

Royal Borough of Windsor and Maidenhead

Financial Strategy

2010/11 to 2013/14

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INTRODUCTION

The Council's service and financial planning processes are based on two objectives: seeking continuous improvement and ensuring that any increases in Council Tax are at or below inflation. These processes are formally brought together into the Council's annual Revenue Budget.

The Directorates' service plans and priorities for improvement are the driving force behind the financial strategy, budget changes and service improvement plans. The budget thus provides the overall framework, expressed in financial terms, within which the Council works to achieve the all important objective of delivering high quality, value for money services

The purpose of this strategic document is to set the scene for the Council's budget setting for the next few years. It aims to assess the Council's current position, outline some of the main challenges and defines some of the guiding principles for the way forward.

It is important that an authority takes stock at regular intervals to assess how it is performing against the targets it sets itself and how the inevitable new challenges that emerge impact on the overall direction of travel.

Local Authorities are rightly encouraged to act in a business-like manner, to learn lessons from other sectors and to facilitate delivery of service rather than be the provider in all cases. Whilst it is important to acknowledge these principles, it is necessary, when developing plans, to recognise that there are differences between services delivered by local authorities and those delivered in the private sector such as:

- Some services need to be provided regardless of the customer's ability to pay;
- Some services need to be provided when the local authority is often the provider of last resort, i.e. providing services that are largely uneconomic;
- That the arrival of the Council Tax bill on a householders doormat once a year puts a level of scrutiny and focus on the tax that very few other taxes or indeed service charges are subjected to.

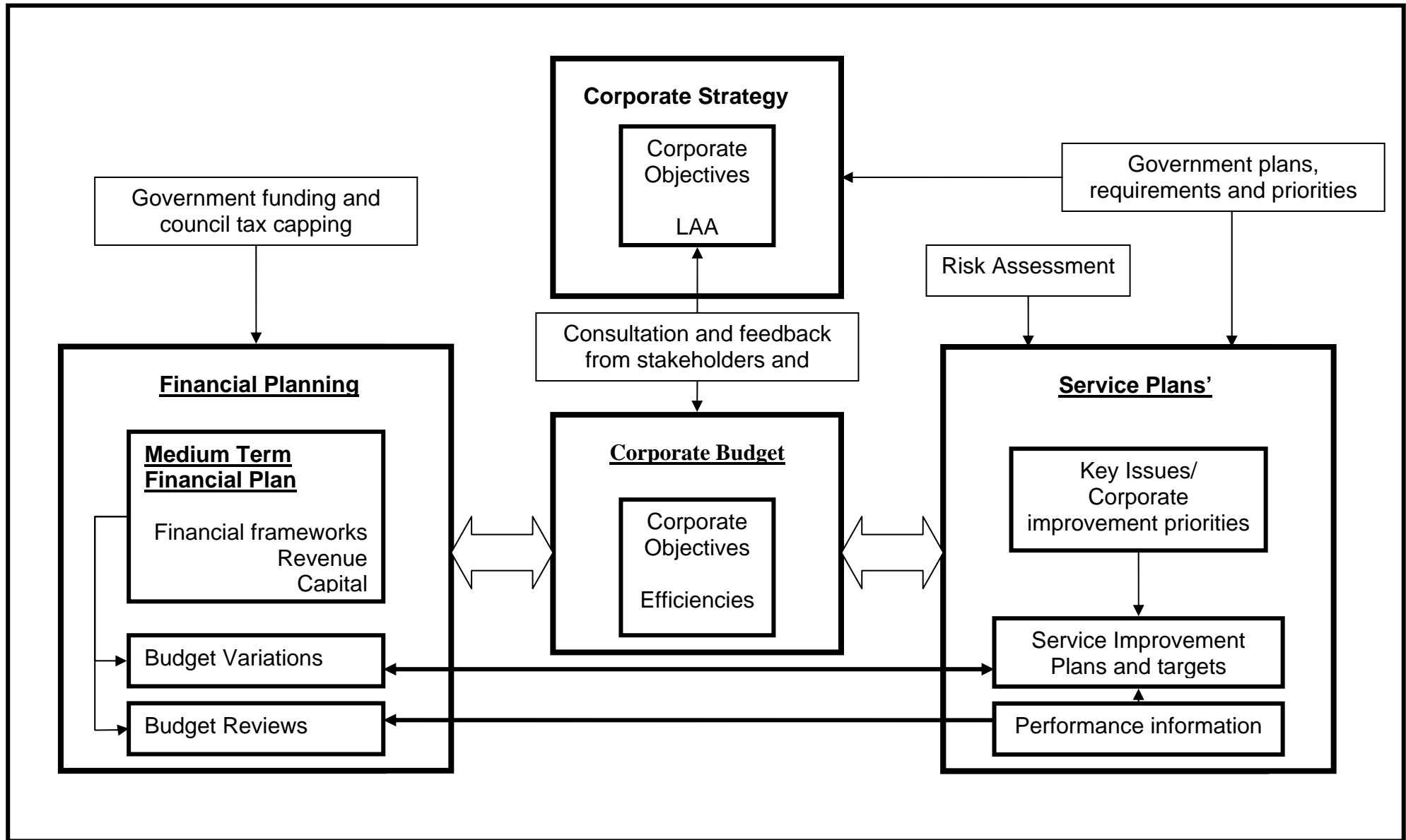
It is within this context that this strategy has been developed.

FINANCIAL AND SERVICE PLANNING PROCESSES

The financial and service improvement planning processes are briefly described below and are illustrated in a diagram on the next page:

- The Corporate Strategy is reviewed annually taking into account consultation and feedback from stakeholders and partners
- This generates corporate strategic objectives which inform and guide service strategies, plans and targets.
- Corporate and service risks are assessed annually for all Council departments and any actions required are included in service improvement plans.
- The corporate strategic objectives, service strategies, plans and targets inform and guide the medium term financial framework and proposals in budget reviews.
- Performance information in the Corporate Strategy and elsewhere informs service planning and budget reviews.
- Service strategies, plans and targets guide proposals for budget variations.
- The financial framework sets the parameters within which service plans and targets must work. The outcomes from budget reviews and budget variation proposals feed back into the budget planning process, with plans being confirmed or changed as necessary.
- Service improvement plans that require additions to the service budget require formal approval to the budget before being implemented.

This process is ongoing throughout the year with the focal point being the Corporate Strategy that includes revised objectives, the financial framework and top level plans for service improvement.



SUSTAINABLE COMMUNITY STRATEGY

The SCS is a long-term, overarching plan for improving the quality of life in the Royal Borough. Originally approved for 10 years from 2003 it was updated in 2007 and refreshed in January 2010 after consultation with stakeholders to include a vision for the future of the Borough over the remaining 6 years and outlines key priorities to achieve this. The Strategy sets out the long-term priorities (the community level equivalent of the corporate strategic objectives) to:

- being a **safe place** – where People do not fear crime
- having **thriving communities** where all residents have access to the housing, jobs, infrastructure, education and services they need
- being a borough where people can **get about** with ease in an environmentally friendly way
- having **active communities** where all have an opportunity to participate and influence the future
- having co-operative communities where organisations work together to provide better and more effective services to the people of the Royal Borough
- being **environmentally responsible** and understand the impact our actions have on the future
- being a **healthy** place with high quality health and leisure services
- having **learning communities**, where people can develop themselves and their skills, fulfil their aspirations and have the capacity to adapt to change
- having **informed communities**, where people know what's going on and get help and advice when needed

The Sustainable Community Strategy also includes a set of 4 cross-cutting priorities which underpin the work of all partners:

- Supporting Children and Young People
- Supporting Adults and Older People
- Safer and Stronger Communities
- A Thriving, Cleaner, Greener Borough

The first Local Area Agreement (LAA) for The Royal Borough was developed during 2006/07 for implementation from 1st April 2007. The indicators and targets support a selection of the key priorities set out in the Sustainable Community Strategy. The Council and its partners have also negotiated a new-style LAA for the period 2008/09 to 2010/2011. This too supports the Strategic and LAA targets included in the Corporate Strategy.

CORPORATE STRATEGIC OBJECTIVES

The Council is committed to the ambitious long term vision for the Royal Borough as set out in the Sustainable Community Strategy. Its own 4 strategic objectives (and sub objectives) reflect the Council's priorities and its role as community leader in achieving this vision. They also reflect the Council's ongoing corporate ambition to deliver high quality, value for money services while reducing the tax burden on residents.

These corporate strategic objectives focus on the Council's main priorities, but they are not the only priorities:

- Residents First
- Delivering Together
- Equipping ourselves for the Future
- Value for Money

Under these corporate strategic objectives, there are much more detailed sub-objectives which reflect:

- departmental programmes
- partnership plans,
- inspection recommendations or
- the corporate priorities for improvement
- the Council's key issues - key actions to support overall objectives which must be achieved within the financial year,

The Council's priorities for improvement in the next three years;

These can be found in the Directorate Service Plans available from each Strategic Director. They include specific actions to take forward the Council's corporate strategic objectives, key issues including the corporate improvement priorities, outstanding actions from reviews and actions arising from the annual cycle of risk management assessments.

RISK MANAGEMENT

Risk management is a key element of the Council's annual review of financial and non-financial systems of internal control. The Council has identified key corporate risks and risk controls that apply to all service areas. Designated risk specialists for each corporate risk category operate monitoring arrangements and report monthly to the Corporate Management Team and annually to the Audit and Performance Review Panel. In addition, each Director conducts an annual assessment of these risks in his department together with an assessment of any service specific risks. Corporate and service risks that are assessed by Directors as needing improvement action are incorporated in the Directorate Service Plans. The list of Key Strategic risks used in the annual assessment is:

- Inadequate Retention and recruitment of quality staff (especially senior and specialist staff)
- Business Continuity planning failure
- Failure to successfully plan and deliver 2012 Olympic and Paralympic Games
- Failure to manage partnership working
- Projects fail to deliver planned benefits
- Loss of data or inadequate data security; Inadequate data to inform business decisions
- Assumptions are made in MTFP the risk is that the national economy produces different outcomes.
- Failure to deliver Maidenhead Regeneration project on time and/ or on budget
- Failure to deliver socially inclusive services
- Failure to deliver cross Borough strategies and plans
- Failure to link partner and borough programmes to residents and external organisations needs
- Failure to engage with health agenda

MEDIUM TERM FINANCIAL STRATEGY

The Council maintains a medium term (5-year) financial projection which is integrated with the decision-making powers delegated by Council to the Executive. The powers of the Executive to add to existing financial commitments, when considering proposals for service improvements foreseen in the corporate strategy, are exercised through the financial frameworks and delegation powers set out in the Constitution and reviewed by the Council each year. The Medium Term Financial Strategy (MTFS) is both driven by and informs decisions on approving improvement plans to deliver the council's objectives and is integrated with financial control systems. The MTFS gives numerical expression to a wide range of contributing policies and corporate decision making structures including partnership funding and sustainability issues. It integrates with other key strategies including human resources, IT and risk management. The MTFS consolidates the adopted options from sensitivity scenarios and models of balances and resource requirements which underlie its financial frameworks. The options are selected after consideration of the different planning assumptions set out in the service improvement plans, capital programme proposals and Treasury Management strategy, all of which have prudent regard to risk management.

SUMMARY MTFP 2009-10 TO 2014-15

Headline

RPI	0.00%	1.00%	2.00%	3.00%	3.00%
Council Tax - 1% below RPI	-4.00%	0.00%	1.00%	2.00%	2.01%

Detail

Line	Description	2009/10 Estimate £'000	Movement £'000	2010/11 Estimate £'000	Movement £'000	2011/12 Estimate £'000	Movement £'000	2012/13 Estimate £'000	Movement £'000	2013/14 Estimate £'000	Movement £'000	2014/15 Estimate £'000
1	Base Service Net Expenditure	87,081	155	87,236		87,236		87,236		87,236		87,236
2												
3	Specific grant movement		1,723	1,723		1,723		1,723		1,723		1,723
4												
5	<u>Potential SERVICE Costs</u>											
	<u>Childrens Services</u>											
6	- Demographic impact		643	643		643		643		643		643
7	- Safeguarding		600	600		600		600		600		600
8	- Building Schools for the Future		500	500		500	-500	0		0		0
	<u>Adult and Community Services</u>											
9	- Demographic impact (Adults)		0	0	200	200	200	400	200	600	200	800
10	- Personal Care at Home		0	0	800	800	800	800		800		800
	<u>Environmental Services</u>											
11	- Waste disposal		350	350	350	700	700	700		700		700
12	- Carbon management agenda		0	0	23	23	23	47	23	70	23	93
	<u>General</u>											
13	- Pensions increases		0	0	455	455	460	915	473	1,388	0	1,388
14	- NI Increase		0	0	600	600	600	600		600		600
15	Identified Pressures		931	931	523	1,454	-20	1,434		1,434		1,434
16	Other Pressures		0	0	500	500	500	1,000	500	1,500	500	2,000
17	Sub total Pressures	0	3,024	3,024	3,451	6,475	663	7,139	1,196	8,335	723	9,058
	<u>Potential SERVICE Reductions</u>											
	<u>Adult and Community Services</u>											
18	- Transforming Social Care		0	0	-250	-250	-250	-500	-250	-750		-750
	<u>General</u>											
19	- Service restructuring - saving from 2010/11		-2,322	-2,322	-751	-3,073	-253	-3,326		-3,326		-3,326
20	- LEAN initiatives		0	0	-250	-250	-250	-500	-250	-750	-250	-1,000
21	Identified savings 2010/11 Budget		-4,512	-4,512	0	-4,512	-4,512	-4,512		-4,512		-4,512
22	REQUIRED Savings		0	0	-4,119	-4,119	-1,845	-5,964	-2,968	-8,932	-2,210	-11,142
23	Sub total Savings	0	-6,834	-6,834	-5,370	-12,204	-2,598	-14,802	-3,468	-18,270	-2,460	-20,730
24	TOTAL BASE SERVICE COSTS	87,081	-1,932	85,149	-1,918	83,231	-1,935	81,296	-2,272	79,024	-1,737	77,288
	<u>Inflationary impact</u>											
25	- Employees		0	0	575	575	580	1,155	1,612	2,767	1,657	4,424
26	- General		143	143	28	171	28	199	43	242	45	287
27	- Contracts		370	370	1,411	1,781	1,603	3,384	2,136	5,520	2,036	7,556
28	- Fees and charges		0	0	-526	-526	-537	-1,063	-821	-1,884	-846	-2,730
29	Sub total Inflation	0	513	513	1,487	2,000	1,675	3,675	2,970	6,646	2,891	9,537
30	TOTAL SERVICE COSTS	87,081		85,662		85,231		84,971		85,670		86,824
31	Non Service Costs											
32	Cost of Restructuring		900	900		900	-900	0				
33	Base Debt Finance cost	5,638	-78	5,560	151	5,711	115	5,826	136	5,962	132	6,094
34	Interest on Balances	-1,027	392	-635	289	-346	-244	-590	-55	-645	28	-617
35	Revenue Contributions to Capital	800	200	1,000	200	1,200	200	1,400	200	1,600	200	1,800
36	less contribution to BSF		-500	-500		-500	500	0		0		0
37	Environment Agency	130	3	133	4	137	4	141	4	145	4	149
38	Corporate Initiatives	-376	376	0								
39	From/ to reserves											
40	- General		-900	-900		-900	900	0				
43	Sub Total Non Service Costs	5,165	393	5,558	644	6,202	575	6,777	285	7,062	364	7,426
44	TOTAL BUDGET COST	92,246	-1,026	91,220	213	91,433	315	91,748	984	92,732	1,518	94,250
45	Support											
46	General Grant Support	-23,970	-1974	-25,944	500	-25,444	500	-24,944	500	-24,444		-24,444
47	Collection Fund Surplus/ Deficit		502	502		-50		-50		-50		-50
48	Less Special expenses	-1,102	39	-1,063		-1,063		-1,063		-1,063		-1,063
49	Sub Total Support	-25,072		-26,505		-26,557		-26,057		-25,557		-25,557
50	NET BUDGET REQUIREMENT	67,174		64,715		64,876		65,691		67,175		68,693
51	Council Tax Base (Band D)	64,764	228	64,992	162	65,154	163	65,317	163	65,480	164	65,644
52	Council Tax Band D (£.p)	1,037.21		995.73		995.73		1,005.73		1,025.88		1,046.45

7. THE MECHANISMS BY WHICH THE MANAGEMENT OF FUTURE RESOURCES IS CONTROLLED:

- 7.1** The medium term financial plan is a 5-year forward projection of service revenue budgets based on reported decisions and unavoidable commitments, with the current and next year budgets used to determine cost-centre level budgets. These budgets are reported in Management Statements used by service managers for business planning and budgetary control. The MTFP is maintained incrementally so that all changes for service developments can be explicitly reported. Reports each September set out the uplift for inflation and summarise the in-year developments as the basis for approval of the budget requirement, the medium-term outlook, and for consultation with the chambers of commerce prior to the setting of the Council tax requirement.
- 7.2** The Council resets the budget framework each year. These are used to control General Fund revenue spending (based on the development budget, including levies, precepts and partnership funding arrangements), the Capital Programme (based on the approved capital schemes, Treasury Management strategy, Asset Management strategy, capital resources projection, and an annual process for prioritising additions which recognises cost in use and sustainability issues) and the Schools Budget reflecting the Government's Dedicated Schools Grant. The frameworks contain only currently approved spending but set the financial parameters within which the Executive may add to commitments during the next year in the context of the reserves, government grant, capital receipts, etc. anticipated in the medium-term outlook.
- 7.3** As regards the funding of future service improvements there is an initial presumption that Directors will contain new expenditure within existing budgets. This approach is fundamental to the key corporate objective to keep council tax amongst the lowest in the country. To the extent that this is not immediately possible there is a well-established and forward-looking process of annual Budget Reviews to provide scope for implementing new initiatives and to progress the objectives set out in the Corporate Strategy.
- 7.4** Decisions on whether to confer approved budget status to plans for improvement in the Revenue Budget are taken month by month under the Budget Variation approval process. The Executive considers service proposals for budgetary developments in the context of the forward projection of the Borough's budget requirement and council tax levels, the present value of reserves, and the projected level of uncommitted capital resources. The budget frameworks are monitored monthly. In addition to supervising the parameters for additional spending available to the Executive, there are triggers for Member-level reporting of material variances against the approved revenue budget as part of the monthly cabinet reports.
- 7.5** There is thus a clear decision chain from the corporate objectives and improvement plans, through the approval processes for implementing new developments, into the revenue budget and onward to the financial information system and operating level management statements. The sensitivity of the strategy to external factors is monitored by the Head of Finance, including prospects for Formula Grant and specific grants, inflation, interest rates, tax base and developing risks such as the funding requirement of the local government pension scheme. The Council has a prudent approach in providing for existing, and predicting future, risks. It has arrangements for rapid and effective intervention should unforeseen costs or income shortfalls arise.

- 7.6** Where appropriate, arrangements are made to spread significant costs over time. Economic Contingency Reserve, Capital Fund and Development Fund all play an important part to enable the Council to support the local community, address short term pressures arising from changes in the economy and provide infrastructure development which is vital and/ or efficiency creating.
- 7.7** In order to maintain the real terms value of its income the Council's charging policy is to maximise charges for specific services so as to minimise any direct subsidy from the council taxpayer, seeking wherever possible to recover the cost of service. This policy may be relaxed where there is economic, policy or statutory reasons for charging a reduced rate. The council's targets for income collection and recovery of arrears are ambitious and the appropriate Director through the monthly monitoring reports to cabinet monitors their achievement. Overview and Scrutiny panels also receive performance reports and feed back recommendations to cabinet. Corrective action is taken during the year to achieve the targets and the Council seeks to minimise the transactional costs of collection by regular review of payment methods.
- 7.8** All new or significantly amended services and policies, including significant reductions in grants and budgets, are required to undergo an Equality Impact Assessment and these are reported to the Corporate Overview and Scrutiny panel. As such individual services conduct an EIA on reductions, contained within the overall Council budget. This approach means that the Overview and Scrutiny panel responsible for a service is made aware, and able to discuss, the impact of any changes. Major policy developments (e.g. Building Schools for the Future) also include a sustainability impact appraisal. Energy Management reports now address environmental sustainability issues and include preparation for Carbon Reduction Commitment arrangements.
- 7.9** The Council is working with partners to investigate further scope for common procurement and co-operative working.

GENERAL REVENUE BUDGET FRAMEWORK

8.1 Formula Grant outlook

This is the third year of a three-year financial settlement announced in 2008/09. The Royal Borough was granted the minimum 1.5% increase (compared with 1.75% in 2009/10) with a grant of £18.8m. The Council is benefiting by £8.7m from damping arrangements and can expect to remain on the grant floor for many years. 2011/12 sees the introduction of a new grant round. The Public Spending Review has been delayed with the impending election and it remains to be seen what emerges from the review and what impact that will have on grant settlements for 2011/12 and whether the three-year settlement process is continued. The medium term plan currently projects a reduction in grant, largely following on from the December Pre Budget, of £500k in 2011/12 with similar reductions in future years. We are experiencing harsh economic conditions and even these budget assumptions may be insufficient as central government demand deeper efficiencies.

8.2 Government council tax capping

In a letter to all local authorities in December 2009 the Minister for Local Government stated "The Government expects the average council tax increase in England to be substantially below the 2009/10 increases (of around 3%) and expects the lowest increases for 16 years". In 2009/10 the average increase was some 2.5%. The Royal Borough's manifesto commitment to follow a policy of below inflation council tax rises means that capping will not apply to this council in 2010/11, but there remains a background risk for subsequent years, and the financial plan must address these uncertainties.

8.3 Particular risk factors - Uncertainty over continued Government specific grant funding. Even excluding the £80m directed towards the Dedicated Schools Budget the Council is spending over £40m on services funded by government specific and area based grants. A large element is related to housing and council tax benefit, and therefore ongoing. However, significant sums are either open ended without guarantee of continuation or are subject to time limit and possible withdrawal or recycling into new initiatives. This income remains within the budget framework until the Government makes its intentions clear for any year. From 2009/10 the Government merged a number of existing specific grants into a new Area Based Grant. This is non-ring-fenced with no conditions on use, and amounts to £5.5m in 2009/10 rising to £7.14m in 2010/11 when the resources for Supporting People Grant are included. The volatility and risk associated with specific grants is therefore considered before recommending the Executive to adopt new commitments to the Medium Term Financial Plan by way of budget variations. In the current economic climate there is no presumption that non ring-fenced grants will be spent on the purposes for which they were nominally provided. All justifications for new service developments must stand on their service priority merits alone.

8.4 Current Position

The October 2006 Corporate Performance Assessment questioned the Council's capacity to continue to improve services. This debate initiated by the judgement that the Council was relatively short of resources. Since then successive administrations have embarked on an efficiency programme which has delivered cumulative savings of £12m since 2006. Attention has also been drawn to potential new sources of revenue; whilst charges levied in recent years have focussed on removing

unintended subsidies from services available commercially few if any new sources of revenue have been identified.

The Council has a relatively low level of Council Tax income; on a like for like basis the lowest outside of London (ex Scilly Isles). The 2009/10 Band D charge was £154 lower than the average for unitary authorities, a saving for local tax payers of approaching £10m per annum. A clear message emerges through the democratic process and correspondence with local taxpayers that there is little understanding of, or sympathy for, above inflation Council Tax rises whatever the justification.

Having been 'debt free' for 10 years following the sale of the Borough's Housing Stock in 1995 there is limited provision within the Revenue budget for support for the Capital Programme.

In 2006/07 the then Office of the Deputy Prime Minister introduced a new grant distribution formula that shifted resources away from authorities in the South East like the Royal Borough. The new calculation produces a figure significantly below previous grant settlements. The previous settlement is known as "the floor" or minimum sustainable grant level. It is anticipated that the Royal Borough will remain below 'the floor' for future grant settlements and in the foreseeable future minimal grant increases are anticipated. Indeed given the need to curtail public spending over the coming years a reduction in support from central government is built into future spending plans.

Inflation levels, and their impact on local authority services, can be different from the consumer Retail Price Index. Some of the 'basket of goods' that help to keep the national figure down tend not to feature in the Borough's shopping basket. Borough services, whether delivered direct or through contract, rely heavily on staff and bought in services, the cost of which may run ahead of RPI. In context, September 2009 RPI showed a reduction of 1.4% whilst the Royal Borough basket of goods is expecting rise by over 1%. Each of the services delivered by the Council will be able to point to significant challenges.

Whilst the introduction of the Dedicated Schools Grant has taken some of the pressure away from the Local Authority, some of the same groups of service users, those with learning difficulties, are placing pressure on Children's Services.

Social Care costs present a challenge to local authorities; the increasing numbers of elderly service users is well documented. However, what is overlooked is the numbers of service users with learning difficulties who are, in turn, generating significant levels of costs which also impact on the limited funds available.

The Council is already looking to address these difficulties by re-providing services, in some cases with partners, to provide cost effective services to modern standards. Examples of this can be seen over the past few years with the way that former Social Services residential accommodation has been transformed. Similar techniques are being employed with Children's Services with Manor Green Special School being built. This school being the authority's main focus for the delivery of Special Educational Needs to its pupils and the new respite facilities (jointly provided with the PCT) are an important element in the management of future care costs.

These initiatives are designed to ensure that the Council has the facilities to meet current demands and in a more cost effective way. By providing land for partners to create purpose built facilities the Council has the means of controlling the spiralling costs that result when reliance is put on a saturated private/voluntary sector market.

A number of significant Environmental issues exist which range from traffic congestion, waste management and the demands on limited highway maintenance budgets. Innovative solutions are being actively piloted in waste management with Partners such as Recyclebank.

8.5 National Context

Since the Council's Financial Strategy was last published the national economic picture has changed dramatically. It is clear that the national governments spending plans from April 2011 onwards, regardless of the controlling administration will need to focus on reducing the public sector debt. This is likely to impact on the availability of support for capital projects which, because of the Borough delivery record, has been significant in recent years.

Of equal importance is the fact that the Borough is expecting to see a reduction in revenue support from the Government as the Public Sector budget deficit is addressed. Inevitably the challenge nationally will be to deliver increased efficiencies in order to protect front line services.

Whilst not really an issue for an authority committed to low Council Tax it should be noted that the Government retains its capping powers for local authorities that increased their budgeted spending by more than expected. This removes one potential option for any local authority faced with a financial crisis making it important that local authorities retain prudent levels of reserves.

Inflation and interest rates will continue to be important factors to consider when managing the Council's finances. We have recently come through a period of unprecedented (in recent times at least) low levels of inflation. As the Country move to the next phase of the economic cycle there is an expectation that inflation rates will rise. It is envisaged that the Bank of England's management of tools such as Quantative Easing will contain this pressure. However there is a clear risk that the reduction of QE applied too soon will turn the economy back towards recession; application too late could see the return of inflation in the economy which is equally unwelcome. In terms of delivery of council services inflation impacts on the cost of delivering contracted services and pay negotiations.

In December 2009 the annual increase in the Consumer Price Index (on which the Bank of England annual inflation target is based) was 2.9%. The Retail Prices Index, which traditionally influences pay settlements, increased by 2.4%. This was forecast by the Bank of England, whose reports show a wide range of possibilities including a rise in CPI in the short term to a level above its target rate of 2% but difficult economic conditions will continue and inflation will return to or below the target level within 12 – 18 months.

Changes in functions of local authorities or specific grants are normally reflected in the Formula Grant calculations. The main changes anticipated are the gradual withdrawal of some specific revenue grants and gradual replacement of some Education capital grants by supported borrowing. There is a degree of inevitability that national public spending restrictions will impact capital spend in the short term as cancelling infrastructure projects is the relatively easy option.

In July 2007 the Department for Communities and Local Government issued a consultation paper entitled "Formula Grant Distribution" which discusses potential changes to the methodology to be used in the next three-year period. The most potentially significant issue is the proposal to taper the damping mechanism, which

currently protects the Borough, together with a significant proportion of authorities in South East England, against the considerable impact of the changes introduced in 2006/07. Landfill Tax is increasing annually and the Landfill Allowances Trading Scheme will encourage local authorities to reduce the quantity of waste going to landfill, even if the direct cost of alternatives proves more expensive.

8.6 Medium Term Financial Plan

Each year, the council produces a Medium Term Financial Plan (MTFP). An updated plan accompanies this strategy document. A further update will be presented to Members at the same meeting that considers the detailed revenue budget.

The MTFP takes account of:

The existing approved revenue budget uplifted for inflation (the base);

Policies, plans and priorities of the Council;

Full year effects of all schemes starting part way through the existing financial year or schemes starting in earlier years that have phased income or expenditure;

Revenue effects of the capital programme including external financing costs;

Best estimates of all schemes that are due to start during the term of the MTFP;

Impact of any previous years' budget savings;

Plans to maximise efficiency gains;

Any information on likely levels of government grants (specific or non-specific) that have been received and may be relied upon.

8.7 Council Tax

Council Tax is the major source of revenue for the Borough and its setting is probably the most important decision taken during the course of the year given the need to ensure sufficient resources are available to support Borough services.

In March 2007 the "Lyons Enquiry into Local Government" highlighted a number of concerns about Council Tax that included:

- Perceived fairness of the way Council Tax distributes the tax burden, particularly in relation to people on low and fixed incomes;
- The burden of expectation and spending patterns that have been placed on Council Tax, with the consequences for the rate of increase in bills.

These concerns, which are expressed as a commentary on the national picture, are certainly reflected locally. Whilst many of the issues can only be resolved by national government, locally, the new administration has been elected with a clear mandate and policy to keep future increases in Council Tax at or below the rate of inflation, defined as RPI announced each September.

Having outlined the strategy for future tax increases it is important that the Borough maximises the collection of that revenue. In the MTFP we need to examine movement in the taxbase, and in accordance with best practice new properties are added and discount policies are regularly reviewed. As collection rates increase it should be possible to benefit from increases in the local taxbase (which, as the Borough is below the 'floor' for grant settlement purposes, the Borough benefits

from; if the Borough was above the floor taxbase increases would reduce Formula Grant). Part of the Borough's Strategy is, therefore, to budget for an increased taxbase and strive to maintain current improvements in Council Tax recovery rates.

In order to achieve the improved collection the Borough updated its Debt Recovery Policy (Cabinet, October 2006). As part of that policy the need to make it as easy as possible for service users and tax payers to pay invoices was emphasised. This will continue to feature in the Borough Financial Strategy as electronic payment methods are rolled out, enabling on-line and telephone payment and Direct Debit campaigns are developed.

8.8 Comparative Cost and Performance Review

Having recognised that income from Council Tax in the Borough is already relatively low, the strategy of restraining future increases places significant emphasis on the programme of efficiency initiatives.

It is vital that an Authority monitors its costs and performance on a continual basis. There are a number of sources of data from Government on the Audit Commission website, which draws together information that was previously only available from several different sources and presents the comparison in a similar format to that used by the Borough when it produced its own Borough's own Comparative Cost and Performance Review.

It is important to note that this sort of exercise is designed only to pose questions of managers not to provide definitive answers. It is most important that cost drivers are understood by service managers so that they can be allowed for in future service planning.

It is equally important that where appropriate managers look outside the local authority family for example of best practice that can be introduced.

8.9 Budget Targets

The MTFP includes budget targets for every service directorate that are consistent with the setting of a budget within anticipated levels of resources and taking account of available reserves. These targets will be calculated taking account of:

The existing budget (the base)

Inflation

Effects of previous years' decisions

Revenue Effects of the Capital Programme (incl. Capital financing)

Efficiency Gain targets

Loss or Transfer to Formula Grant of Specific Grant Income

Unavoidable (force majeure) spending increases

Budget targets will be issued to service directors covering a minimum of three years with the instruction that they draw up their budget plans within their target. In the event of a shortfall of resources against requirements, directorates will be required to draw up options for reducing service costs in order to conform to the budget target. Lead Members will then decide which of the options will be adopted and will also decide on which, if any, of the new service priorities must be built into budgets.

The Borough's strategy will be that when determining savings plans, Directors will be required to consider priorities set out by Lead Members and the outcome of the cost comparison exercise which may, for the purpose of efficient service provision,

identify areas where the Borough's cost and performance differs significantly from that of our 'statistical neighbours'.

8.10 Corporate Initiatives

For the past six years the Council has been required to identify efficiency gains of at least 2.5% per annum to satisfy the requirements of the Gershon Review. Since 2007 these efficiencies have been "3% cashable" and it is certain that this trend will continue. Given the Council's overall financial position a series of initiatives have been developed that will maximise the opportunities to deliver services more efficiently which will take the Borough beyond the Gershon targets.

The MTFP identifies the main element of corporate initiatives namely:

- New Operating Model
- Procurement
- Accommodation
- Service reviews

Most of these initiatives have been operating successfully for a number of years and will continue to do so. The new Operating Model has been used to restructure the Resources Directorate for 2010/11 and it is envisaged that it will be rolled out to the remaining service directorates for 2011/12. The new model is described in more detail in a consultation document "Resources Fit for the Future" but in principle it builds on the work of the Customer Service Centre, it breaks out the more straightforward transactional tasks from, specialist and strategic work, and place that work within a multi disciplinary operational division.

These initiatives are reported in the regular monitoring reports to Cabinet. An important element of this process is to reflect the procurement strategy, which is to work with Government departments and other local authorities to take advantage of the opportunity to deliver ongoing cost reductions.

8.11 Prioritisation of Services and Projects

The Council has put into place a number of initiatives to ensure that the distribution of available resources are targeted at the areas that it has identified as being a high priority to its residents, partners and stakeholders as well as those priorities of its own. These include a public consultation and a meeting with partners.

A prioritisation model has been developed which seeks to ensure that there is a valid business case in place for any new initiatives (whether revenue or capital funded) before it is approved for inclusion the Borough's spending plans. It is the Borough's strategy to extend this process to include its existing revenue spending programme.

8.12 Formula Grant

Until recently the main source of finance for most local authorities was the Formula Grant, which consisted of revenue support grant and redistributed business rates. In April 2006 changes to the arrangements of funding schools means that, effectively, the Department for Education and Skills is defining the level of revenue expenditure on schools through the introduction of the Dedicated Schools Grant (see next section). There has been a corresponding reduction in the value of the Formula Grant.

At the same time, the Department for Communities and Local Government introduced a revision to the formula for assessing the spending needs of local authorities. The outcome of the revised formula was a reduction in Formula Grant entitlement of 24%. DCLG recognised that this level of loss would have an unacceptable impact on the ability of the Borough to deliver services and so 'damping' arrangements have been put in place.

These arrangements define, for each authority, a minimum level of grant known as the 'floor'. Whilst the floor is the subject of some technical adjustment it can be simply described as last year's grant plus an allowance for inflation. The proposed settlement for 2010/11 includes £8.719m as a damping grant. The MTFP assumes that this damping approach will continue and that the Borough will receive minimal increases in Formula Grant for the foreseeable future. DCLG assures local authorities that the floor will be adjusted for technical changes such as transfers of responsibility but it makes no allowance for volume changes such as the increasing numbers of Adult Care service users.

8.13 Dedicated Schools Grant

The Dedicated Schools Grant (DSG) was introduced in April 2006 as a ring-fenced grant to finance expenditure incurred by schools or by the local authority on behalf of schools. This change in funding was accompanied by a strengthening of the role of the Schools Forum in determining how this grant should be allocated.

Opinion may differ about the impact of this change on the central vs. local control argument but in many ways the new grant clarifies school funding arrangements. Gone now are the 'passport or not to passport' arguments and whilst the local authority does have the power to top up the DSG, in practice the DSG defines the amount to be spent on schools and reduces the pressure that schools budgets previously had on other service budgets.

The Borough Strategy welcomes the clarity brought by the introduction of the DSG and anticipates that school based service pressures will, in future, be funded from within that grant allocation.

8.14 Specific Government Grants

Specific Government Grants tend to be the financing mechanism used by Central Government spending departments to ensure that nationally set priorities are delivered locally. As part of the local vs. central debate there has been some move away from specific grants, at least to remove some of the restriction on how they can be used. However, specific grants are frequently incorporated into Formula Grants after a period of time. This can result in the Council getting more or less grant when this happens, as the allocation methods for specific and Formula Grants are usually different.

The Borough's Strategy is to maximise its entitlement to specific government grants by applying for grants, as they arise, where they can be applied to support local needs and priorities. Wherever possible, ensure that an exit strategy exists that will not result in an adverse impact on the delivery of core services when the grant is reduced or eventually ended.

8.15 Use of Reward Grant

The Borough welcomes the opportunity to work with partners to develop services in all areas and in particular on Local Area Agreements (LAA) initiatives. These initiatives carry increasingly significant benefits, both in terms of services to residents and potential reward grants.

When considering use of reward grants it is important to remember that they are largely one-off rewards that should not, therefore, be used to fund recurring expenditure. It would be most appropriate to consider 'invest to save' initiatives for these monies so that the Borough can derive longer-term benefits.

To this end the Borough will adopt the strategy of requiring the use of LAA rewards to be predominantly for non-recurring expenditure.

8.16 Income from Fees and Charges

The Council's charges for its services will be reviewed during the budget cycle. It is the Council's strategy that charges for services that are commercial in nature and for which suitable private sector provision is available will be set at a commercially sound level. Other charges will take account of relevant government regulation, market forces and any external supply (if appropriate). Fees and Charges will be reviewed annually and it is anticipated that, unless there are mitigating circumstances, income from these sources will rise by the rate of inflation or better.

This may be achieved by raising those charges, increasing usage or a combination of the two. When approving the fees and charges for the next financial year, the Council will bear in mind the lead time required to put in place all measures to ensure that charges can legally be increased (e.g. car parking charges) and will make its decisions in good time for the necessary measures to be taken. To date limited use has been made of powers to charge for Discretionary Services and it is an important part of the Borough's Strategy that opportunities for offering enhanced services that increase the Borough's revenue base are regularly assessed.

8.17 Capital Programme

The totality of each year's capital programme will be constrained to the total of the available financing in that year. Every scheme that is put forward for inclusion in the Capital Programme will need to be processed through the Council's "Prioritisation Model". The Capital Programme will include the full cost of a scheme spread across the years during which its development takes place. All schemes costing in excess of £15,000 will be shown separately in the Programme. Items of equipment valued at more than £5,000 will be treated as capital expenditure.

8.18 Capital Spending

More than 40% of the capital programme is financed from external sources, including developers' contributions and capital grants. Such sources are generally appropriate for some government priorities or for new work that becomes necessary as a result of development.

The Government generally identifies about £6 million a year of supported capital expenditure, mainly for education and highways, where in theory the debt charges on borrowing are met through Formula Grant. In practice, at present, as supported capital expenditure does not increase the grant floor, there is no grant support toward such expenditure. Nevertheless comparative performance assessments, such as LTP, are influenced by how much of the supported capital expenditure is actually incurred, and capital grants may be dependent on capital expenditure reaching a threshold. It is therefore part of the Strategy to identify elements of the capital programme that match these indicative allocations.

For other types of capital expenditure, including office accommodation and replacement equipment, there is no external support. For many years capital receipts have been used, but in future these are expected to be a limited resource.

Much of the capital spending is of recurring amounts, even though the locations change from year to year. Examples are replacement of short-lived assets and structural repairs or minor improvements to roads. To reduce the growth in loan debt the existing MTFP provides to build up annual revenue contributions towards such short-lived assets that are not externally funded.

8.19 Capital Financing

The Council is required to operate its Capital Financing in line with the "Prudential Code for the Financing of Capital Expenditure". This has removed borrowing controls laid down by central government and has replaced them with a duty placed on every council to ensure that its capital programme is affordable in terms of its long term impact on Council Tax. This Council was debt free after it sold its council housing stock in 1995. Since then it has sought to maximise its income from government grants, developer contributions and capital receipts and to tailor its capital expenditures with the income it receives from these sources. It is the intention of the Council, where possible, to minimise borrowing because of the revenue impact. It will adopt a policy of borrowing where a capital scheme is income generating and the income (from third parties) exceeds the annual costs of financing the loan or within the limits created by the government through their issue of Supported Capital Expenditure (SCE). The bulk of its capital programme will be financed by the council's own resources and these will be generated from: -

Government grants

Capital receipts

Other external income (e.g. S106 (Developer Contributions), S278 income)

Capital Fund

Funding from Revenue

It is possible to finance some capital spend from leasing but recent proposals implied excessive interest rates. This facility will continue to be monitored but there is no plan to expand use of leasing in the near future.

8.20 Capital Grants

Government support for capital spending includes supported borrowing and capital grant. As discussed elsewhere, in theory Formula Grant pays the financing costs on supported borrowing, but the Royal Borough does not benefit from increases in levels of supported borrowing because Formula Grant is at the floor.

Capital grants meet the capital costs of specific schemes or programmes. In the Borough's current financial position capital grants form a valuable source of funding. Unlike supported capital expenditure the Borough receives cash rather than funds to repay debt that may or may not be cashable depending on an authority's position with regard to revenue grant floors. It will, therefore, be part of the Borough's Strategy to lobby for extended use of capital grants and to look at the success of the Building Schools for the Future Path-finder project, used to develop the new Manor Green facility, which was grant funded.

Additional grants are available towards the financing elements of private finance initiative contracts. The Royal Borough has no such contracts, but needs to evaluate options using private finance to access Government support for major developments such as new school buildings.

8.21 Developers' Contributions

The securing of developer contributions will continue to assist the Council in meeting the costs.

The Borough has adopted the Strategy of co-ordinating the management of developer contributions in a single database with a view to maximising the benefits to be gained.

It needs to be recognised that, at times, large balances can accrue. These balances earn interest for the General Fund but due to the potential volatility of this source of income the Borough will appropriate some of the interest earned on them to support the capital programme, possibly through the Capital Fund, rather than manage varying levels of income in the revenue budget.

8.22 Asset Management

The Borough has a significant stock of property that incorporates Schools, Administrative and Operational buildings, and Commercial and Industrial Estates held for Economic Development purposes.

It is important that this holding is reviewed on a regular basis, to ensure that efficient use is made of these valuable assets. There is an inevitable revenue impact arising from maintaining this estate that needs to be considered on a five-year cycle.

The Borough Strategy needs to be developed to review the outcome of a revised Asset Management Plan that considers the cost and benefit of continuing to own and operate the property portfolio in its current form.

8.23 Asset Disposal

Capital Receipts have in the past been a valuable source of finance for the capital programme, particularly after the Housing Stock Transfer. Whilst it is unlikely that any sales of a significant nature will be identified it is important that regular reviews of operational assets are carried out to ensure efficient use of those assets. In addition to potential capital receipts, disposal of surplus assets can clearly reduce running costs as well.

The Borough has the policy of reviewing its asset base on a regular basis to ensure efficient utilisation.

Valuable as they are, use of capital receipts can result in a varying degree of capital finance availability from year to year. The Borough will, therefore, adopt the strategy of limiting the use of capital receipts to a sustainable level so that the benefit of anticipated receipts can be spread over several years.

8.24 Capital Fund

This fund was established to optimise the use of income of a capital nature. The anticipated balance at 31 March 2010 of a £1.1 million, with planned usage of £0.7 million in 2010/11 towards the capital programme generally and no subsequent commitments. The Borough will, where possible, adopt the strategy of using the Capital Fund to purchase short-lived assets in the Capital Programme, including computer and telephone equipment and software, vehicles, refuse containers and sports equipment. The Capital Fund should also be made available as a preferred alternative to leasing such items even when there is no capital programme provision.

Annual operating lease charges on similar assets committed for 2006/7 are £604k. These charges include an interest element that is probably much more than the Council earns on its investments. Operating leases used to be a way to avoid losing

the status of a debt free authority. But they are now in practice often an expensive source of finance unless assets are needed for much less than their economic lives.

It is recommended that the medium-term aim should be for such items to be purchased from the Capital Fund. It will, therefore, be necessary to replenish the Capital Fund each year. The existing MTFP provides £1 million in 2010/11 increasing by £200k per year in subsequent years that could be used towards meeting these contributions. As leased assets are replaced on the expiry of their leases, contributions should also be made to the Capital Fund equivalent to the savings in annual revenue costs to services resulting from no interest being charged and full life depreciation and service budgets adjusted accordingly. The interest earned on any increase in the balance of developers' contributions could also be added to the Capital Fund.

Until the Capital Fund becomes self-sustaining, capital receipts may be used to top up the financing of short-lived assets.

8.25 Carbon Management

The Council sees Carbon Management as a priority area. Funding has been attracted from SALIX to finance a series of energy saving initiatives. In accordance with the agreement with SALIX the Council undertakes to ensure that a contribution is made to the "SALIX Fund" equivalent to the annual savings generated from the projects until the investment has been repaid. This contribution will come from the Council's capital Fund thus enabling those savings generated in service budgets to remain to incentivise manager's involvement in these projects.

8.26 Reserves and Balances

This refers specifically to those reserves of the Council that are "cash backed" and available to fund expenditure rather than non-cash backed reserves created by asset revaluations etc. The Council holds a number of reserves some of which are specific (earmarked) and others general in nature.

8.27 Insurance Fund

The Insurance Fund exists to enable the Council to self-insure itself against smaller claims and to limit its total liability for losses. In this way the fund facilitates the use of the most cost effective methods of insurance against the occurrence of high cost and high frequency claims. The appropriate level of the reserve is determined by bi-annual actuarial valuation of the fund.

The Insurance Fund charges premiums to services and meets the costs of claims that are borne by the Council. Some risks are entirely borne by the Fund and about two thirds of the risks arise because insurers require the Council to bear part of each claim up to a stop-loss level.

The balance of the Insurance Fund at 31 March 2009 was £2.66 million after providing for all notified claims that had yet to be settled at that time. As an indication of the maximum level of risk, the total of all the stop-losses on external policies is £1.3m per annum. The main components are liability (£0.8m) and property (£0.5m). Because there are limits up to £150k on the self-funded amounts of each claim, the stop loss level could not be reached by a single large claim.

8.28 General Fund Reserves

The Borough needs to ensure that it has a prudent level of reserves sufficient to cover the likely unpredictable financial consequences of any adverse events affecting the Council or its residents.

The strategy is that as part of its budget setting process the Borough officers carry out a risk based assessment of the likely consequences of those events. This assessment will provide two figures: the first is an assessment of the financial impact of those events; the second is an assessment of the probability of those events occurring in any one year that will derive an annual contribution. If an assumption is made that a particular event or events may occur, sooner or later, then the Borough needs to include a contribution to the annual budget for replenishing reserves after that event. Failure to do so could result in reserves falling below an optimum level.

8.29 Development Fund

Within this strategy it is important that efforts are made to create a Development Fund from within Revenue reserves. The programme of continual improvement will require funding to facilitate further service developments and efficiency savings. A scheme is to be developed that will allow service directors to bid for limited additional funding, from the development fund, on the understanding that such funding will be repaid over an agreed number of years from within service revenue budgets. It is anticipated that an initial sum of £500k would be required for this fund.

8.30 Budget Management

To ensure best use of resources, budget management is of great significance. Directors are already encouraged to actively manage budgets to ensure that services are delivered within the overall budgets approved for the year. The Borough's current processes are fairly rigid with work carried out through September – November forming the background for budget approved in the following February for the financial year starting in April.

A number of services are delivered in a fast moving environment with changes in priorities both local and national as well as volume changes. Directors will be given the opportunity, twice a year, to carry out a review of their business plans and to refine budget allocations. It is envisaged that these reviews will be carried out in September and December.

Where forecasts anticipate levels of expenditure in excess of those included in the budget, Directors will be required to agree measures, in consultation with Lead Members, to reduce spending to the budgeted levels.

The Borough's strategy for such an eventuality will be to examine opportunities that may include:

Freezing vacant posts where front line services are not involved;

Re-phasing projects, revenue and capital, to reduce pressure in the year in question;

Investigating longer term solutions, if appropriate, that require an initial investment of time or money, with a proven pay back period;

Reviewing charging policies, increase or decrease, to generate more income.

Where forecasts anticipate levels of expenditure below those anticipated it is equally important that Directors consult Lead Members on the use of any surplus funds.

The Council expects all directorates to deliver their services within the budget allotted to them and in the event that they anticipate overspending in an area, to put forward plans to contain that overspending. At the end of each year each Director will be required to produce an annual report that considers major budget management issues addressed during the year, for incorporation in the final accounts.

GLOSSARY OF TERMS

Capital Expenditure	Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing asset.
Capital Finance	The permanent means of paying for Capital Expenditure. Examples are Capital Receipts, Capital Grants, Developers' Contributions, the Capital Fund and Direct Revenue Funding.
Capital Finance Requirement	The net total of balances of Capital Expenditure and Capital Finance. It is a measure of the capital borrowing requirement. Because the Capital Finance Requirement is different from the credit ceiling calculated according to earlier rules, the Adjusted Capital Finance Requirement is adjusted for the difference on 1 st April 2004.
Capital Fund	An earmarked reserve to finance some Capital Expenditure, which may be short-lived assets such as computers, equipment and vehicles. It can be replenished by contributions equivalent to depreciation and/or interest on the value of assets acquired.
Capital Receipts	The proceeds of disposal of assets whose acquisition was Capital Expenditure. With some exceptions (notably housing) Capital Receipts can be used to finance any Capital Expenditure.
Council Tax	The only local tax that is set and retained by the Council.
Debt	This refers to the amount of long term money borrowed by an authority or for which the authority has responsibility to repay and which was used to finance the acquisition of fixed assets. It is similar to a mortgage on a private person's home. The Council's debt is usually of a similar amount to the Adjusted Capital Finance Requirement.
Dedicated Schools Grant (DSG)	A Government Grant that can only be spent on schools and a few other items of education expenditure. When DSG was introduced in 2006, Revenue Support Grant was reduced by a similar amount.
Depreciation	The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time, or of obsolescence through technological or other changes.
Developers' Contributions	Payments from developers receiving planning permission to compensate the Council for extra costs arising as a result of development.
Government Grants	Assistance by government and inter-government agencies and similar bodies, whether local or national, or international, in the form of cash or transfers of assets to a local authority in return for past or future compliance with certain conditions.
Grant Floor	A level of grant providing a guaranteed minimum increase over the previous year.
Minimum Revenue Provision (MRP)	The minimum amount of an authority's external debt that must be set aside to repay its long term loans.
Precepts	The amount that the authority is required to collect from Council Tax payers to fund another, non tax collecting authority's expenditure. Precepts are issued by Parish Councils and the Thames Valley Police Authority and the Royal Berkshire Fire and Rescue Authority.
Relative Need Formula (RNF)	A measure of a local authority's spending need relative to other authorities, used as part of the process for setting Revenue Support Grant.
Revenue Support Grant (RSG)	The main non-service specific grant from Central Government to fund local authorities' expenditure.
Supported Capital Expenditure (SCE)	The level of Capital Expenditure that the Government expects a local authority to incur, broken down over services. In theory either Capital Grant or extra Relative Need Formula towards Debt Charges is provided. In practice there is no extra Revenue Support Grant for a local authority at the Grant Floor.