m
General Fund	8.8
Enid Wood House lease surrender	(1.2)
VAT repayments and Ufton Court	0.4
Planned use in 2010/11	(0.6)
TOTAL Estimated General Balances	7.4

11.3 The lease for Enid Wood House has now been surrendered to the Landlord at a cost of £1.211m. This has allowed the Council to avoid costs of approximately £6.9m over the next 27 years. On the 15 September 2009, the Executive agreed that the surrender cost should be met from the Structural Changes Reserve. However this reserve is now required to meet the one-off costs associated with the proposed savings included in the 2011/12 budget, and future years. It would therefore be more appropriate to meet the cost of the surrender from the General Reserve. This approach will be reviewed with a view to bringing a firm recommendation to the Executive when the accounts for 2010/11 are closed.

11.4 Changes in VAT legislation resulted in various services being reclassified from standard rated to exempt for VAT purposes. At the time these changes were

introduced the Council raised and submitted claims for overpaid tax but was only able to claim for the previous 3 years. This 3 year cap was successfully challenged in court cases collectively known as Conde Nast/Fleming. As a result a number of claims were submitted to try and claim back overpaid VAT plus interest for earlier years (going back to 1973 when VAT was introduced). The outstanding claim for adult courses has recently been settled and the Council has received the sum of £0.149m (including interest but after fees). Reading Borough Council's claim for library hire charges across the whole of Berkshire has recently been settled and the Council's share is £0.076m. This leaves one Council specific claim outstanding for junior sports tuition. The timing and outcome of this claim is still uncertain. The Council is also entitled to a share of Wokingham Borough Council's sporting claim as the Downshire and Hurst golf clubs were originally jointly managed. The Council's share of this claim is estimated to be in the region of £0.371m. Only the £0.225m has been included in the projected balance because of the uncertainty as to the timing and amount of any future receipts

- 11.5 A revenue reserve relating to Ufton Court and held by West Berkshire on behalf of the six unitaries is now no longer required. This has been distributed, resulting in additional revenue funds for the Council of £0.117m.
- 11.6 The Council had deposits 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 by the respective institutions, although indicators suggest up to an 85% recovery for Heritable and something approaching full recovery for Glitnir (should priority creditor status be confirmed). With regard to the Heritable deposits, payments totalling £1.028m (representing 50p in the £) have been received to date. The administration of Glitnir Bank is being progressed in Iceland under Icelandic law and as such is proving to be more protracted and complex. The Council is working closely with the LGA and the administrators in order to maximise the return of these deposits. The case is currently being argued in the courts and an initial decision is expected to be made in the first half of 2011.
- 11.7 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 £0.4m will need to be charged to the General Reserve. This projection is based on the best case scenario although in the worst case the loss could be as high as £2.575m. With this in mind an earmarked reserve of £2.575m was created at the end of last financial year to meet any potential losses. An application was made to capitalise the loss at whatever level it is eventually settled however this request was declined by the Government for 2010/11.
- 11.8 No allowance has been made for Performance Reward Grant, resulting from the successful delivery of the Local Public Service Agreement with the previous Government, in the balances calculation as the government is reviewing its position on this and has still to confirm payment in this financial year.
- 11.9 The Council has, in the past, planned on maintaining a minimum prudential balance of £4m. It is prudent when considering the use of reserves to not only consider the current year's budget but also future years' pressures.

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 surplus balance of £0.118m on the Council's Collection Fund at the end of the financial year. Of this £0.013m relates to the Thames Valley Police Authority (TVPA), £0.005m relates to the Royal Berkshire Fire Authority (RBFA) and the remainder £0.100m to the Council.

13 Funding the Budget Proposals

- 13.1 As indicated above, the proposals within this report would set the Council's planned expenditure (including levying bodies) £1.683m above the income that would be generated. This funding gap reduces to £1.583m once the surplus on the collection fund is taken into account (see section 12). This report is based on the assumption that there will be no increase in Council Tax and that the Council will receive additional specific grant from central Government of £1.212m as a result. This gap will therefore need to be bridged by a contribution from the Council's revenue balances. The loss of interest on the use of revenue balances increases the gap by £0.007m and therefore the amount that needs to be funded from balances to £1.590m.

14 Preceptors' Requirements

- 14.1 At the time of writing this report, the TVPA and RBFA had not yet determined their budget and precept for 2011/12. These will be determined on the 18 February for the TVPA and the 17 February for the RBFA. The tax for a Band D property for Thames Valley Police Authority in 2010/11 was £154.30. The tax for a Band D property for Royal Berkshire Fire Authority in 2010/11 was £55.66. In addition to this, Parish Councils will be setting their precepts during February. The average of these in 2010/11 was £61.09. The TVPA, RBFA and all Parish precepts will be reported to the Council meeting on 2 March 2010.

15 Summary of Matters for Decision

- 15.1 The table in Annexe G outlines the Council's budget requirement based on the figures shown in Table 6 above. The outcome of the Executive's deliberations will be recommended to the Council meeting on 2 March regarding the budget and Council Tax level for 2011/12. 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 2011/12:
- (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 6.3, 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 8.4);
 - (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 2011/12 (sections 11 to 13).

15.2 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.

16 Budget Monitoring - Virement requests

16.1 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 who recommends them to the Executive for approval. They have been included in the quarterly Performance Monitoring Reports. Details of the virements between departments are set out in Annexe H and summarised in Table 8.

Table 8: proposed virements

	Reorgan -isation. £'000	Structural Changes Reserve £'000	Bus Contracts £'000	Contingency Fund £'000	Council Wide £'000	Total £'000
Corporate Services/Chief Executive's	48	45	0	0	0	93
Children, Young People and Learning	0	0	0	400	19	419
Environment, Culture and Communities	-48	0	-22	0	0	-70
Non Departmental / Council Wide	0	0	0	0	-19	-19
Contingency	0	0	0	-400	0	-400
Earmarked Reserves	0	-45	22	0	0	-23
TOTAL	0	0	0	0	0	0

17 **ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

Borough Solicitor

17.1 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

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

Equality Impact Assessment

17.3 The Council's budget proposals impact on a wide range of services. A detailed consultation was undertaken on the draft budget proposals published in December to provide individuals and groups the opportunity to provide comments.

17.4 Full equality impact assessments are attached at Annexe I.

Strategic Risk Management Issues

17.5 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.

18 CONSULTATION

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

Background Papers

Executive 14 December 2010

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