

## SLOUGH BOROUGH COUNCIL

**REPORT TO:** Overview & Scrutiny Committee  
Cabinet

**DATE:** 27<sup>th</sup> January, 2011  
7<sup>th</sup> February, 2011

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**WARD(S):** All

### PART I FOR COMMENT AND CONSIDERATION

#### Medium Term Financial Strategy Report

#### **1. Purpose of Report/Decision Sought**

- 1.1 The content of this report reflects the basis of the Council's revenue and capital budget for the financial year 2011/2012. At this stage of the process the usual purpose for Officers is to obtain Cabinet's approval for Slough Borough Council's Financial, Capital and Treasury Management strategies, in advance of submission for agreement at the full Council meeting on 21 February 2011. At present the attached draft budget does **not** present a balanced position and decisions are needed in order to address the residual shortfall.
- 1.2 The issues for consideration are highlighted on the coloured pages of the document and affect the council's costs only, there will be no impact on Council Tax levels as a result of decisions members may take.
- 1.3 Changes to public sector funding have, as expected, resulted in significant financial challenges. Unexpectedly, some services have not received any element of national funding at all and members must decide how they want to address this. In making these difficult decisions members can reduce the cost base and consequently close the budget gap. Alternatively, Members can require further savings from other areas to enable them to continue to support unfunded services.
- 1.4 The complete document is presented as a draft budget report for your review. The report sets out the required Revenue, Capital and Treasury Management Budgets over the medium term and for 2011/12. The annual Capital and Revenue Budgets identify the resources required to deliver the full range of council services. Subject to decisions taken to address the budget deficit to secure a balanced budget.
- 1.5 The main purpose of this report is then to obtain Cabinet's approval for Slough Borough Council's Financial, Capital and Treasury Management strategies, in advance of submission for agreement at the full Council meeting on 21 February 2011.

1.6 The report is essentially structured across six themes:

1. The Council's Priorities
2. The Council's Financial Planning Process
3. The Revenue Budget 2011/12
4. The Capital Budget 2011/12
5. Treasury Management
6. Detailed Appendices

1.7 The report sets out the Strategic Director of Resource's recommendations for the 2011/12 revenue and capital budgets; and updates the Cabinet on the likely precept requirements of the Thames Valley Police Authority and Royal Berkshire Fire Authority for 2011/12.

## **2. Recommendations**

### **2.1 Cabinet is requested to:**

Consider options and agree actions to address the budget deficit as set out on supplementary appendices 1 (*note to Commissioners content of the supplementary appendices and available options for members will be discussed and agreed at Commissioner and Directors meeting 20<sup>th</sup> January and then included in the report to be distributed to scrutiny and cabinet*)

*(Note to Members: This draft budget represents an uncertain position that is likely to change as further confirmation of grant funding is received. There will remain a deficit position. Proposals for addressing the shortfall will follow in a supplementary paper to members on Tuesday 25 January 2011.)*

### **2.2 Subject to 2.1 above, The Cabinet is then requested to recommend to full Council:-**

- a) That the capital programme for the financial year 2011/12; and provisional allocations for 2012/13 to 2016/17 as set out in Appendix H be approved.
- b) That the Capital Allowance as set out in the Capital Programme section of the report be approved
- c) That the implications of decisions in 2011/12 and of future developments on the medium-term financial position be noted.
- d) That the Growth and Savings items in Appendices D (i) and D (ii) be approved.
- e) That the Directorate cash limits for 2011/12, 2012/13 and 2013/14 as shown in Appendix F be approved.
- f) That the Council's Policy for Reserves 2011/12, as set out in paragraph 5.54, be approved.
- g) That the capital programme for the financial year 2011/12; and provisional allocations for 2012/13 to 2016/17 as set out in Appendix H be approved.
- h) That the Capital Allowance as set out in the Capital Programme within Section 8 of the report be approved
- i) That the Treasury Management Strategy Statement and Investment Strategy within Section 9 be approved.
- j) That the authorised borrowing limit and the operational boundary for external debt as set out in the Treasury Management Strategy Statement be approved.

- k) That the Prudential Indicators and the Minimum Revenue Provision (MRP) statement as set out in the Treasury Management Strategy Statement section of the report be approved.
- l) That the Council Tax for the areas of Slough Borough Council for the year ending 31 March 2012 be as specified in the Council Tax Resolution in Appendix C and that the Council Tax be levied accordingly.
- m) That in agreeing the above recommendations and the Revenue Budget in Appendix B, we note that the effect of all these measures is to produce an overall Council expenditure in 2011/12 of £105.110m.

2.3 That the Local Authority Mortgage Rate for 2011/12 be approved at 4.35%.

### **3. Other Implications**

#### Financial

3.1 This report is entirely concerned with financial matters as it relates to the Council's Revenue, Capital and Treasury Management Budgets for 2011/12. All financial implications are clearly set out within the body of the report.

#### Human Rights Act and Other Legal Implications

3.2 The Council has various legal responsibilities around financial matters but it is most important that it does not plan to spend more than the resources available to it in any one year. This report presents the projected financial position of the Council for 2011/12 and future years and suggests actions to be considered by Members in order to deliver a balanced budget that will commence in April 2011.

3.3 Section 25 of the Local Government Act 2003 requires the Section 151 Officer to report to the Council when it is setting the budget and precept (council tax). The Council is required to take this report into account when making its budget and precept (council tax) decision. The report of the Section 151 Officer, attached as Appendix G, must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

3.4 In summary:

The Strategic Director of Resources reports that the estimates of income and expenditure forming the Council's General Fund Revenue Budget for 2011/12 have been prepared on the basis of existing plans, known current and future commitments and the financial implications of the proposals for service development, improvement and efficiencies.

Where it has been necessary to do so, in the case of certain budgets (e.g. pay, investment income and income from fees and charges), assumptions have been used for inflation, interest rates and service take-up that, on the basis of current and predicted levels of activity, are considered to be reasonable and prudent.

However, Members will appreciate that some budgets are more sensitive and responsive to changes in demand, often caused by factors outside of the Council's control. In the event of any unanticipated changes it may be necessary to take

corrective action and the effectiveness of this relies on good systems of budgetary control, monitoring and risk management.

It is important, therefore, to review actual performance against budget on a regular basis in order to ensure budgets remain on track, particularly the realisation of savings/efficiency proposals as well as being proactive in identifying emerging risks and responding accordingly, taking remedial action where this is appropriate.

Set within this wider control framework and the adequacy of the Authority's financial arrangements generally, the Chief Financial Officer considers the Council's budget estimates for 2011/2012 to be robust although the medium term position facing the Council remains challenging.

With regard to the medium term, Members will be aware of a number of pressures facing the Council. These need to be considered in the context of the national framework being applied to local government, which, amongst other things, requires increasing efficiencies and restrictions on council tax increases. Against this backdrop the expectation is that, future years budgets will come under increasing pressure with a growing emphasis on prioritisation, efficiency, innovation and collaboration in service delivery. Members may therefore face difficult decisions in later years in order to sustain a balanced budget over the medium term.

Whilst this has been reflected in part within the current service and financial planning framework the work required is likely to intensify for subsequent budget rounds.

### 3.5 With regard to the financial reserves:

The Strategic Director of Resources reports that, having conducted a review of the Council's requirement for the minimum working balance, taking into consideration various matters including:-

- the Council's spending plans for 2011/12 and the medium term financial position;
- adequacy of estimates of inflation, interest rates;
- treatment of demand led pressures;
- impact of external partnerships;
- the need to respond to emergencies.
- Capital programme variations.

an amount of £5m is considered adequate for this purpose.

However, the extent to which the levels of general fund balance is diminishing in proportion to the forecast growing budget is a situation that is not sustainable over the medium term without a need to align expenditure more closely with ongoing resources and adopt a risk based approach . Combined with the uncertainty surrounding the outcome of the grant settlement, additional spending pressures arising due to demand led services and demographic pressures will mean that the level of general fund balances and unallocated reserves will need to be increased and maintained under review to secure sound financial standing in future years.

*This statement is made on the understanding that any use of reserves and balances is undertaken in accordance with the Council's existing Financial Procedure Rules.*

3.6 There are no other Legal or Human Rights Act implications.

#### Workforce Implications

3.7 There are a number of budget savings options contained within the report that will directly impact on established posts. If Members are inclined to approve these savings, then consultation will need to be undertaken with affected staff and could result in some compulsory redundancies.

3.8 If there are potential redundancies then the Council will follow the process of inviting expressions of interest in Voluntary Redundancy, seeing if staff would be prepared to work reduced hours and looking across the whole organisation at potential redeployment opportunities, even with these measures, the level of savings required some compulsory redundancies can not be ruled out.

### **4. Allocation of Resources to Council Priorities**

#### National Priorities

4.1 SBC's financial and service planning is informed by the national economic position and influenced by the Government's priorities and expectations. For the period 2011/12 to 2014/15 the Government's spending plans were set-out in the Comprehensive Spending Review 2010, published on 20 October 2010.

4.2 In his speech announcing the Spending Review, the Chancellor of the Exchequer stated that the Government intended to 'eliminate' the £109bn UK structural deficit by 2015/16. As such, the Spending Review detail essentially outlined a significant reduction in public expenditure over the next four years. The Chancellor also stated that he was proposing three principles to apply to the spending decisions made in the Spending Review 2010:

- 1) Reform: "that in every area where we make savings, we must leave no stone unturned in our search for waste and we must deliver changes necessary to make our public services fit for the modern age."
- 2) Fairness: "that we are all in this together and all must make a contribution."
- 3) Growth: "that when money is short we should ruthlessly prioritise those areas of public spending which are most likely to support economic growth, including investments in our transport and green energy infrastructure, our science base and the skills and education of citizens."

4.3 The headline figures for local government were an average reduction in formula grant funding of 7.1% per annum over the four years of the Spending Review, as illustrated below. It is important to note that:

- This funding reduction is front-loaded; and

- The formula grant figure includes £3.4bn of specific grants that the Government will roll-into the general funding system from 2011/12, and includes general funding for police and fire authorities.

**Table 1 – Local Authority Funding (including Police and Fire)**

	Baseline				
	2010/11 £billion	2011/12 £billion	2012/13 £billion	2013/14 £billion	2014/15 £billion
Resource DEL	28.5	26.1	24.4	24.2	22.9
of which Formula Grant	28.0	25.0	23.4	23.2	21.9
of which Council Tax Freeze	-	0.7	0.7	0.7	0.7
of which Other	0.5	0.5	0.4	0.4	0.4
<b>Change</b>					
Resource DEL		-8%	-7%	-1%	-5%
of which Formula Grant		-11%	-6%	-1%	-6%

*LG DEL includes funding for police and fire authorities. Excluding these contributions LG DEL for councils will fall by 28%*

- 4.4 The actual formula grant reductions for SBC, as announced at the recent provisional local government finance settlement 2011/12, are 11.1% and 8.3% in 2011/12 and 2012/13 respectively. The provisional settlement 2011/12, for SBC, is considered in further detail in paragraph 5.1 onwards, below.
- 4.5 The Spending Review also provided some information concerning particular items/issues which are likely to impact on local authorities in the medium term. Wherever possible, the Medium Term Financial Strategy seeks to take these items/issues into account; however, in many cases further detail will be required before any financial impact on SBC can accurately be ascertained. Officers will continue to monitor developments and report to Members as appropriate. Significant items/issues of note include:
- Local authorities are expected to make reductions of around 30% in overall capital expenditure, including reductions of around 45% in capital funding from Government departments over the next four years – the SBC Capital Programme has been subject to review and reprofiling;
  - Prudential borrowing will be allowed to continue. However, interest rates on Public Works Loan Board (PWLB) loans to local authorities have been increased to 1% above Government gilts. SBC's Capital Budget and Treasury Management Strategy now take this into account;
  - The amount of self-financed capital expenditure is forecast to fall, nationally, by 17% over 2011/12 to 2014/15;
  - The Government will reduce spending on Council Tax Benefit by 10% and seek to 'localise' it (i.e. local authorities will be responsible for determining how the benefit reduction will be made) from 2013/14 – the Government has not yet announced sufficient detail to allow officers to assess how this initiative will impact on the MTFS;
  - In 2011/12, local authorities will be able to capitalise up to £200 million, of essentially redundancy payments, to accelerate reforms of local services – the Government has not yet announced sufficient detail to allow officers to assess how this initiative will impact on the MTFS;

- Ring-fencing of all revenue grants will end from 2011/12, except the ‘to-be-simplified’ Dedicated Schools Grant and a new public health grant – this has been reflected in SBC’s MTFS;
- The number of separate core grants will be reduced from over 90 to less than 10, including a single non ring-fenced Early Intervention Grant worth around £2bn by 2014/15 – this has been reflected in SBC’s MTFS;
- More than £4 billion of revenue grants will be rolled into Formula Grant over the Spending Review period. The Government’s general intention is that grants rolled into Formula Grant will initially do so in a way which broadly reflects the existing distribution of the specific grant – this has been reflected in SBC’s MTFS;
- Local authorities and their partners will be able to stop reporting the 4,700 Local Area Agreement targets, and those that are kept will not be monitored by Government. The Government will work with councils to reduce the amount of data local government is asked to collect by central government, and develop a single, comprehensive list, to be reviewed annually – no adjustment has been made to the MTFS to reflect this.

### Local Priorities

4.6 Within this challenging financial climate, SBC, and other partners - such as the Berkshire East Primary Care Trust (PCT) and Police and Fire Authorities – are committed to continuing to progress the 20 year Sustainable Community Strategy (SCS) “Proud to be Slough”. The SCS sets out the most important priorities, identified by the local community itself, as follows:

- Community Cohesion – Celebrating diversity, enabling inclusion
  - Improve community relations further
  - Foster dialogue between communities and prioritise community cohesion
  - Resist violent extremism in all its forms
- Health and Wellbeing – Adding years to life and life to years
  - Provide services to meet children and young people’s needs
  - Support independent living for the vulnerable and the elderly
  - Provide access for all to quality health services and leisure facilities
  - Promote healthier lifestyles and increase life expectancy
- Economy and Skills – Prosperity for all
  - Provide employment for local people
  - Offer diverse jobs to match the community’s needs
  - Provide local training centres to address skills gaps
  - Give local support to help develop a local workforce.
- Community Safety – Being safe, feeling safe
  - Reduce crime and the fear of it
  - Provide support and rehabilitation for drug and alcohol users
  - Tackle the causes of crime and anti-social behaviour
- Environment – A cleaner, greener place to live, work and play
  - Improve public spaces
  - Instil a sense of pride in our community and the local environment

- Create a strong culture of recycling, improve energy efficiency and promote sustainable public transport.

#### Allocation of resources to priorities

4.7 The proposed revenue and capital budgets, contained within this report, are a reflection of the Council's ongoing prioritisation of resources to ensure SBC's services are focussed on delivering the strategy outlined above in the face of significant funding reductions. The budget proposals contained within this report include growth items for the following:

- **Community Cohesion – Celebrating diversity, enabling inclusion**  
£15k – Youth Transport Provision
- **Health and Wellbeing – Adding years to life and life to years**  
£75k – Care packages  
£20k – Slough Deaf Centre
- **Economy and Skills – Prosperity for all**  
£90k – Slough Libraries
- **Environment – A cleaner, greener place to live, work and play**  
£100k – Real Time Passenger information  
£100k – Initiatives relating to Houses in Multiple Occupation.

#### Budget Consultation

4.9 The Council is under a statutory obligation to consult with local businesses on its proposed revenue and capital budgets each year. Best practice also suggests that the Council should consult with its local residents.

4.10 Slough BC makes significant efforts to consult with stakeholders on its budget proposals each year. The recognised benefits of this approach include the following:

- Provide members with information to support decision making
- Promote public involvement in decision making
- Identify priorities for spending
- Identify areas in which spending reductions are seen as most acceptable
- Raise awareness about how finances are spent
- Raise awareness of the Council's sources and levels of funding

4.11 This year residents have been consulted through a wide range of qualitative and quantitative consultation methods including: meetings with local community groups; local businesses – via the Slough Community Local Business Partnership and the Chamber of Commerce; meetings with local parishes; an article in the Citizen (Slough's free newspaper); and a dedicated consultation officer to deal with telephone and email enquiries. Residents were also invited to write or email the Council with any comments; and Council staff were kept informed through the internal magazine "Grapevine", regular Planning for Future meetings and asked to feedback any views.



4.12 The consultation process was designed to be as inclusive as possible, seeking the views and opinions of residents, stakeholders, the business and voluntary sectors. Understanding the views and opinions of local people has assisted Cabinet as it develops and finalises the budget for the financial year ahead. The feedback obtained has also been used by council services alongside other sources of customer intelligence and feedback when developing service plans and in continued implementation of the council's vision.

## **5. Financial Planning**

5.1 Robust financial planning and control processes are essential tools for a local authority to demonstrate good governance over public funds and to achieve value for money. Slough BC is continually seeking to improve in this area.

5.2 This section of the report provides an overview of the Council's Financial Planning Process.

### The Financial Planning Process

5.3 Each year, the Council must prepare a budget that fulfils five main purposes:

- To set the level of Council Tax for the forthcoming financial year;
- To prioritise resources;
- To authorise expenditure;
- To provide a base to control expenditure and income;
- To establish targets against which performance and achievements can be measured.

5.4 The Council begins its budget setting process early in the financial year to enable options to be fully considered and explored before decisions are made. The key events in Slough BC's annual financial cycle are set out below:

#### **February to April**

Council agrees general revenue budget framework; capital budget framework; associated council tax levels; and treasury management policy.

Council tax and non-domestic rate bills are despatched.

#### **April/May**

Work commences on next year's revenue and capital budget frameworks.

#### **June/July**

Previous year outturn reports to Committees

Policy and Performance Review Group (PPRG) meet to review revenue and capital budget strategies.

#### **August/September**

Financial Reviews (i.e. Fees and Charges, Option Appraisals, Growth and Savings options).

#### **October**

Policy and Performance Review Group (PPRG) meet to review revenue and capital budget strategies.

<b>November/December</b>	Financial Reviews (i.e. Fees and Charges, Option Appraisals, Growth and Savings options).
<b>December</b>	Government publishes provisional local authority funding levels for next year for consultation.  Precepts announced by Parish Councils.  Council tax-base and collection fund surplus/deficit calculated.
<b>January</b>	Financial reviews completed.  Government publishes final local authority funding levels for next year.  Council housing rent and Housing Revenue Account business plan review.
<b>February</b>	Precepts and levies announced by Fire and Police Authorities
<b>February to April</b>	Council agrees general revenue budget framework; capital budget framework; associated council tax levels; and treasury management policy.  Council tax and non-domestic rate bills are despatched.

#### Roles and responsibilities

##### Policy and Performance Review Group (PPRG)

- 5.5 Within Slough, priorities and objectives are set for the medium-term whilst departmental plans are submitted, considered and updated on an annual basis. The main focus of this process is the Policy and Performance Review Group (PPRG) meetings which are usually held twice a year in July and October. However, in 2010 meetings were held in July, October and November. PPRG meetings provide an opportunity for service departments to put forward new service proposals for the Administration to consider, refine their existing plans and demonstrate how they will balance their budget in the coming years. The PPRG process also gives the Administration the opportunity to engage with Service plans and to re-prioritise resources where appropriate.
- 5.6 The Administration and Service Departments are well aware of the constant need to provide Value for Money (VFM) in the services provided to the Council's residents and the particular Government imposed financial restraints inhibiting the Council. Alongside the constant in-year review of VFM, the PPRG process enables existing priorities to be challenged by Lead Commissioners and Officers and ensures all growth and savings options are scrutinised and perceived to be robust.  
*Elected Members and Officers*

- 5.7 Although the PPRG process is essentially led by the Council's Administration and Corporate Management Team (CMT), all elected members and officers have an important role to play in the overall financial planning and monitoring processes.
- 5.8 Full Council: Under the Local Government Act 2003, the budget and consequent Council Tax demand must be agreed by Full Council regardless of the political structure in operation at the authority. Ultimately, therefore, the agreement of the budget is determined politically.
- 5.9 The Local Government Finance Act 1992 also requires precepting authorities to agree and issue their precept to billing authorities before the 1<sup>st</sup> March, with billing authorities being required to set the Council Tax by 11<sup>th</sup> March prior to the commencement of the new financial year on 1<sup>st</sup> April. Slough BC's budgeting process, therefore, culminates in a meeting of full Council, in February each year, to approve the budget for the forthcoming year.
- 5.10 Full Council has less of a role in budget monitoring, due to the more detailed nature of the information, but receives regular management information highlighting key budget and service performance issues, including details on the planned action by either officers or Cabinet to address the issues raised.
- 5.11 Cabinet: The Cabinet is responsible for presenting a budget to full Council for approval. Clearly, whilst much of the detailed work is undertaken by service officers and the finance department, the Cabinet provides oversight and strategic input into the budget construction process, as noted above through the PPRG process, establishing and monitoring systems and processes to ensure that the draft budget is acceptable and will deliver the Council's agreed policies, aims and objectives.
- 5.12 Whilst detailed budget monitoring is carried out by service managers, Commissioners maintain an overview of budget and service performance issues and challenges within their area of responsibility, and the Cabinet receives and reviews regular reports detailing overall service and budget performance and highlighting any particular challenges. These reports are debated in order to develop and agree appropriate strategies, if required, to ensure that performance and spending are brought back on plan.
- 5.13 Overview and Scrutiny: The Local Government Act 2000 establishes the role of scrutiny as one of holding the Executive to account and to ensure that decision making is efficient, transparent and accountable. Effective scrutiny can add value to the budget making process by challenging the financial planning process to ensure that it is sufficiently integrated with the corporate and service planning process and examining how resources are allocated, making recommendations as to how resource allocation and value for money could be improved.
- 5.14 Overview and Scrutiny receive the service and budget monitoring reports discussed by Cabinet, and can conduct their own reviews and investigations to add value to the overall performance monitoring process as part of their on-going work load.

## Key Considerations in the Financial Planning Process 2011/12

### Funding Constraints

5.15 The Council, effectively, has three main sources of revenue income to fund its non-school services each year:

- 1) Formula grant: the main general funding stream provided by Government.
- 2) Council tax.
- 3) Specific grants: grants provided by Government to be spent on particular services/initiatives.

#### *Formula Grant*

5.16 Based on the prevailing economic climate, Members and officers have been preparing for significant funding reductions from 2011/12. Although the national and trade press has been forecasting significant public sector funding reductions since the start of 2010, it was not until October 2010 – when the Comprehensive Spending Review was announced – that actual ‘high-level’ forecasts were published by Government; with detailed ‘provisional’ individual authority financial allocations only being provided by Government on 13 December 2010. ‘Final’ financial allocations are not expected to be confirmed until the final week of January 2011.

5.17 In order to compensate for this lack of financial information, the finance department created a funding forecast model which took into account a range of possible funding scenarios and their likelihood of actual occurrence. This model was used to inform the budget process throughout 2010 and, in hindsight, has proved to be relatively accurate – the model used to inform the Council’s PPRG process predicted the council’s formula grant would reduce by 11.8% and 8.3% in 2011/12 and 2012/13, respectively – in fact, on a like-for-like basis, formula grant will be reduced by 11.1% and 8.3%.

5.18 Unfortunately, foreseeing these significant funding decreases has not made the budget process easier. Difficult decisions have inevitably had to be made.

#### *Council Tax*

5.19 The Conservative party made a manifesto commitment to ‘freeze’ council tax for two years from 2011/12. On entering into a Coalition Government, this commitment was reduced to one year only. In 2011/12, the Government will be providing a specific grant, with no conditions attached, that represents the income the council would have received had it increased its council tax in 2010/11 by a further 2.5% (£1,187k) if the Council agrees to freeze its council tax for 2011/12. This specific grant funding has been included in the MTFs assumptions, although Members are asked to note the analysis of the Government’s current capping policy – see para.5.36

#### *Specific Grants*

5.20 Historically, from a revenue budget perspective, the Council has paid particular regard to the Area Based Grant (ABG). The previous Government’s definition of ABG was:

*“Area Based Grant is a general grant allocated directly to local authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.”*

- 5.21 By the end of 2010/11, following a number of ‘in-year cuts’, made by the Coalition Government in June 2010 as its first attempt at ‘reducing the budget deficit’, the ABG provided SBC with £11.1m of revenue funding and encompassed fifty-one separate funding streams, as follows:

**Department for Children, Schools and Families**

School Development Grant (LA Element)  
Extended Schools Start Up Costs  
Primary National Strategy – Central Co-ordination  
Secondary National Strategy – Central Co-ordination  
Secondary National Strategy – Behaviour and Attendance  
School Improvement Partners  
Education Health Partnerships  
School Travel Advisers  
Choice Advisers  
School Intervention Grant  
14-19 Flexible Funding Pot  
Sustainable Travel General Duty  
Extended Rights to Free Transport  
Connexions  
Children’s Fund  
Children’s Trust Fund  
Positive Activities for Young People (Continuing Investment)  
Teenage Pregnancy  
Children’s Social Care Workforce  
Youth Taskforce  
Care Matters White Paper  
Child Death Review Processes  
Young People’s Substance Misuse  
Designated Teacher Funding  
LSC Staff Transfer Special Purpose Grant  
January Transfer

**Department of Health**

Adult Social Care Workforce  
Carers  
Child and Adolescent Mental Health Services  
Learning and Disability Development Fund  
Local Involvement Networks  
Mental Capacity Act and Independent Mental Capacity Advocate Services  
Mental Health  
Preserved Rights

## **DCLG**

Cohesion

Economic Assessment Duty

Supporting People Admin

Supporting People

Preventing Violent Extremism

Climate Change

NI 160 Status Survey

Familiarisation costs of new statutory guidance on social housing allocation

Petitions

## **Home Office**

Stronger and Safer Communities Funds

Young People's Substance Misuse

Community Call for Action/Overview & Scrutiny Committee

## **Department of Transport**

Detrunking

Road Safety Grant

## **Defra**

Environmental Damage Regulations

Surface Water Management Plans

## **CPU**

Child Poverty

5.22 Although the Government also provided over £17.4m of other specific grants in 2010/11, these were assumed to be revenue neutral for the purposes of SBC's revenue budget as all income received was essentially matched to Council expenditure relating to the specific grant requirements.

5.23 From 2011/12, the Government has made substantial changes to the previous specific grant regimes:

- The Government has removed ring-fencing from a number of specific grants and rolled-them into individual local authorities' formula grant allocations. As such, these specific grants are now part of the Council's overall general funding allocation without any conditions attached; and, therefore it is ultimately for Members to decide how this general funding is spent. In a recent Impact Assessment, considering overall funding reductions to the Supporting People programme, the Government stated:

*"We will give greater freedom, by streamlining grant funding and removing burdens so councils can prioritise and allocate budgets to support public services in ways which meet the needs of local people and communities.*

*We will increase fairness by devolving control over budgets to councils so they can move towards more personalized and effective provision of services for vulnerable groups.*

*We will give more responsibility by freeing up funding and reducing bureaucratic controls so councils and their partners can focus on their priorities, helping to manage demand on services and reduce costs to society.”*

The provisional allocations for SBC, in 2011/12 and 2012/13, are highlighted in the Table below. The MTFs assumes the Council will continue to fund these specific grants at their 2010/11 levels.

<b>Grants Rolled in using Tailored Distributions</b>		
	<b>2011/12</b>	<b>2012/13</b>
	<b>£m</b>	<b>£m</b>
Local Transport Services (formerly Detrunking and Road Safety Grant)	0.135	0.123
Supporting People	4.627	4.613
Housing Services for Older People	0.029	0.026
LSC Staff Transfer	0.288	0.262
HIV/AIDS Support	0.166	0.181
Preserved Rights	0.287	0.280
Animal Health and Welfare	0.004	0.004
<b>Total Grants Rolled In</b>	<b>5.536</b>	<b>5.488</b>

- The Government has abolished the Area Based Grant, from 2011/12, and its individual funding streams have either:
  - Rolled into formula grant (£6.6m); or
  - Transferred into the new 'Early Intervention Grant' which comprises of £2.8m of previous ABG, Sure Start Grants, Children and Young People's Grants, Youth Opportunity Fund, Foundation Learning (SF), Targeted Mental Health in Schools, and the Contact- Point Grant; or
  - Ended (net £1.4m in total); or
  - The outcome is, as yet, unknown (£336k).

In addition to its treatment of those specific grant items rolling-in to formula grant, the MTFs currently assumes that the Council will:

- Be able to operate the necessary services within the Early Intervention Grant funding envelope;
  - Will reduce its expenditure to reflect those ABG items that have now ended or are, as yet, currently unknown.
- There remains a further £2.9m of other specific grants where information concerning 2011/12 funding allocations, if forthcoming at all, are yet to be confirmed. The current MTFs assumes these grants will continue.

### *New Homes Bonus*

- 5.24 From 2011/12, the Government intends providing a new, unringfenced, specific grant, “the New Homes Bonus”, the aim of which is “to create a powerful, simple, transparent and permanent incentive which rewards local authorities that deliver sustainable housing development.”
- 5.25 The Government consulted on a possible mechanism for allocating this specific grant across local authorities in England between November and December 2010. The proposed scheme is intended to reward local authorities with a bonus equal to the national average for the council tax band on each additional property built in their areas and paid for the following six years.
- 5.26 At the time of the consultation, the Government produced a ‘calculator’ which was intended to highlight possible financial gains for individual local authorities using historic data. For Slough, the calculator suggests the Council would receive a bonus of approximately £130k per annum. Actual funding allocations are expected to be announced at the time of the final local government finance settlement (end of January 2011), the MTFs currently assumes SBC will receive £130k per annum, increasing on an annual basis.
- 5.27 However, it should be recognised that, from 2013/14, the Government intends the bonus scheme to be “revenue neutral” (i.e. the scheme will be primarily funded by taking money out of future national formula grant allocations). The Government admits that *“this redistributive mechanism...means that the scheme will create financial winners and losers”*. With the currently available information, it is not possible to calculate any possible reduction in SBC’s future formula grant income due to the introduction of the scheme, consequently no adjustment has been made to the MTFs to reflect any potential funding loss.

### *VFM*

- 5.28 Managing the Council’s limited finances always presents an important challenge as residents demand the delivery of high quality services within a tight budget. This requires the Council to be more efficient and innovative as well as continuing to improve and to make the most of our resources to deliver what our residents want.
- 5.29 Examples of Value for Money items within the 2011/12 Revenue Budget include:  
£536k – Reviewing the Council’s approach to cash and debt management and income generation.  
£3,976k – Reshaping the Council’s support services  
£255k – Reviewing all major contracts and all commissioned services

### Risk Strategy

- 5.30 Budgets are necessarily based on assumptions about what will happen during the next financial year; and therefore there is an inevitable risk that these assumptions might be wrong.
- 5.31 The main foreseen risk is that the proposed savings are not delivered. In an attempt to reduce this risk the budget will be closely monitored via the monthly financial management reports and updated budget information, including savings achieved, will be reported to Cabinet throughout the financial year.



## Inflation & Interest Rate Risk

- 5.32 Officers have recommended the Medium Term Financial Strategy assumes the following for inflation:

	11/12	12/13	13/14	14/15
Inflation (pay)	(150)	450	1,000	1,200
Inflation (prices)	1,300	1,050	1,100	1,100
<b>TOTAL INFLATION</b>	<b>1,150</b>	<b>1,500</b>	<b>2,100</b>	<b>2,300</b>

- 5.33 Inevitably, there is an element of risk associated with these assumptions. It is especially uncertain, in the current financial climate, what these rates are likely to be in the future and indeed how long the current relatively low levels of inflation can be sustained.

### *Pay*

The MTFS takes into account the Government's expectation that there is a public sector pay freeze in 2010/11 and 2011/12, with those public workers earning less than £21,000 per annum to receive an annual uplift of £250; and the expected costs of the forthcoming increase in employers National Insurance from April 2011.

### *Prices*

The MTFS assumptions are based around an overall uplift in prices inflation at the level of the Consumer Price Index (CPI), the Government's preferred measure of inflation. CPI currently stands at 3.3%. This assumption will be subject to regular review.

- 5.34 It should be noted that there is a risk that inflation rates may increase significantly in the short and medium term. The Medium Term Financial Strategy will be modified to take into account any new information as it arises. However, if rates increase sharply in the short term the Council may need to take action in year to address this, which inevitably may result in future service reductions if the financial impact cannot be managed.

## Previous outturn

- 5.35 The latest monitoring report suggests the general fund is currently forecasting an under spend of £744k in 2010/11. However, there is continuing pressure on the budget in Children and Families due to the number of looked after children which has begun to stabilise, but is still subject to volatility. The MTFS assumes a break-even position for 2010/11. If an over spend were to arise, additional savings options would need to be found.

## Income Generation

### *Council Tax Capping*

- 5.36 The Secretary of State for Communities, Eric Pickles MP, said in his statement at the time of the provisional local government finance settlement 2011/12:

*“The Government also want to ensure that council tax payers are protected against authorities that reject the offer and impose excessive council tax rises. We will introduce powers for residents to veto excessive council tax increases through a local referendum. In the meantime, the Government will take capping action against councils that propose excessive rises.*

*When the House debates the final local government finance report next year, I will set out the capping principles. I will also publish shortly details of the figures that will be used to compare authorities’ budgets between years, should capping be necessary. The previous Government had planned to cap the police authorities of Greater Manchester and Nottinghamshire after they set excessive increases in 2010-11. Subject to challenge, we will ensure that, should they decide not to freeze the council tax, neither can impose an increase of over 2.5% in 2011-12.”*

5.37 *It therefore appears likely that the government would like the capping limit to be very close to 2.5%.*

5.38 For the purposes of the Medium Term Financial Strategy, officers are assuming a council tax freeze in 2011/12 and a 2% annual increase, per annum, thereafter. However, Members may ultimately decide a different council tax level is required.

#### *Fees and Charges*

5.39 Local councils are able to charge users for the provision of a wide variety of services. It is important to ascertain the legal position prior to introducing or varying charges as Councils are obliged to provide some services by law (known as mandatory services). For example, currently legislation prevents a local council from making a charge for its domestic refuse collection service and for borrowing a library book, but does allow a charge to be made for a special collection of bulk domestic refuse and for borrowing a DVD from a library.

5.40 Where there is no specific legislation relating to the service, the Local Government Act 2003 provides all councils with a power to charge for all discretionary services, where users have a choice whether to use the service or not. Also the 2003 Act states that income generated by individual services, or groups of similar services, must not exceed the cost of providing the service, taking one year with another. Finally, the 2003 Act enables councils to create charging structures to provide different levels of charge to different groups of users, including offering the service free to certain individuals or groups.

5.41 The usual definition of a discretionary service is one where the council has the power to provide the service, possibly under the powers of well being provided in the Local Government Act 2000, but where the service is not specifically required to be provided by law. It should be noted, however, that for the purposes of charging, the 2003 Act also enables charges to be made if a council provides a mandatory service above the level of quality required by legislation, as the additional service is defined as discretionary within the provisions of the Act. For example, legislation requires local planning authorities to consider planning applications (an example of a mandatory service where legislation requires a charge to be made), but does not require such authorities to provide pre-planning advice to householders and developers. Where a council does provide such advice, it may charge for the advice under the 2003 Act as it falls within the definition of a discretionary service.

- 5.42 The Council raises approximately £18m of its total income from general fees and charges. Therefore these charges are a crucial funding source for the provision of services and in maintaining the council tax at a reasonable level.
- 5.43 Under Delegated powers Strategic Directors can, in consultation with the Strategic Director of Resources and the appropriate Commissioner, set rent, fee charges and other income levels provided the change does not:
- Exceed inflation by more than 3% and/or
  - Involve a change in policy, or
  - Potentially have significant political implications.
- 5.44 Any exceptions to this general policy will require specific Cabinet approval.

#### Lobbying

- 5.45 The Council seeks opportunities to lobby for additional resources for the Borough. The main issues it is currently pursuing are as follows:

#### *Population and International Migration*

- 5.46 Slough's population for the purposes of the 2011/12 provisional local government finance settlement increased by 10.9% from 2010/11 (116,970) and 2011/12 (129,682). The England equivalent increased by only 1.6% over the same time frame. Obviously this significant increase, albeit only partial recognition of what are believed to be the real resident numbers in Slough, is due to the mathematical calculations ONS are making to their population projection methodologies rather than an accurate count being undertaken.
- 5.47 Although, Slough's population has significantly increased within the local government funding formulae, this has not equated to a significant increase in funding for the Council due to the operation of the government's new funding floor scheme (see para 6.22 below). In essence, Slough's increased population is included in its funding calculation but there is now far less money to share around. In 10/11 SBC was £3.972m below the funding floor. In 2011/12 SBC contributes £1.890m to the floor.
- 5.48 Further, the Government, from 2011/12, increased the amount of funding it channelled through needs element of the local government funding formulae (by 10%) essentially by decreasing the amount it channelled through the population based 'central allocation'.

#### *Local Government Resource Review*

- 5.49 The Secretary of State for Communities has committed the Government to undertaking a Local Government Resource Review from January 2011. In a Written Answer, dated 14 December 2010, Bob Neill MP, Parliamentary Under Secretary of State at the Department of Communities and Local Government stated:

*"The local government resource review will consider proposals to introduce greater incentives for local authorities to promote economic growth by allowing them to retain locally raised business rates, and introduce new powers to enable local*

*authorities to carry out tax increment financing. The review will be carried out by [the Department for Communities and Local Government]. “*

#### *Future Lobbying Programme*

5.50 Slough BC's lobbying programme will therefore focus on the following items, in the medium-term:

- Population and ONS methodology
- Beneficial changes to the local government finance system from 2013/14.

#### Revenue Reserves and Balances

5.51 Reserves are funds set aside to provide for specific spending needs that may arise in future financial years. Whilst reserves and balances are not new money, they can be used to fund spending on services and so form part of the council's overall sources of funding.

5.52 There is no specific obligation on councils to have reserves or balances, and consequently, no legislation specifies maximum or minimum level of funds that a council should hold in its reserves and balances. Therefore, each authority should determine for itself as part of its overall financial planning what level of reserves it needs to maintain, and what its minimum level of balances should be.

5.53 The Local Government Act 2003 specifically requires the Responsible Financial Officer (known as the "Section 151 Officer") to make specific reference to whether reserves and balances are robust in the annual budget report that agrees the budget and Council Tax for the forthcoming financial year. The Strategic Director of Resources' report can be found at Appendix G.

5.54 Based on the Strategic Director of Resources report, and the current economic climate, the Council is asked to approve the following Policy for Reserves in 2011/12:

#### Earmarked Reserves

- a) Sufficient sums should be set aside in earmarked reserves as is considered prudent.
- b) The Strategic Director of Resources (SDR) will be authorised to establish such reserves as are required.
- c) The SDR will review the Earmarked Reserves for both adequacy and purpose on a regular basis and report her findings to Cabinet.

#### General Reserves

- d) To commence the financial year with general reserves at a level of at least £5m to cover exposure to known risks.
- e) If the level of general reserves is reduced to lower than £5m, the SDR will ensure the Medium Term Financial Strategy clearly identifies how the general reserves will be replenished back to the required £5m in the medium term.
- f) The Medium Term Financial Strategy will include a contingency sum for demand led pressures.

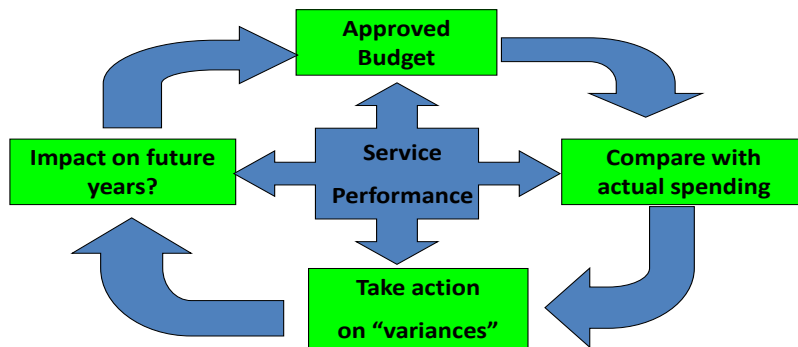
g) The SDR will review the level of General Reserves on a regular basis and report her findings to Cabinet.

Measuring Delivery

5.55 Frequent monitoring of Council expenditure against the budget is important to ensure financial stability is maintained throughout the year. Consequently, regular monitoring reports are submitted to the various Senior Management Teams (SMTs) within Directorates, the Corporate Management Team (CMT), Cabinet and to the Overview and Scrutiny Committee. Service Directors are also fully aware of their duty to control their departmental budgets within the cash limits that are set for them.

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5.56 Slough BC's budget monitoring process is illustrated in the following diagram:



- 5.57 Budget monitoring is the continual process of comparing actual income and expenditure with the budget and forecasting the likely expected out turn at the end of the year. Over or under spending (variances) will be addressed as they arise with the aim of ensuring that the council ends the year within its budget. The budget monitoring process will also inform future updates of the MTFs where changes in expenditure and / or income patterns impact on future years.
- 5.58 The Council has managed to deliver a balanced revenue budget for the last five years. Slough has very pro-active arrangements for monitoring and control to deliver at a high level of financial management, ensuring the Council manages within its resources.

## 6. The Revenue Budget 2011/12 and Council Tax

6.1 In determining the level of budgets for each Directorate, the Council must take into account the following factors:

- The level of funding it receives from Central Government.
- Inflationary requirements and commitments.
- New statutory responsibilities and/or transfers of function away from Council.
- Changes in demographics and levels of service demand.
- Growth requirements arising from the Corporate Plan.
- Changes in levy and precepting bodies requirements.

6.2 Each of these factors has a major impact on the level of resources required or available to the Council.

### The Local Government Finance Settlement

6.3 Local authorities receive a large part of their funding in the form of grants from central government. While some of this is in the form of specific grants (funding streams with a specific set of rules, intended to give authorities the resources to provide a particular service or achieve a particular outcome), in 2011/12 over £24 billion of funding is in the form of “formula grant”. This is intended to be general funding with no restrictions on what local authorities can spend it on.

6.4 On 13 December 2010, the Secretary of State for Communities and Local Government, Eric Pickles MP, made his statement to Parliament concerning the provisional local government finance settlements 2011/12 and 2012/13. The figures announced in the provisional settlement 2011/12 are based on the Formula Grant Distribution (FGD) consultation (which closed on 6 October 2010) and the Spending Review cash limits for local government (outlined in the Spending Review report, which was published on 20 October 2010).

6.5 The key headline funding figures for Slough are as follows:

**Table: Slough BC’s Formula Grant Allocations 2011/12 and 2012/13**

<b>Table 1 - Formula Grant Change</b>					
<b>2011/12 Provisional Settlement</b>	<b>2010/11 Cash £m</b>	<b>2010/11 Adjusted £m</b>	<b>2011/12 Cash £m</b>	<b>2011/12 Adjusted £m</b>	<b>2012/13 Cash £m</b>
Formula Grant (£m)	<b>56.756</b>	64.417	<b>57.249</b>	56.840	<b>52.128</b>
% change (Cash to adjusted)			-11.1%		-8.3%

6.6 The cash amounts are the amount of funding SBC will actually receive in 2010/11 to 2012/13 as general funding for non-schools services. The adjusted figures are used to enable ‘like-for-like’ comparisons to be made across years (this is considered in further detail below).

- 6.7 A comparison of the funding figures for Slough and other local authorities is set out below:

<b>Formula Grant Change Comparison</b>		
<b>Change in Formula Grant Comparison (Based on adjusted figures)</b>	<b>2011/12</b>	<b>2012/13</b>
<b>Slough</b>	<b>-11.1%</b>	<b>-8.3%</b>
Inner London boroughs incl. City	-11.2%	-7.4%
Outer London boroughs	-11.3%	-7.9%
Metropolitan districts	-11.3%	-7.6%
Shire Unitaries	-11.4%	-7.6%
Shire Counties	-12.6%	-7.9%
Shire Districts	-15.0%	-10.8%
England	-9.9%	-7.3%
<i>Note: England figure includes Police and Fire authorities</i>		

- 6.8 As noted earlier in this report, in the Spending Review 2010 announcement the Government stated that a number of specific grants would be rolled-into into formula grant from 2011/12t. As a result, cash funding comparisons across years can be misleading, due to the fact that the 2011/12 figures now include funding SBC previously received through specific grants. In order to enable like-for-like comparisons to be made, the Department for Communities and Local Government (DCLG) produce an adjusted funding baseline for individual local authorities, which identifies the main funding transfers that have occurred between years. The transfers for Slough are set out, in the Table below:

- 6.9 It will be seen that there were substantial funding transfers and specific grant adjustments between the 2010/11 and 2011/12 finance settlements.

<b>Formula Grant Adjusted Baseline</b>		
<i>This represents the baseline for future years' funding comparisons</i>		
	<b>2010-11 £m</b>	<b>2011-12 £m</b>
<b>Original Formula Grant</b>	<b>56.756</b>	<b>57.249</b>
<i>Funding Transfers</i>		
Adjustments B-D Concessionary Travel	0.715	
Adjustment H Child Death Review Processes	0.025	
Adjustment I Care Matters White Paper	0.144	
Adjustment K Economic Assessment Duty	0.065	
Adjustment L Adult Social Services	1.786	
Adjustment M Personal Social Services	0.640	
Adjustment O Private Sewers	(0.047)	(0.044)
Adjustment P Planning Inspectorate SUDs Appeals Costs	(0.003)	
Adjustment Q Academies	(0.464)	(0.366)



<i>Specific Grant Adjustments</i>		
Adjustment R Local Transport Services	0.191	
Adjustment S Supporting People	3.804	
Adjustment T Housing Strategy for Older People	0.070	
Adjustment U LSC Staff Transfer	0.316	
Adjustment V HIV/AIDS	0.152	
Adjustment W Preserved Rights	0.260	
Adjustment X Animal Health & Welfare	0.006	
<b>Adjusted Formula Grant</b>	<b>64.417</b>	<b>56.840</b>

### Funding Transfers

- 6.10 Adjustments B to Q, in the Table above, represent the estimated impact of changes to the national formula grant on SBC, had they occurred in 2010/11. It should be noted that these baseline adjustments are only 'notional'. The overall national funding control total has been increased, or reduced, to reflect these adjustments – thereafter the funding flows through the government's 'four-block' funding model, which is used to distribute the national funding pot amongst all local authorities on the basis of relative need, down to an individual local authority level. It is therefore not possible to accurately quantify the equivalent amount of funding SBC will receive in 2011/12 for each of these adjustments. To inform the Council's revenue budgeting process, the finance department uses the notional figures as a guide to required budget adjustments; however, as formula grant is intended as general funding without any conditions attached, it is ultimately for Members to decide how it is spent.
- 6.11 In addition to the formula grant decrease we have also received cuts in our specific grants funding for 2011-12 onwards. We have detailed specific information around these cuts in the tables below.

**Table 1**

We have not yet had confirmation from Central Government that we will receive the following grants in 2011-12

<b>ABG Grants unknown</b>	<b>Value £'000 (2010-11)</b>
Community Call for Action / Overview Scrutiny Committee	2
Stronger Safer Communities	226
Young People Substance Misuse Partnership	39
Extended Rights to Free Transport	61
Familiarisation costs of new statutory guidance on social	1

housing allocations	
Designated Teacher Funding	7
Subtotal Unknown Funding	336

#### 6.12 Table 2

We are expecting to receive funding from the following grants but Central Government has not yet confirmed the value that we are to receive in 2011-12 the values below assume a decrease in line with RSG ( 11.1%) from 2010/2011

<b>Other Grants Expected (values unconfirmed)</b>	<b>Value £'000 (2010-11)</b>
Higher Education Funding Council (HEFCE) Payments	10
First Steps	14
FLIF – Family Learning Impact Fund	2
Creative Academy	0
Training Project	1
Policy and Performance	1
Arts Grant	1
Young People Substance Misuse	14
Schools workforce advisor	5
Post 16 Transport	5
NCSL succession planning	3
Safer Communities Initiative	4
ASB Family Support Worker	6
Neighbourhood Crime and Justice	6
Positive Futures	5
Drug Intervention Programme Grant	11
Substance Misuse Pooled Treatment	131
Schools workforce advisor	2

Youth Capital Fund	4
Music Services	32
Harnessing Technology Grant	25
NSCL – Succession Planning	2
14-19 Prospectus & Cap	13
<b>SUB TOTAL</b>	<b>296</b>

6.13 **Table 3**

We have received confirmation that we will receive no funding in 2011-12 for the following grants due to the Area Based Grant ended in 2011/12.

<b>Confirmed nil funding allocation for 11/12</b>	<b>Value £'000 (2010-11)</b>
School Development Grant (LA Element)	1598
Extended Schools Start Up Costs	196
Primary National Strategy – Central Co-ordination	94
Secondary National Strategy – Central Co-ordination	126
Secondary National Strategy – Behaviour and Attendance	68
School Improvement Partners	59
Education Health Partnerships	41
Schools Travel Advisors	15
Choice Advisors	26
School Intervention Grant	29
14-19 Flexible Funding Pot	43
Sustainable Travel General Duty	10
Cohesion	107
Preventing Violent Extremism	182
Climate Change	23

NI 160 Status Survey	4
Petitions	10
Surface Water Management Plans	40
Child Poverty	38
Total Impact Confirmed Nil Funding	2707

6.14 Members must decide what if any funding they wish to allocate to the unfunded services in the coming year. Reducing the overall cost of continuing unfunded services will reduce the current deficit.

#### Concessionary Fares

6.15 The Government has transferred responsibility for concessionary fares from the lower tier of local authorities to the upper tier. The Government has also rolled £223m that was previously paid as a specific grant, nationally, for concessionary fares into formula grant. The MTFs assumes that the General Fund is now required to fund the amount that was previously provided as a Specific Grant (£379k).

#### Child Death Review Processes

6.16 The Government has rolled £7.7m of previous Area Based Grant (ABG) funding, intended to assist local authorities to essentially facilitate “a rapid response by a group of key professionals who come together for the purpose of enquiring into and evaluating each unexpected death of a child” into the overall national formula grant funding pot (control total). This has the effect of increasing the amount of general funding available to allocate amongst all local authorities in England. The MTFs assumes that the General Fund is now required to fund the amount that was previously provided as a specific grant (£25k).

#### Care Matters White Paper

6.17 The Government has rolled £54.9m of previous ABG funding, intended to implement the Care Matters Agenda, into the national formula grant control total. The MTFs assumes that the General Fund is now required to fund the amount that was previously provided as a specific grant (£144k).

#### Economic Assessment Duty

6.18 The Government has rolled £11.0m of previous ABG funding, intended to implement the Economic Assessment Duty, into the national formula grant control total. The MTFs assumes that the General Fund is now required to fund the amount that was previously provided as a specific grant (£65k).

#### Adult Social Services

6.19 The Government has rolled the following, previously ABG funding streams, into the national formula grant control total:

- Mental Health grant funding - £154.2m
- Child and Adolescent Mental Health grant funding - £102.5m
- Learning and Disability Development Fund - £43.8m
- Mental Capacity Act and Independent Mental Capacity funding - £28.9m
- Carers Grant - £256m
- Adult Social Care Workforce Grant - £140m
- Local Involvement Networks (LINKS) funding - £27m

6.20 The MTFS assumes that the General Fund is now required to fund the amount that was previously provided as a specific grant (£1,786k).

#### Personal Social Services

6.21 The Government has rolled-in £303m of previous specific grant funding for Social Care Reform; the Learning Disability Campus Closure Programme; and Stroke Strategy into the national formula grant control total. The MTFS assumes that the General Fund is now required to fund the amount that was previously provided as a specific grant (£640k).

#### Private Sewers

6.22 The Government has removed £21.5m and £20.1m, in 2011/12 and 2012/13 respectively, from the national formula grant control total to reflect the transfer of responsibility for “private sewers” to sewerage and water companies – local authorities have historically been involved in dealing with issues and solving problems with private sewers, either in relation to their own properties or in some cases on behalf of local residents. No adjustment has been made in the MTFS to reflect this transfer.

#### Planning Inspectorate Sustainable Urban Drainage (SUD’s) Appeal Costs

6.23 The government has removed £1m from the national formula grant control total to reflect responsibility for these appeals transferring away from local authorities. No adjustment has been made in the MTFS to reflect this transfer.

#### Academies

6.24 Perhaps controversially, as the matter has never been discussed with local authorities, only in internal discussions with the LGA, the Government has transferred £145.2m and £114.5m in 2011/12 and 2012/13 respectively to reflect the expected growth in academies and to provide funding for those functions carried out at LEA level funded from Formula Grant. The deduction from formula grant was a straightforward top-slice, as opposed to removing funding at an individual local authority level, as the Department for Education (DfE) have stated they do not know where future academies may be established. No adjustment has been made in the MTFS to reflect this transfer.

### Specific Grant Adjustments

- 6.25 The impact of the specific grant adjustments on SBC have been considered, at para 6.9, previously in this report.

### Formula Grant Floors

- 6.26 The cost of guaranteeing a maximum reduction in formula grant, for all individual local authorities, continues to be paid for by scaling back the increase in grant any authority was due to receive above the funding floor. As in previous years, the floor damping system is self-financing within each group of authorities i.e. authorities in one group will not cross-subsidise the floor for authorities in another group.
- 6.27 From 2011/12, there has been a change to how the floor is now determined for upper and lower tier authorities, in order to take into account individual local authorities' reliance on Formula Grant. For 2011/12 and 2012/13, there will be four floor levels for both the upper and lower tier authorities
- 6.28 The Government has placed individual local authorities into one of the relevant four floor levels based on an overall ranking, determined by grant dependency, which is defined as the proportion of the 2010/11 budget requirement that was funded through the 2010/11 formula grant; and ensuring there are an equal number of authorities in each of the four bands. Band 1 authorities are deemed 'most dependent on formula grant' and Band 4 authorities are deemed 'least dependent on formula grant'.
- 6.29 Each Band has a maximum 'floor' i.e. no authority in each Band can receive greater reductions in formula grant than the maximum floor for its Band, as follows:

	2010/11		2011/12		2012/13	
	Floor	Scaling	Floor	Scaling	Floor	Scaling
<b>Education / PSS authorities</b>	1.5%	(71.7%)	(11.3%) (12.3%) (13.3%) (14.3%)	(71.4%)	(7.4%) (8.4%) (9.4%) (10.4%)	(71.7%)
<b>Police Authorities</b>	2.5%	(86.2%)	(5.1%)	(99.9%)	(6.7%)	(99.9%)
<b>Fire &amp; Rescue Authorities</b>	0.5%	(57.9%)	(9.5%)	(34.0%)	(3.4%)	(32.1%)
<b>Shire Districts</b>	0.5%	(59.1%)	(13.8%) (14.8%) (15.8%) (16.8%)	(97.8%)	(10.5%) (11.5%) (12.5%) (13.5%)	(75.2%)

- 6.30 SBC is deemed to be a Band 2 authority and is therefore 'protected' from any funding reductions of more than 12.3% in 2011/12 and 8.4% in 2012/13.
- 6.31 However, as noted above, the cost of guaranteeing the minimum increase in grant continues to be paid for by scaling back the increase in grant for authorities above the floor. In 2011/12, SBC contributes £1.890m towards the cost of the funding floor, in 2012/13 it contributes £0.159m.

## Schools Funding

- 6.32 The funding for schools continues to be through the DSG (Dedicated Schools Grant), a ring-fenced grant from the DfE rather than through the local Government finance system.
- 6.33 The DfE have mainstreamed a number of specific grants into the DSG for 2011-12 which will increase the Guarantee Unit of Funding (GUF) to £5,540 per pupil. This keeps the GUF flat in cash terms for 2011-12. The estimated Dedicated School Grant for Slough Borough Council based upon 21,948 pupils for 2011/12 is £121.6 million. The final allocations of grant will not be announced until May 2011 after the start of the financial year.
- 6.34 The DSG will provide for the same items that were previously resourced through the Schools Formula Spending share within the local government finance system, and covered by the Schools Budget set by local authorities. The Schools Budget consists of delegated budgets allocated to individual schools, and a budget for other provision for pupils which local authorities fund centrally, such as some special educational needs provision and grants to independent and voluntary providers of early years education. The DSG is completely ring-fenced and therefore provides the funding for the Schools Budget.
- 6.35 A proposed Schools Budget will be presented to the Schools Forum on 1st March 2011 for approval.

## Budget Reductions 2011/12 to 2014/15

- 6.36 All Service Directorates have been asked to make, wherever possible, efficiency savings. Further, during the budget process, Service Departments were required to only put forward savings options that they thought professionally acceptable. The total savings proposals put forward for 2011/12 amount to £10.385m. Further detail for the proposed 2011/12 to 2014/15 reductions is provided at Appendix E (ii). Additional savings proposed if accepted will reduce the deficit position.

## Service Growth 2011/12 to 2014/15

- 6.37 The total growth outlined for all Service budget areas amounts to £3.2m for the financial year 2011/12. This funding has been made possible due to the rigorous PPRG process which, as noted previously, was effectively operating without detailed information from Central Government concerning SBC's future financial allocations until December 2010. Service Areas were requested to respond to an estimated 11.8% reduction in funding for 2011/12, whereas the provisional settlement has indicated an 11.1% reduction will be required.
- 6.38 It is recommended that Members use the £570k to partially mitigate the undoubted financial pressures on the Council arising from the Government's decision to end many of the previous Specific Grant regimes. However, it must be recognised that should additional growth be required to fund the Specific Grant losses, compensatory savings will need to be found elsewhere. Proposed growth over the period 2011/12 to 2014/15 is outlined at Appendix E (i).

### Total Pensions Adjustments

- 6.39 The medium term financial strategy includes a pensions adjustment of £475K in 2011-12. This expenditure has been set aside to provide for an increase in employee contributions of 1% at the advice of the actuary of the pension scheme.

### Capital Programme Adjustments

- 6.40 In 2010-11 we have reviewed our capital program in the light of the pressures on our expenditure and sources of funding. In order to incur lower borrowing costs which are incurred from revenue funding we have reduced our capital program concentrating on key priority projects.

### Budget 2010/11

- 6.41 The following table shows the main changes from the 2010/11 Revenue Budget.

**Table: Change in Budget to 2011/12**

	<b>£000</b>	<b>£000</b>
2010/11 Base Budget		<b>103,979</b>
Specific Grant Transfers	7,873	
Inflation (Excluding Schools)	1,150	
Non-Schools Growth	3,843	
Savings	(10,385)	
Budget & Capital Adjustments	(33)	
CT Freeze & New Homes Bonus	(1,317)	
= Net increase in Budget		<b>1,131</b>
2011/12 Revenue Budget		<b>105,110</b>

### Council Tax calculation

- 6.42 Council Tax billing authorities are required by law to set their budget and Council Tax by 11<sup>th</sup> March prior to the start of the new financial year on 1<sup>st</sup> April. Precepting authorities have the slightly earlier deadline of 1<sup>st</sup> March, to enable information to be included on the overall bill prepared by the billing authority. Additional supplementary Council Tax demands designed to raise additional funding during the year are illegal, and so it is essential that the council ensures that the annual budget adequately funds services as mid-year financial pressures will largely have to be addressed within the overall total funding generated at the time the budget was set.

### The Collection Fund

- 6.43 The Collection Fund accounts for all monies relating to the receipt of Council Tax and the old Community Charge, and for payments made to the precepting authorities, the Thames Valley Police Authority and the Royal Berkshire Fire Authority, and to fund the Council's own demand to meet its budget requirement.
- 6.44 Whatever balance remains on the fund in respect of the over/under recovery of Council Tax or Community Charge must be added to or subtracted from the following year's Council Tax bills. Adjustments in respect of Community Charges are added to the Council's part of the bill only, while Council Tax adjustments are



shared with the Thames Valley Police Authority and the Royal Berkshire Fire Authority.

- 6.45 In setting the 2011/12 Council Tax, the Council must therefore separately estimate any surpluses or deficits on the Collection Fund for 2010/11 for both the Council Tax and Community Charge.
- 6.46 The Section 151 Officer has now approved the estimate for the Collection Fund for 2010/11, which shows the fund to be in balance. Therefore no adjustment has been made to the revenue budget when calculating SBC's local council tax for 2011/12.

The Council Tax Base

- 6.47 Cabinet agreed, on 13 December 2010, a taxbase of 41567.2 equivalent Band D properties for 2011/12. This figure assumes a collection rate of 98.0% (98.0% for 2010/11) will be achieved in respect of all charges raised for 2011/12.
- 6.48 The calculation of Slough's share of the Council Tax is relatively straightforward. Slough's budget requirement plus any surplus or deficit on the collection fund, RSG, NNDR is divided by the taxbase to give the tax per Band D property. This is illustrated below:

**Table: – Council Tax Band D Property**

	<b>£'000</b>
Slough Budget Requirement 2011/12	105,110
Collection Fund in Balance	-
Less:	
Formula Grant	(57,249)
Total to be met from Council Tax	47,860
Taxbase	41,567.2
Council Tax at Band D – 2011/12	<b>£ 1,151.39</b>

Parish Precepts

- 6.49 Slough's parishes have requested total precepts for 2011/12 of £263,300, the same amount of funding was requested in 2010/11. There will be slight movements in the actual amount of precept requested from local council tax payers within each parish between 2010/11 and 2011/12 due to changes in their taxbases across these years.

Other Precepts

- 6.50 The Thames Valley Police Authority has indicated that, for 2011/12, it is likely to freeze its precept at the same level it set in 2011/12 (£154.30). Further updates will be provided on these figures as information is released by the Police Authority.
- 6.51 The Royal Berkshire Fire Authority has also indicated that, for 2011/12, it is likely to freeze its precept at the same level it set in 2011/12 (£55.38). Further updates will be provided on these figures as information is released by the Fire Authority.

- 6.52 The implications of these precept requirements for Slough's Council Tax payers are given in Appendix D.
- 6.53 It should be noted these precepts are yet to be formally agreed and, if there are changes, an update will be provided at the meeting where this report is considered.

#### Setting the Tax

- 6.54 The Council is required to make certain calculations under sections 30, 33, 34 and 36 of the Local Government Finance Act 1992. These calculations are:
- The basic amount of Council Tax for both Slough and the preceptors.
  - The basic amount of Council Tax for each valuation band for both Slough and the preceptors.
  - The aggregate amount of Council Tax for each valuation band, which includes the basic amount for the Council and the basic amount for the preceptors and parishes.
- 6.55 In accordance with these requirements, Members are asked to agree the calculations set out Appendix C. The Council Tax for a Band D property under these calculations is £1,361.07 (£1,361.07 in 2010/11) including police and fire but excluding any parish precepts. The full Council Tax for each Band is included within the recommendations. Further detail can be found at Appendix D.
- 6.56 Any amendments proposed to the budget will require a recalculation to be undertaken for the revised figures within the statutory framework.

### **7. Service Budgets**

- 7.1 This section of the report is intended to highlight Service department issues that will need to be kept under review during 2011/12, and may have an impact on the Medium Term Financial Plan. The proposed cash limits are provided at Appendix F.

#### Corporate Departments

- 7.2 Slough Borough Council is committed to protecting front line services as a priority during this period of financial challenge. To support this, securing efficiencies in back office and support functions is of paramount importance. As a result, all support functions have been reviewed and savings proposals have already been submitted and continue to be submitted to Members during 2010/11 for their approval. There has also been agreement by Members regarding working with an external partner to establish a regional Transactional Services Hub in Slough with the view to providing transactional services to other public sector organisations.

#### Community & Wellbeing

- 7.3 A new establishment providing supported living accommodation for clients with Learning Disabilities opened earlier in 2010. Potential pressures could arise from

clients placed in this facility by Other Local Authorities (OLAs), and thereby qualifying for ordinary residence.

- 7.4 It is also expected that the local authority will come under increasing pressures in relation to increased demand for social care – resulting from the closure of wards and hospital beds and other budget pressures in the local health economy.

#### Education, Community and Skills

- 7.5 The level of client activity within the looked after settings of the Children & Families division continues to be volatile as demand levels remain buoyant.
- 7.6 A relatively large cohort, of fifteen children and young people, who are subject to Child Protection Plans in different Local Authorities, have transferred into Slough. These families have moved for their own personal reasons. However, there is a duty to convene 'Receiving In' child protection conferences in order to ensure that the children are appropriately safeguarded in Slough and this will result in the children becoming subject to CP plans with SBC's Children and Families service.
- 7.7 Further increases in levels of looked after children and referral and assessment activity will result in additional budget pressures.

#### Green & Built Environment

- 7.8 The current economic climate is having a negative impact on the Directorate's fee income and there is a national review being undertaken regarding Concessionary Fares.
- 7.9 The recent severe weather conditions have impacted on the Directorate's winter maintenance, subsequent repairs, flooding and grounds maintenance costs.

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## **CAPITAL INVESTMENT PROGRAMME**

### 8. Introduction

- 8.1 Capital expenditure is more explicitly defined in legislation and accounting practice. The Local Government Act 2003 requires local authorities to separate capital income and expenditure from revenue income and expenditure and Section 21 of the 2003 Act requires all authorities to follow “proper practice” in their accounting for the capital income and expenditure and drawing up their annual financial statements.
- 8.2 The current accounting practice defines capital expenditure as “all expenditure on the acquisition, creation or enhancement of a tangible fixed asset” and “expenditure on the acquisition of a tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, should be capitalised as a tangible fixed asset, provided that it yields benefits to the authority and the services it provides are for a period of more than one year”.
- 8.3 Therefore, any expenditure on the purchase and enhancement of assets is defined as capital expenditure. Any expenditure that does not add to the value or the substantially increase the useful life of the asset is not capital expenditure and so must be treated as revenue. Expenditure on repairing and maintaining assets is therefore classified as revenue expenditure.
- 8.4 Whilst most items of expenditure can be classified as either revenue or capital without significant problem, the definition is not absolute and so “grey areas” do occur. In such instances it is the responsibility of the Director of Finance, possibly with advice from the authority’s external auditor, to ensure that the item is correctly classified in the accounts.
- 8.5 Authorities receive funding to pay for their capital and revenue expenditure from a variety of sources which will be considered in more detail below. However, the overall rule is that an authority can use revenue income to pay for capital expenditure, but cannot use capital income to pay for revenue expenditure. For example, a council could, at least in theory, fund building a new library using savings in staff costs, but could not fund staff salaries through the proceeds of sale of the library building.
- 8.6 Cabinet approved the current five-year capital programme on 22<sup>nd</sup> February 2010 (Agenda item 3). The programme has since been further reviewed by the Asset Management Group (AMG) in light of:
- a) Affordability in the context of the Council’s Revenue Budget and funding projections.
  - b) The Comprehensive Spending Review announcement and the Revenue Support Grant settlement and its impact on the General Fund (GF) revenue budget
  - c) Progress on delivering current year’s capital programme and the budget scrutiny process,
  - d) Overall capital resource requirement to fund the capital programme at a prudent and sustainable level,

- 8.7 In preparing the proposed revised capital programme, AMG has considered the overall capital strategy and service priorities to enable delivery of the Council's business plans at a level of capital and revenue resources estimated to be available to ensure the proposed programme is financially prudent and sustainable.
- 8.8 The proposed capital programme will be subject to further review during 2011/12 to ensure continued affordability in future years and to take on board the results of the Asset Management Strategy Review reported elsewhere on the Agenda.

General Fund Capital Programme 2010-11 to 2016-17

- 8.9 The general fund capital programme is restricted by the resources available to fund the expenditure. The major sources of funding are external grants and contributions, useable capital receipts and prudential borrowing
- 8.10 As part of the Comprehensive Spending review, the government also announced that from 2011/12, supported borrowing will be replaced with non-ring fenced capital grants. The following capital grant allocation to the Council for 2011/12 and 2012/13 has been announced so far. Further capital grant allocation announcement in respect of Education is expected soon.

	<b>2011/12</b>	<b>2012/13</b>
	<b>£'000</b>	<b>£'000</b>
Department of Health	261	266
Department of Transport	1,838	1,836
	<b>2,099</b>	<b>2,102</b>

- 8.11 Schemes supported by grants and contributions have been included in the programme to the extent that those grants are estimated to be available. In addition to the above grants these include Education Targeted Capital Fund, Education Devolved Formula Grant and Private sector Improvement Grants and S106 contributions.
- 8.12 In light of the current economic climate, a review of the future capital receipts has been carried out. This will be further reviewed and closely monitored during 2011/12 both to ensure forecast capital receipts are delivered and where possible, increased as a result of the Asset Management Strategy Review.
- 8.13 The use of borrowing to fund the Capital programme is restricted by the capacity for the cost of the borrowing to be funded from the Revenue Budget. These costs comprise not just the interest but also the requirement to make a Minimum Revenue Provision to repay the principal sum.
- 8.14 As part of the Treasury Management Strategy, it was agreed in 2008 that 2009/10 and 2010/11 capital borrowing requirement would be funded by reducing the level of treasury management deposits. In view of the current interest rate differential between the investment rate that could be achieved and the current borrowing costs, it is proposed that the current funding policy of reducing the level of deposits is extended to at least 2012/13.

## Expenditure

- 8.15 In light of the estimated resources available the process for this years capital programme meant that no additional schemes were considered except for those with full funding from external grants and contributions.
- 8.16 All current schemes have been reviewed to ensure that these schemes were still required to deliver the Council's business plan and also to ensure that the total costs were correct and the profile of the expenditure reflects the pattern of spend.
- 8.17 The overall revised capital programme and resources are summarised in the attached Appendix I.
- 8.18 The Asset Management Group (AMG) will monitor the capital resources at its regular monthly meetings and will recommend individual new bids for funding as and when new capital resources are identified. However this is likely to be restricted only to those schemes with external funding sources. The group will also monitor those schemes dependant on grants and contributions to ensure they only proceed when the grants are certain to be received. AMG will also further review the proposed capital programme during 2010/11 in light of the decisions on the Asset Management Strategy review reported elsewhere on the agenda to ensure the capital programme is adjusted not just to enable the Council to deliver future business plans but also generate efficiencies.

## Capital Expenditure on Schools

- 8.19 The Schools Standards and Framework Act 1998 transferred assets (and liabilities) of former Grant Maintained schools from the LEA and vested them in the governing bodies of individual foundation schools. The Land and school buildings of foundation schools are therefore not assets of the LEA but of the individual governing bodies. Similar treatment applies to Voluntary aided/controlled schools and the Academies.
- 8.20 Capital funding from DCSF is allocated to the Council and not to the individual schools within the LEA. This funding is mainly in the form of capital grants.
- 8.21 The Education and Children's Services department allocate capital funding to individual schools based on the overall departmental asset management plans. The department does not discriminate against non-controlled schools on the basis that school places need to be provided for the Council's children and if these schools were not able to provide that provision, then the Council would have to find alternative provision. Whilst this may reflect the Council's overall policy in terms of provision of education within the borough, it does not contain explicit Council approval for incurring and financing capital expenditure and consequent revenue budget implications in the form of debt charges on assets that do not belong to the Council.
- 8.22 The Education and Inspections Act 2006 amended Schedule 22 of the Schools Standards and Framework Act under which "where a school owns its own land (through its governing body, foundation body or trustees) wishes to sell surplus non-playing field land, it must inform the local authority, which can object to the disposal,

to the reinvestment proposal, and/or claim a share of proceeds which are attributable to public investment". It is necessary for the school governors to confirm that the Council is entitled to a share of their assets if a subsequent sale was to happen.

- 8.23 The proposed capital programme contains the following provisional funding for the foundation, voluntary aided/controlled schools and the Academies, which the Cabinet is recommended to approve. This will be updated and reported back to the Cabinet during the year once final funding allocations have been received.

### Estimated Capital Expenditure

Foundation Schools	2010-11 £'000	2011-12 £'000	2012-13 £'000	Total £'000
Baylis Court	3,823	462	0	
Castleview Primary	57	0	0	
Cippenham Junior	490	0	0	
Herschel Grammar	60	0	0	
Lynch Hill School	30	0	0	
Pippins Primary	433	0	0	
Priory Primary	344	0	0	
Ryvers Primary	36	0	0	
Westgate	4,193	1,584	75	75
<b>Total Foundation Schools</b>	<b>9,466</b>	<b>2,046</b>	<b>300</b>	<b>75</b>
<b>Voluntary Aided Schools</b>				
Iqra Slough Islamic School	44	0	0	0
Khalsa Sikh Primary	183	0	0	0
St Josephs	200	0	0	0
<b>Total Voluntary Aided Schools</b>	<b>427</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Voluntary Controlled Schools</b>				
Colnbrook CE Primary	60	0	0	0
Slough & Eton	277	0	0	0
St Mary's	205	0	0	0
<b>Total Voluntary Controlled Schools</b>	<b>542</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Academies</b>				
Langley Grammar	409	0	0	0
Slough Grammar	354	0	0	0
<b>Total Academies</b>	<b>763</b>	<b>0</b>	<b>0</b>	<b>0</b>



## HRA Capital Programme

- 8.24 The Housing Investment Strategy over the past 4 years has primarily focused on meeting the requirements of the Governments Decent Homes Standard partly funded by government HRA supported borrowing of £45.4M allocated after the ALMO was awarded the audit commission 2 star quality standard in October 2007. Following the transfer of ALMO function back to the Council's in-house team during 2010, the 5 year Housing Investment Programme has been reviewed and re-prioritised to ensure tenants priorities are met e.g. kitchen, bathroom and entrance door replacement.
- 8.25 The proposed HRA capital programme was considered by the Cabinet on 24<sup>th</sup> January 2011 and sets out the required funding to deliver a scheme of internal elemental improvements to meet decent homes compliance plus other essential capital investment works in line with the 30 year housing investment plan. Majority of the proposed capital programme will be funded from the Major Repairs Allowance and capital receipts in addition to £2,85M from HRA revenue account to be funded from the balances.

### Pooling of Capital Receipts

- 8.26 Under the capital finance regulations, all housing capital receipts are subject to the pooling arrangements under which 75% of RTB and 50% of non-RTB housing receipts have to be paid over to the Secretary of State. However, for the non-RTB receipts, a "Capital Allowance" which includes expenditure incurred or planned to be incurred on affordable housing and regeneration projects can reduce the amount. In order to qualify the above expenditure for the capital allowance, the Council is required to pass a resolution approving the amount that can be spent on affordable housing and regeneration projects.

### Financial Risks

- 8.27 Any budget plan is likely to encounter risks. Some of the risks that have been identified that could impact on the proposed capital programme are:
- Slippage in the timing of capital receipts, especially as the revised programme is heavily reliant on this source. Any slippage or timing of delivery will incur additional capital financing costs;
  - Economic and market conditions, current estimates for receipts reflect current market conditions, but changes in this could adversely affect the programme. Higher than allowed for inflation will increase the capital costs;
  - Overspending against agreed budgets. The capital programme will be monitored on a regular basis;
  - Timing of capital grants and contributions;
  - Unexpected call on the capital resources from unforeseen events;

- Change in legislation or Accounting Regulations, resulting in adverse impact on the revenue budget.

Whilst these risks cannot be completely removed, the following consideration has been given to mitigate the risks:

- i. In addition to stringent monitoring, capital receipts are only included where assets for disposals are identified with a realistic timetable for disposal;
- ii. Capital monitoring arrangements currently in place should identify any problems at an early stage. Slippages in capital spend are no longer automatically carried forward into the following year;
- iii. Proposed changes to Accounting regulations are reviewed by the officers and assessed for their potential impact on the Council's accounting policies and if necessary responded to as part of the consultation process.

### Conclusions and Recommendation

- 8.28 The proposed capital programme and the associated Prudential Indicators, outlined in the next section, have been prepared within the context of the Council's capital strategy with a view to help enable the Council to deliver its business plan. The revised capital programme recommended for approval is summarised in the attached Appendix I.

## **9. Treasury Management Strategy Statement and Investment Strategy 2011/12**

### Introduction

The Treasury Management Strategy sets out the expected activities of the treasury management function for 2011-12. The strategy has been prepared with due regard to the Council's Medium Term Financial Strategy, the CIPFA Code of Practice, the statutory requirement under the Local Government ACT 2003, the investment guidance issued by the Secretary of State and advice from Arlingclose Limited, the Council's advisors.

The contents of treasury management strategy are:

- Background
- Balance Sheet and Treasury Position
- Borrowing and Rescheduling Strategy
- Outlook for Interest Rates
- Investment Policy and Strategy
- Balanced Budget Requirement
- 2011/12 MRP Statement
- Reporting
- Other Items

## Background

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance

CIPFA has defined Treasury Management as:

*"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral element to treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Re-financing Risk and Legal and Regulatory Risk.

The strategy takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Annex A), the Prudential Indicators and the outlook for interest rates (Annex B).

The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2011-12 (Borrowing and Debt Rescheduling -paragraphs 9.17-9.29), Investments – paragraphs 9.30 - 9.43)
- Authorised Borrowing Limit, Operational Boundary for borrowing and the Prudential Indicators to demonstrate that the Council has adopted the principles of best treasury management practice
- MRP Statement – Paragraphs 9.46 – 9.49
- Use of Specified and Non-Specified Investments – Annexes C & D

The Council has already adopted the CIPFA Treasury Management Code. Including the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

All treasury activity will comply with relevant statute, guidance and accounting standards.

## **Balance Sheet and Treasury Position**

The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management Activity. CFR measures the underlying need to borrow for capital purposes. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £m	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m
General Fund CFR (incl IFRS Adjust.)	108.733	108.949	116.912	112.633
HRA CFR	24.667	24.667	24.667	24.667
<b>Total CFR</b>	<b>133.400</b>	<b>133.616</b>	<b>141.579</b>	<b>137.300</b>
<b>Less:</b> Existing Profile of Borrowing and Other Long Term Liabilities	-106.711	-105.720	-104.708	-103.574
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>26.689</b>	<b>27.896</b>	<b>36.871</b>	<b>33.726</b>
Balances & Reserves	79.068	73.655	71.700	62.055
<b>Cumulative Net Borrowing Requirement/(Investments)</b>	<b>(52.379)</b>	<b>(45.759)</b>	<b>(34.829)</b>	<b>(28.329)</b>

The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at **Annex A**. Market conditions, interest rate expectations and credit risk considerations will influence the Council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The Council will ensure that net physical external borrowing (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements. This is a key indicator of prudence as the CFR represents the level of borrowing for capital purposes, and revenue expenditure cannot be financed from borrowing other than for short term cash flow requirements.

### **Estimates of Capital Expenditure:**

It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

<b>Capital Expenditure</b>	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Non-HRA	49.569	55.199	<b>37.418</b>	28.767	1.697
HRA	6.623	7.882	<b>10.931</b>	5.107	5.117
<b>Total</b>	<b>56.192</b>	<b>63.081</b>	<b>48.349</b>	<b>33.874</b>	<b>6.814</b>

Capital expenditure is expected to be financed as follows:

<b>Capital Financing</b>	<b>2010/11 Approved £m</b>	<b>2010/11 Revised £m</b>	<b>2011/12 Estimate £m</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>
Capital receipts	10.230	4.497	<b>18.114</b>	4.950	0.200
Grants & Contributions	17,646	35.929	<b>20.266</b>	7.452	0.000
Major Repairs Allowance	4.885	5.950	<b>4.977</b>	4.907	4.917
Revenue contributions	0.000	0.356	<b>2.850</b>	0.000	0.000
<b>Total Financing</b>	<b>32.761</b>	<b>46.732</b>	<b>46.207</b>	<b>17.309</b>	<b>5.117</b>
Supported borrowing	5.659	5.659	<b>0.000</b>	0.000	0.000
Unsupported borrowing	17.772	10.690	<b>2.142</b>	16.565	1.697
<b>Total Funding</b>	<b>23.431</b>	<b>16.349</b>	<b>2.142</b>	<b>16.565</b>	<b>1.697</b>
<b>Total Financing and Funding</b>	<b>56.192</b>	<b>63.081</b>	<b>48.349</b>	<b>33.874</b>	<b>6.814</b>

#### **Incremental Impact of Capital Investment Decisions:**

As an indicator of affordability the table below shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme. For HRA, the capital programme is funded from either supported ALMO borrowing, Major Repairs Allowance or HRA revenue balances and therefore does not impact the average weekly housing rent.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2010/11 Approved £</b>	<b>2011/12 Estimate £</b>	<b>2012/13 Estimate £</b>	<b>2013/14 Estimate £</b>
Increase in Band D Council Tax	-9.20	<b>-22.03</b>	-25.09	16.11
Increase in Average Weekly Housing Rents	0.00	<b>0.00</b>	0.00	0.00

**Reform to the Council Housing Subsidy System:** CLG consulted on proposals to reform the council housing subsidy system in July 2010. The consultation proposed a removal of the subsidy system by offering a one-off reallocation of debt. Details of the new system will be announced following the recent Comprehensive Spending Review, and will be introduced in the Localism Bill later this autumn to enable the new system to start in 2012.

For the Council, this equates to an increase in HRA debt estimated at £128M (net of existing subsidy capital financing requirement of £41.5M). This will require the Council to fund the amount owed in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market. The type of loans taken will be decided on in discussions with the councils' Treasury Advisors.

The estimate for external interest payments in 2011/12 is £2.5m and for interest receipts is £0.8m. The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget

required to meet borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	2.31	1.93	2.50	2.78	2.53
HRA	48.95	41.20	41.88	42.75	43.66

### **Borrowing and Rescheduling Strategy**

The Council's balance of actual gross borrowing plus other long-term liabilities is shown in Appendix B. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). Accounting changes resulting from the International Financial Reporting Standards (IFRS) are not reflected in the figures below except for the PFI project. Any changes as a result of IFRS changes will be reported as part of 2010/11 outturn report.

Authorised Limit for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	96.0	79.0	78.0	78.0	78.0
Other Long-term Liabilities	0.0	40.1	39.2	38.2	37.1
<b>Total</b>	<b>96.0</b>	<b>119.1</b>	<b>117.2</b>	<b>116.2</b>	<b>115.1</b>

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Borrowing	91.2	116.7	114.3	113.5	113.0
Other Long-term Liabilities	0.0	40.1	39.2	38.2	37.1
<b>Total</b>	<b>91.2</b>	<b>116.7</b>	<b>114.3</b>	<b>113.5</b>	<b>113.0</b>

- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues

- Local authority bills
- Structured finance

Notwithstanding the issuance of Circular 147 on 20<sup>th</sup> October following the CSR announcement which increases the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing, the PWLB remains an attractive source of borrowing, given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable

Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintaining stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium- and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. The use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure and this has been assumed in compiling the capital and treasury management budgets.

PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Exposure to variable interest rates will be kept under regular review. Each time the spread between long-term rates and variable rates narrows by 0.50%, this will trigger a formal review point and options will be considered in conjunction with the Authority's Treasury Advisor and decisions taken on whether to retain the same exposure or change from variable to fixed rate debt.

The Council has £13m loans which are LOBO loans (Lender's Options Borrower's Option) none of which are currently in or will be in their call period in 2011/12.

The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
- Amending the profile of maturing debt to reduce any inherent refinancing risks. As opportunities arise, they will be identified by Arlingclose and discussed with the Council's officers.

Borrowing and rescheduling activity will be reported to the Cabinet.

The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which

could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

The Council's existing loans are at a fixed rate of interest.

	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	50%	50%	50%	50%	50%

The Council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

Maturity structure of fixed rate borrowing	Existing level at 31/03/10 %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	0.56	0.00	25.00
12 months and within 24 months	11.57	0.00	40.00
24 months and within 5 years	14.44	0.00	40.00
5 years and within 10 years	11.53	0.00	40.00
10 years and within 20 years	29.36	40.00	100.00
20 years and within 30 years	25.92	40.00	100.00
30 years and within 40 years	0.00	40.00	100.00
40 years and within 50 years	6.62	40.00	100.00
50 years and above	0.00	40.44	100.00

### **Investment Policy and Strategy**

Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Council's use within its investment strategy are contained in Annexes C and D. The Strategic Director of Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Cabinet on a regular basis.

Changes to investment strategy for 2011/12 include:

- AAA-rated Variable Net Asset Value (VNAV) Money Market Funds



- T-Bills
- Term deposits in Sweden
- Maximum duration for new deposits 2 years

The Council's current level of investments is presented at Annex A.

Cash Flow Management – Unless required by statutory or regulatory requirements, all monies in the Council's bank accounts will be under the control of the Strategic Director of Resources and will be aggregated for cash flow and investment purposes. The current exceptions being:

- Funds held in bank accounts for school disbursements and managed by officers in schools that have exercised their right to use different bankers from the Council.
- Funds held as cash and as bank balances and managed by officers of Social Services Care Establishments for small items of expenditure and on behalf of residents.

The Cash flow will be monitored on a regular and timely basis by the Treasury Management Panel to ensure liquidity risk is managed.

The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

The Council selects countries and the institutions within them (see Annex C), for the counterparty list after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
- Credit Default Swaps (where quoted)
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms/potential support from a well-resourced parent institution
- Share Prices
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment.

The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

To protect against a lower for longer prolonged period of low interest rates and to provide certainty of income, 2-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Annex D). The longer-term investments will be likely to include:

- Term Deposits with counterparties rated at least A+ (or equivalent)
- Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

The Council has placed an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
	10,00	15.00	20.00	20.00	20.00

### **Outlook for Interest Rates**

The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Annex B. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

### **Balanced Budget Requirement**

The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

### **2011/12 MRP Statement**

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

MRP in 2011/12: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

The Cabinet is requested to consider and recommend to the Council to approve the annual MRP Statement as follows. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be submitted to Council at that time.

- The Council will apply Option 1/Option 2 in respect of supported capital expenditure and Option 3/Option 4 in respect of unsupported capital expenditure.
- MRP in respect of leases brought on Balance Sheet under the IFRS-based Code of Practice will match the annual principal repayment for the associated deferred liability.

### **Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

The delegation and reporting on treasury management activities will be as follows:

- i. **The Council -**
  - Approve annual borrowing limits and interest rate exposure as required by the Local Government Act 2003 and CIPFA's Prudential Code for Capital Finance.
  - Approve and take ownership of the Treasury Management Policy statement via the Cabinet
- ii. **The Cabinet**
  - Receive annual report in February/March on the proposed Treasury Management activities including relevant information with regard to Treasury Management policy and Strategy;
  - Receive mid-year report on treasury management activities
  - Receive an annual report on Treasury Management activity for the preceding financial year.
  - The Cabinet will make necessary resolutions, when required, upon item contained within the reports.
- iii. **Overview and Scrutiny Committee**
  - Receive and review the treasury management policy and procedures and make recommendations to the Cabinet and the Council.
- iv. **Audit Committee**
  - Receive at least an annual report from the Strategic Director of Resources on compliance of the Council's investments with this document.
- v. **Treasury Management Panel** consisting of Strategic Director of Resources (Section 151 Officer), Assistant Director of Finance and the Treasury Manager.

**The terms of reference for the Treasury Management Panel being:**

- To oversee overall control and management of all monies in the hands of the Council and monitor the cash flow to ensure security and liquidity risk is managed.
- To receive, review and recommend treasury management policies and practices for approval and monitor compliance.
- To ensure regular treasury management reports including budgets and budget variations are received, reviewed and submitted to the Cabinet and Committees. As a minimum, the Council's budget monitoring process report any significant variations or emerging issues as appropriate.
- To ensure that the organisation of treasury management function is fit for purpose to meet current demands and review performance of the treasury management function.
- To authorise long term borrowing to meet the Council's borrowing requirements.
- To approve and recommend appointment of external service providers and monitor their performance.
- Balance effective risk management with performance i.e. debt cost vs. sustainability

**vi. Head of Treasury Management**

- Ensuring that day to day activities accord with the Treasury Management Policy
- Execution of transactions
- Managing the overall day to day Treasury Management function including cash flow forecasting and monitoring, training of staff, dealing procedures and maintaining and reviewing the Treasury Management System Document.
- Production of regular performance monitoring reports to the Treasury Management Panel.
- Identifying and recommending opportunities for improved practices

**Training**

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. It is intended to arrange training sessions during the course of the year.

The Council's treasury management staff are experienced treasury management practitioners and attend regular workshops arranged by the CIPFA Treasury Management Forum and the Council's treasury management advisors, Arlingclose Limited to update their treasury management knowledge. Treasury management activity is regularly monitored and reported to the Assistant Director of Finance with responsibility for treasury matters.

**Consultants & Brokers**

The Council has appointed Arlingclose Limited as its advisors with effect from 1<sup>st</sup> January 2011. Arlingclose will provide information and advice on a range of treasury issues including advice on the investment and capital borrowing strategy, detailed information about counterparties and limits to ensure a balanced portfolio with an acceptable level of risk. The Strategic Director of Resources and the Assistant Director of Finance will periodically consider and review whether Arlingclose continue to provide a satisfactory service under their mandate and discuss directly with them any concerns.

**Money Market Brokers** - In the course of transacting treasury business, the Council utilises the services of money market brokers. These brokers when performing business on behalf of the Council are acting merely as intermediaries and advice on the security of dealings is not sought from them. A range of brokers is used to ensure accurate market information and competitiveness of bidding. The currently approved brokers utilised by the Council are as follows:

- Exco Inter Capital Plc
- Prebon
- City Deposit Brokers
- Sterling Brokers Ltd

It is also proposed that no more than 50% of investment business is placed in the hands of any one broker at any one time. Direct dealing with counter parties may be undertaken from time to time should the circumstances dictate. The direct dealing can be either via the phone or other electronic means such as the internet secure site.

**Money Laundering** -has the objective of concealing the origin of money generated through criminal activity. In summary, it is an offence to assist anyone suspected of laundering money generated by any crime and it is a defence for an individual if they have reported knowing or suspecting at the first available opportunity. In carrying out the treasury management activities, the Council will maintain procedures for verifying the identity of clients and record keeping procedures for evidence of identity and transactions. Treasury Management staff will be provided with relevant training on procedures including reporting suspicions to relevant officer.

#### Local Authority Mortgage Interest Rate 2011-12

Under the Housing Act 1985, the Council is required to charge the higher of standard notional rate, which is set by the Secretary of State and is currently 3.93%, or the local rate based on the Council's own borrowing costs, estimated at 4.10% for 2011-12. Under the Housing Act 1985, the Council is allowed to add 0.25% to the borrowing rate to cover administrative costs. The Council's Mortgage Interest Rate for 2011-12 will therefore be 4.35%. (5.21% for 2010-11).

#### **Annexes to Treasury Management Strategy Statement**

Annex A - Current and Projected Portfolio Position

Annex B - Interest Rate Outlook – Council's Advisors Arlingclose

Annex C - Specified Investments for use by the Council

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## ANNEX A

### EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
<b>External Borrowing:</b>						
Fixed Rate – PWLB	43.592	65.5	43.592	43.557	43.537	45.533
Fixed Rate – Market *	23.000	34.5	23.000	23.000	23.000	13.000
Variable Rate – PWLB						
Variable Rate – Market						
<b>Total External Borrowing</b>	66.592	100	66.592	66.557	66.537	58.533
<b>IFRS Long Term Liabilities:</b>						
- PFI	40.119		40.119	39.163	38.115	37.096
- Operating Leases	**		**	**	**	**
<b>Total Gross External Debt</b>	106.111		106.111	105.720	104.652	95.629
<b>Investments:</b>						
<i>Managed in-house</i>						
- Short-term monies (Deposits/ monies on call /MMFs)	74.409	96.5	49.679	45.759	34.829	28.329
- Long-term investments	2.700	3.5	2.700	0.000	0.000	0.000
<i>Managed externally</i>	0.000		0.000	0.000	0.000	0.000
<b>Total Investments</b>	77.109	100	52.379	45.759	34.829	28.329

\* - includes LOBO loans totalling £13M

\*\* - Operating leases are currently being reviewed as part of IFRS and will be reported as part of budget outturn report.

## Arlingclose's Economic and Interest Rate Forecast

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
<b>Official Bank Rate</b>											
Upside risk	-	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
Downside risk	-	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
<b>1-yr LIBID</b>											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.50	3.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
<b>5-yr gilt</b>											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.00	2.25	2.75	3.25	3.50	3.75	4.00	4.00	4.00	4.00	4.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
<b>10-yr gilt</b>											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50
Central case	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
<b>20-yr gilt</b>											
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Central case	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25
<b>50-yr gilt</b>											
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	4.25	4.25	4.50	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.50
Downside risk	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25	- 0.25

- The recovery in growth is likely to be slow, uneven and more “Square root” than “V” shaped.
- The initial reaction to the CSR is positive but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Gilts will remain volatile as the growth versus headline inflation debate escalates

### Underlying assumptions:

- The framework and target announced in the Comprehensive Spending Review to reduce the budget deficit and government debt are the same as announced in June and focuses on how the cuts are to be distributed. The next big fiscal milestone will be the Office Of Budget Responsibility's assessment of the CSR's implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee's meeting suggest an increased likelihood of further Quantitative Easing. Money supply is weak and growth prospects remain subdued. The analysis and projections in November's Quarterly Inflation Report will give the Bank of England the opportunity to re-



evaluate the outlook for economic activity and inflation and the fiscal impact of the CSR.

- Consumer Price Inflation is stubbornly above 3% and could remain higher than the MPC has previously forecast.
- The employment outlook remains uncertain, as unemployment remains near a 16 year high at just over 2.4 Million.
- The recently announced Basel III capital/liquidity rules and extended timescales is positive for banks. However, the restructuring of UK bank balance sheets is ongoing and expected to take a long time to complete, and is a pre-condition for eventual normalisation of credit conditions and bank lending.
- A high savings ratio combined with a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore future trend rate of growth despite Q2's strong performance.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases might be required. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

## **Specified and Non Specified Investments**

### **Specified Investments identified for use by the Council**

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high credit quality” as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- \*Certificates of deposit with banks and building societies
- \*Gilts: (bonds issued by the UK government)
- \*Bonds issued by multilateral development banks
- Treasury-Bills (T-Bills)
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

1. *\* Investments in these instruments will be on advice from the Council’s treasury advisor.*
2. *The use of the above instruments by the Council’s fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.*

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned).

*Long-term minimum: A+(Fitch); A1 (Moody’s); A+ (S&P)*

*Short-term minimum: F1 (Fitch); P-1 (Moody’s); A-1 (S&P)*

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

**New specified investments will be made within the following limits:**

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limit %/£m</b>	<b>Maximum Group Limit (if applicable) %/£m</b>
Term Deposits	UK	DMADF, DMO	No limit	
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit	
Term Deposits/Call Accounts	UK	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	See Individual C/Party Limits	
Gilts	UK	DMO	No limit	
T-Bills	UK	DMO	No limit	
Bonds issued by multilateral development banks	EU	European Investment Bank/Council of Europe	£10M/Institution	
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs	£20M	
Term Deposits/Call Accounts	UK	Santander UK Plc (Banco Santander Group)	£15M	
Term Deposits/Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	£15M	£30M
Term Deposits/Call Accounts	UK	Lloyds TSB (Lloyds Banking Group)	£15M	£30M
Term Deposits/Call Accounts	UK	Barclays Bank Plc	£25M	
Term Deposits/Call Accounts	UK	Clydesdale Bank (National Australia Bank Group)	£15M	£15M
Term Deposits/Call Accounts	UK	HSBC Bank Plc	£25M	
Term Deposits/Call Accounts	UK	Nationwide Building Society	£20M	
Term Deposits/Call Accounts	UK	NatWest (RBS Group)	£10M	£25M
Term Deposits/Call Accounts	UK	Royal Bank of Scotland (RBS Group)	£25M	£25M
Term Deposits/Call Accounts	UK	Standard Chartered Bank	£15M	
Term Deposits/Call Accounts	UK	Co-op Bank Plc	£15M	
Term Deposits/Call Accounts	Australia	Australia and NZ Banking Group	£5M	
Term Deposits/Call Accounts	Australia	Commonwealth Bank of Australia	£5M	
Term Deposits/Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	£5M	£15M
Term Deposits/Call Accounts	Australia	Westpac Banking Corp	£5M	
Term Deposits/Call Accounts	Canada	Bank of Montreal	£5M	
Term Deposits/Call Accounts	Canada	Bank of Nova Scotia	£5M	
Term Deposits/Call Accounts	Canada	Canadian Imperial Bank of Commerce	£5M	
Term Deposits/Call Accounts	Canada	Royal Bank of Canada	£5M	

Term Deposits/Call Accounts	Canada	Toronto-Dominion Bank	£5M	
Term Deposits/Call Accounts	France	BNP Paribas	£10M	
Term Deposits/Call Accounts	France	Credit Agricole CIB (Credit Agricole Group)	£10M	
Term Deposits/Call Accounts	France	Credit Agricole SA (Credit Agricole Group)	£10M	
Term Deposits/Call Accounts	France	Société Générale	£10M	
Term Deposits/Call Accounts	Germany	Deutsche Bank AG	£10M	
Term Deposits/Call Accounts	Netherlands	ING Bank NV	£10M	
Term Deposits/Call Accounts	Netherlands	Rabobank	£10M	
Term Deposits/Call Accounts	Sweden	Svenska Handelsbanken	£10M	
Term Deposits/Call Accounts	Switzerland	Credit Suisse	£10M	
Term Deposits/Call Accounts	US	JP Morgan	£10M	

NOTE:

- a) Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.
- b) Non-UK Banks - These will be restricted to a maximum exposure of 25% per country.
- c) Please note the above list could change if, for example, a counterparty/country is upgraded and meets the Council's creditworthiness criteria. Alternatively if a counterparty is downgraded, it will be removed from the list.

### Non-Specified Investments determined for use by the Council

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use:

	In-house use	Maximum maturity	Max % of portfolio	Capital expenditure?
<ul style="list-style-type: none"> <li>▪ Deposits with banks and building societies</li> <li>▪ CDs with banks and building societies</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> </ul>	2 years	25% in aggregate	No
<ul style="list-style-type: none"> <li>▪ Gilts</li> <li>▪ Bonds issued by multilateral development banks</li> <li>▪ Bonds issued by financial institutions guaranteed by the UK government</li> <li>▪ Sterling denominated bonds by non-UK sovereign governments</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> </ul> (on advice from treasury advisor)		£15M	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	<ul style="list-style-type: none"> <li>✓</li> </ul> (on advice from treasury advisor)			No

Note: In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

## **TREASURY MANAGEMENT**

### **10. Conclusion**

- 10.1 This report is concerned with the Council's Revenue Budget 2011/12 and associated level of Council Tax for that year. If the recommendations contained within this report are adopted, the Council will set a Revenue Budget of £105.110m in 2011/12 and a basic Council Tax (before precepts) of £1,151.39 at Band D.

### **11. Appendices**

- A SAVINGS PROGRESS TO DATE
- B Four year Revenue Budget (Requirements & Resources)
- C Statutory Calculation of Council Tax 2011/12
- D Council Tax Bands
- E(i) Detailed Growth Items
- E(ii) Detailed Savings Items
- E(iii) Brief Descriptions of Growth and Savings Items
- F Directorate Cash Limits - 2011/12 to 2012/13
- G Statement on the Robustness of Budget Estimates, and the Adequacy of Reserves and the Key Budget Risks
- H(i) General Fund Reserves
- I Capital Programme
- J Glossary

### **12. Background Papers**

- 12.1 Background working papers are available in Finance.

## Progress to date year 1 Savings

Area of Activity	Target Saving £'000	Notes	Progress	Savings Banked							
				2011/12			2012/13			2013/14	2014/15
				EOI's £'000	Other £'000	Total £'000	EOI's £'000	Other £'000	Total £'000	£'000	£'000
1. Reviewing the Council's approach to income generation, cash and debt management.	(750)	3 elements : Management of Old Debt, Processes to improve collection rate (both of these enable us to reduce bad debt provision). 3 <sup>rd</sup> element is an invest to save project (fixed investment costs of £40k) seeking to improve our revenue generating opportunities.	<p><b>Management of old debt:</b> Bad-debt write-off in progress to be completed by 31 December 2010. Recalculation of provision to take place in January 2011. Collection of public sector aged debt (fully provided for). Saving dependent on significant improvement in collection.</p> <p><b>Processes to improve collection rate:</b> Draft one of bad debt policy currently under consultation. Processes being reviewed and changed. Exploring potential for an outside agency to collect debt on our behalf. Outside agencies will be conducting due diligence of our systems during December 2010.</p> <p><b>Improve Revenue Generation:</b> Business cases for additional income collection currently being drafted for consideration by members prior to inclusion in 2011-12 budget..</p>		(536)	(536)			0		
<b>Sub total – reviewing the Council's approach to income generation, cash and debt mgmt</b>				0	(536)	(536)	0	0	0	0	0
Area of Activity	Target	Notes	Progress	Savings Banked							
				2011/12			2012/13			2013/14	2014/15

	<b>Saving £'000</b>		<b>EOI's £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>	<b>EOI's £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>	<b>£'000</b>	<b>£'000</b>
2. Reshaping our support services, separating our transactional from professional/technical support services and realigning senior management in the process, securing a 20% overall cost reduction.	(2,500)	The EOI exercise has identified total savings of £1.878m. This comprises £1.7m against the general fund and £0.178m against the HRA. Of the £1.7m general fund saving £1.205m is attributable to support services over two years with the balance of £0.495m from front line services. Management proposals currently under formal consultation indicate a reduction in the cost of senior management of £726k. The savings are reflected across a number of departmental savings proposals. Taking into account the expressions of interest, vacancies and the removal of temporary and fixed term posts the proposals result in 2 potential redundancies.	Underway							



Area of Activity	Target Saving £'000	Notes	Progress	Savings Banked							
				2011/12			2012/13			2013/14	2014/15
				EOI's £'000	Other £'000	Total £'000	EOI's £'000	Other £'000	Total £'000	£'000	£'000
<b>Service area detail</b>											
Audit Risk and Insurance				(102)	(132)	(234)	0	0	0		
Legal				0	(227)	(227)	0	0	0		
HR				(206)	(37)	(243)	(20)	0	(20)		
OTHER EOI - Support/Management				(897)	(115)	(1,012)			0		
Printing				0	(175)	(175)			0		
Policy, Performance & Learning Development				(100)	(198)	(298)			0		
Revenues & Payments				(42)	(65)	(107)			0		
Economic Development & Inclusion				(131)	(139)	(270)			0		
Customer Services				0	(397)	(397)			0		
IT				(306)	(253)	(559)			0		
Housing benefits				(111)	(190)	(301)			0		
Communications & Marketing				(22)	(131)	(153)			0		
Finance									0		
Property Services									0		
Democratic Services											
<b>Sub total - reshaping support services &amp; management savings</b>				<b>(1,917)</b>	<b>(2,059)</b>	<b>(3,976)</b>	<b>(20)</b>	<b>0</b>	<b>(20)</b>	<b>0</b>	<b>0</b>

Savings Banked



		fund and £0.178m against the HRA. Of the £1.7m general fund saving £1.205m is attributable to support services over two years with the balance of £0.495m from front line services.												
7. Increase in commissioned services from the Voluntary Sector.							(385)	(385)						
8. Anticipated savings from the set up of the Transactional Services Centre.							(1,000)	(1,000)						
9. Review of Fees and Charges								0						
<b>Total</b>	<b>(6,900)</b>						<b>(2,412)</b>	<b>(3,550)</b>	<b>(5,962)</b>	<b>(20)</b>	<b>(1,416)</b>	<b>(1,436)</b>	<b>17</b>	<b>5</b>

(2,412) (3,550) (5,962) (20) (31) (51) 17 5

## Appendix B

### Slough BC Medium Term Financial Model - 2010/11 to 2014/15

Details	Latest position post Finance Settlement				
		Provisional Settlement		CSR 2010	
	10/11 £'000	11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000
<b>Opening Budget</b>	102,395	103,979	105,110	100,945	101,400
<b>Total Inflation</b>	1,200	1,150	1,500	2,100	2,300
Total Previously Agreed Growth *	5,875	3,273	2,232	(211)	22
Total Previously Agreed Savings *	(4,051)	(4,423)	(1,835)	(200)	0
Total New Savings Mitigating Cuts to Public Sector Spending *	0	(5,962)	(1,436)	17	5
* shown in appendix D					
<b><u>Grant Funding</u></b>					
Expected income from specific grant schemes now rolled in to Formula Grant		7,873			
Costs of continuing services with no grant allocations		2,707			
ABG Grants (as yet unconfirmed)		336			
Other Grants (confirmed)		27			
Other Grants (as yet unconfirmed)		296	221	93	93
<b>TOTAL GRANT IMPACT</b>		11,238	221	93	93
Total Pensions Adjustments	0	475	510	540	30
Capital Programme Adjustments	(1,440)	(508)	734	0	0
Specific Grant & Transfer Adjustments	0	0	964	206	569
Council Tax Freeze Grant	0	(1,187)	(1,187)	(1,187)	(1,187)
New Homes Bonus (estimate)	0	(130)	(260)	(390)	(520)
<b>BUDGET REQUIREMENT</b>	<b>103,979</b>	<b>107,905</b>	<b>106,552</b>	<b>101,914</b>	<b>102,712</b>
SPECIFIC GRANTS ROLLING INTO FORMULA GRANT		5,536	5,488		
FORMULA GRANT	56,756	51,713	46,640	51,607	48,510
COUNCIL TAX REQUIREMENT	47,223	47,860	48,817	49,794	50,789
<b>TOTAL ESTIMATED FUNDING AVAILABLE</b>	<b>103,979</b>	<b>105,110</b>	<b>100,945</b>	<b>101,400</b>	<b>99,300</b>

<b>TOTAL BUDGET GAP</b>	<b>0</b>	<b>(2,796)</b>	<b>(5,607)</b>	<b>(513)</b>	<b>(3,413)</b>
<b>Additional savings to be considered by Cabinet 24<sup>th</sup> January</b>	<b>972</b>				
Annual (deficit)/surplus	(1,824)	(5,607)	(513)	(3,413)	
Annual savings required	(8,758)	(7,043)	(496)	(3408)	
Cumulative impact of cuts to public sector spending	(8,758)	(15,801)	(16,297)	(19,705)	

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## Statutory Calculation of Council Tax 2011/12

### Statutory Determination of Council Tax

#### Council Tax Resolution

In relation to the Council Tax for 2011/12 Cabinet is requested to resolve:

- (a) That in pursuance of the powers conferred on the Council as the billing authority for its area by the Local Government Finance Act 1992 (the Act), the Council Tax for the Slough area for the year ending 31 March 2012 be as specified below and that the Council Tax be levied accordingly.
- (b) That it be noted that at its meeting on 13 December 2010 Cabinet calculated the following Tax Base amounts for the financial year 2011/12 in accordance with Regulations made under sections 33(5) and 34(4) of the Act:
- (i) 41,567.2 being the amount calculated by the Council, in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (the Regulations) as the Council Tax Base for the whole of the Slough area for the year 2011/12, and
  - (ii) The sums below being the amounts of Council Tax Base for the Parishes within Slough for 2011/12:

a)	Parish of Britwell	1,805.6
b)	Parish of Colnbrook with Poyle	1,947.5
c)	Parish of Wexham	1,499.5
- (c) That the following amounts be now calculated for the year 2011/12 in accordance with sections 32 to 36 of the Act:-
- (i) £399,415,188 being the aggregate of the amounts which the Council estimates for the items set out in section 32(2) (a) to (c) of the Act. (Gross Expenditure)
  - (ii) £294,042,084 being the aggregate of the amounts which the Council estimates for the items set out in section 32(3) (a) to (c) of the Act. (Gross Income)
  - (iii) £105,373,104 being the amount by which the aggregate at paragraph c (i) above exceeds the aggregate at paragraph c (ii) above calculated by the Council as its budget requirement for the year. (Budget Requirement)
  - (iv) £57,249,446 being the aggregate of the sums which it is estimated will be payable for the year into the general fund in respect of redistributed non-domestic rates, revenue support grant and after appropriate transfers between the collection fund and the general fund.

- (v) £1,157.73 being the amount at paragraph c(iii) above less the amount at paragraph c(iv) above and divided by the amount at paragraph b(i) above, calculated by the Council, in accordance with section 33 (1) of the Act, as the basic amount of its Council Tax for the year, including the requirements for Parish precepts.
- (vi) That for the year 2011/2012 the Council determines in accordance with section 34 (1) of the Act, Total Special Items of £263,600 representing the total of Parish Precepts for that year.
- (vii) £1,151.39 being the amount at paragraph c (v) above less the result given by dividing the amount at paragraph c (vi) above by the relevant amounts at paragraph b (i) above, calculated by the Council, in accordance with section 34 (2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates.
- (viii) Valuation Bands

Band	Slough Area £	Parish of Britwell £	Parish of Colnbrook With Poyle £	Parish of Wexham Court £
A	67.59	44.16	30.47	24.45
B	895.52	51.52	35.54	28.53
C	1,023.45	58.88	40.62	32.60
D	1,151.39	66.24	45.70	36.68
E	1,407.25	80.96	55.86	44.83
F	1,663.11	95.67	66.01	52.98
G	1,918.98	110.39	76.17	61.13
H	2,302.77	132.47	91.40	73.36

Being the amounts given by multiplying the amounts at paragraph c (v) and c (vii) above by the number which, in the proportion set out in section 5 (1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with section 36 (1) of the Act, as the amount to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

- (ix) That it be noted that for the year 2011/12 the Thames Valley Police Authority have provisionally stated the following amount in precept issued to the Council, in accordance with section 40 of the Act, for each of the categories of dwellings shown below:



**ESTIMATE- Update provided when confirmed.**

<b>BAND</b>	<u>Thames Valley Police Authority</u> £
A	102.87
B	120.01
C	137.16
D	154.30
E	188.59
F	222.88
G	257.17
H	308.60

- (x) That it be noted that for the year 2011/12 the Royal Berkshire Fire Authority has provisionally stated the following amount in precept issued to the Council, in accordance with section 40 of the Act, for each of the categories of dwellings shown below:

**ESTIMATE – Update provided when confirmed**

<b>BAND</b>	<u>Royal Berkshire Fire Authority</u> £
A	36.92
B	43.07
C	49.22
D	55.38
E	67.68
F	79.99
G	92.29
H	110.75

- (xi) Note that arising from these recommendations, and assuming the major precepts are agreed, the overall Council Tax for Slough Borough Council including the precepting authorities will be as follows:

<b>Band</b>	<b>Slough</b>	<b>Thames Valley Police Authority</b>	<b>Royal Berkshire Fire Authority</b>	<b>TOTAL</b>
	£	£	£	£
<b>A</b>	767.59	102.87	36.92	907.38
<b>B</b>	895.52	120.01	43.07	1,058.60
<b>C</b>	1,023.45	137.16	49.22	1,209.83
<b>D</b>	1,151.39	154.30	55.38	1,361.07
<b>E</b>	1,407.25	188.59	67.68	1,663.52
<b>F</b>	1,663.11	222.88	79.99	1,965.98
<b>G</b>	1,918.98	257.17	92.29	2,268.44
<b>H</b>	2,302.77	308.60	110.75	2,722.12

- (xii) That the Section 151 Officer be and is hereby authorised to give due notice of the said Council Tax in the manner provided by Section 38(2) of the 1992 Act.
- (xiii) That the Section 151 Officer be and is hereby authorised when necessary to apply for a summons against any Council Tax payer or non-domestic ratepayer on whom an account for the said tax or rate and arrears has been duly served and who has failed to pay the amounts due to take all subsequent necessary action to recover them promptly.
- (xiv) That the Section 151 Officer be authorised to collect (and disperse from the relevant accounts) the Council Tax and National Non-Domestic Rate and that whenever the office of the Section 151 Officer is vacant or the holder thereof is for any reason unable to act, the Chief Executive or such other authorised post-holder be authorised to act as before said in his or her stead.

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Appendix D (i) - Schedule of Basic Council Tax 2011/12 (incl Police and Fire)

## Schedule of Basic Amount of Council Tax for All Areas (Including Police & Fire)

**2011/12**

Tax Bands	Fractions	SLOUGH	THAMES VALLEY POLICE	THE ROYAL BERKSHIRE FIRE	SLOUGH PLUS POLICE & FIRE	LOCAL PARISHES + SLOUGH + POLICE + FIRE					
						BRITWELL		COLNBOOK WITH POYLE		WEXHAM COURT	
						Council Tax (a)	Council Tax (b)	Council Tax (c)	Council Tax (d) a+b+c	Parish Element (e)	Total Council Tax (f) d+e
		£	£	£	£	£	£	£	£	£	£
A	6/9	767.59	102.87	36.92	907.38	44.16	951.54	30.47	937.85	24.45	931.83
B	7/9	895.52	120.01	43.07	1,058.60	51.52	1,110.12	35.54	1,094.14	28.53	1,087.13
C	8/9	1,023.45	137.16	49.22	1,209.83	58.88	1,268.71	40.62	1,250.45	32.60	1,242.43
D	9/9	1,151.39	154.30	55.38	1,361.07	66.24	1,427.31	45.70	1,406.77	36.68	1,397.75
E	11/9	1,407.25	188.59	67.68	1,663.52	80.96	1,744.48	55.86	1,719.38	44.83	1,708.35
F	13/9	1,663.11	222.88	79.99	1,965.98	95.67	2,061.65	66.01	2,031.99	52.98	2,018.96
G	15/9	1,918.98	257.17	92.29	2,268.44	110.39	2,378.83	76.17	2,344.61	61.13	2,329.57
H	18/9	2,302.77	308.60	110.75	2,722.12	132.47	2,854.59	91.40	2,813.52	73.36	2,795.48

## Schedule of Basic Amount of Council Tax for All Areas (Excluding Police & Fire)

**2011/12**

Tax Bands	Fractions	SLOUGH	LOCAL PARISHES					
			BRITWELL		COLNBOOK WITH POYLE		WEXHAM COURT	
		Council Tax (a)	Precepts (b)	Council Tax (c) a+b	Precepts (d)	Council Tax (e) a+d	Precepts (f)	Council Tax (g) a+f
		£	£	£	£	£	£	£
A	6/9	767.59	44.16	811.75	30.47	798.06	24.45	792.04
B	7/9	895.52	51.52	947.04	35.54	931.06	28.53	924.05
C	8/9	1,023.45	58.88	1,082.33	40.62	1,064.07	32.60	1,056.05
D	9/9	1,151.39	66.24	1,217.63	45.70	1,197.09	36.68	1,188.07
E	11/9	1,407.25	80.96	1,488.21	55.86	1,463.11	44.83	1,452.08
F	13/9	1,663.11	95.67	1,758.78	66.01	1,729.12	52.98	1,716.09
G	15/9	1,918.98	110.39	2,029.37	76.17	1,995.15	61.13	1,980.11
H	18/9	2,302.77	132.47	2,435.24	91.40	2,394.17	73.36	2,376.13

- Based on Total Budget Requirement including parishes of £105,373,104

- Budget Requirement excluding parishes of £105,109,504

Appendix E (i) – Growth Analysis

Growth

Type	Ref	Details	Prov'l Settlement		CSR10	
			11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000
<b>EDUCATION &amp; CHILDRENS SERVICES</b>						
<b>Total ECS</b>						
<b>COMMUNITY &amp; WELLBEING</b>						
Demand Led	G1 CWB	Demand Led Care Packages - actual commitments	75	0	0	0
Policy Initiative	G6 CWB	Slough Deaf Centre	20	0	0	0
Service	G7 CWB	2 Reviewing officers to reduce care packages	40	0	(120)	0
Development	G8 CWB	Project Manager to achieve service redesign	38	0	(113)	0
Service	EG2 CWB	Library Opening Hours (part of Library Review)	50	0	0	0
Development	ES3a CWB	Reprovision of Central Library (Invest to Save)	40	0	0	0
<b>Total CWB</b>			<b>263</b>	<b>0</b>	<b>(233)</b>	<b>0</b>
<b>GREEN &amp; BUILT ENVIRONMENT</b>						
Demand Led	G1 GBE	Civil Parking Enforcement	20	10	0	0
Demand Led	G4 GBE	Ongoing pressures from current year (net)	(55)	0	0	0
Demand Led	G11 GBE	HMO Survey - results	100	0	0	0
Contractual	G2 GBE	Joint Arrangements - Coroners Service	22	22	22	22
Policy Initiative	G10 GBE	Licensing - Private Hire Operators Policy	8	0	0	0

Service Development	EG3 GBE	Youth Transport Provision	15	0	0	0
Service Development	EG4 GBE	Real Time Passenger Information	100	0	0	0
		<b>Total GBE</b>	<b>210</b>	<b>32</b>	<b>22</b>	<b>22</b>
<b>RESOURCES</b>						
		<b>Total RESOURCES</b>				
<b>IMPROVEMENT &amp; DEVELOPMENT</b>						
		<b>Total I &amp; D</b>				
<b>CORPORATE</b>						
Demand Led	G01 COR / EG01 COR	Capital Financing / MRP	2,800	2,200	0	0
		<b>Total Corporate</b>	<b>2,800</b>	<b>2,200</b>	<b>0</b>	<b>0</b>
		<b>TOTAL AGREED GROWTH</b>	<b>3,273</b>	<b>2,232</b>	<b>(211)</b>	<b>22</b>

		Prov'l Settlement		CSR10	
		11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000
<b>Summary By Type</b>					
	Demand Led	2,940	2,210	0	0
	Policy Initiative	28	0	0	0
	Service Development	283	0	(233)	0
	Contractual	22	22	22	22
		<b>3,273</b>	<b>2,232</b>	<b>(211)</b>	<b>22</b>

## Appendix E (ii) – Efficiency Savings Analysis

Agreed Savings						
Type	Ref	Details	Prov'l Settlement		CSR10	
			11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000
<b>EDUCATION &amp; CHILDRENS SERVICES</b>						
Efficiency	S10 ECS	Out of Authority Placements - Children with Disability	(50)	0	0	0
Service Reduction	S07 ECS	Strategic review of youth Service	0	(140)	0	0
		DECS - Savings now determined	(910)	(910)	0	0
		Share of £750k Central savings to be identified	(209)	0	0	0
		<b>Total ECS</b>	<b>(1,169)</b>	<b>(1,050)</b>	<b>0</b>	<b>0</b>
<b>COMMUNITY &amp; WELLBEING</b>						
Efficiency	S1 CWB	Develop re-enabement of in house services	(200)	(200)	0	0
Service Reduction	S4 CWB	Continue to provide alternative care to further enhance independent living	(250)	(100)	0	0
Efficiency	S10 / S4CWB	Adult Social Care Transformation	(750)	0	0	0
Contractual Negotiation	S15 / S25 CWB	Commissioning TBC by Strat. Director CWB	(139)	(100)	(100)	0
Service Reduction	S18/S26 CWB	Additional Savings to be Found	0	(375)	0	0
Efficiency	S8 CWB	Adult Services Restructure	(50)	0	0	0
Efficiency	S9 CWB	Restructure of Community Services	(50)	0	0	0
Efficiency	S6 CWB	Value for Money Review of Meals on Wheels	(32)	0	0	0
Efficiency	S17 CWB	Invest to save to increase flexible sessional tutor hours and reduce admin and teaching costs in lifelong learning	(2)	0	0	0
Demography	S29 CWB	Completion of the reprovision of Newbeech	465	0	0	0
Contractual Negotiation	S5 CWB	Re-negotiate Gurney House Contract	(100)	0	0	0
Service Reduction	S14 CWB	Reduce Supporting People Grant due to Govt. funding reduction	(585)	0	0	0



Efficiency	S22 CWB	Make Community Centres Self funding	0	(100)	(100)	0
Efficiency	ES3b CWB	Reprovision of Central Library	(150)	(80)	0	0
		Share of £750k Central savings to be identified	(401)	0	0	0
		<b>Total CWB</b>	<b>(2,244)</b>	<b>(955)</b>	<b>(200)</b>	<b>0</b>
<b>GREEN &amp; BUILT ENVIRONMENT</b>						
Efficiency	S03 GBE	Recharges to HRA/Capital	0	20	0	0
Income Generation	S39 GBE	Sale of Trade Waste Collection service	(100)	200	0	0
Efficiency	S34 GBE	Regulatory Services shared management	(120)	0	0	0
Efficiency	S37 GBE	Building Control shared management	(30)	0	0	0
Service Reduction	S06 GBE	Planning Restructure	0	0	0	0
Efficiency	S32 GBE	Reconfigure Borough Wide Comm safety/Enf teams tbc	(145)	0	0	0
Efficiency	ES2 GBE	Highways Maintenance	(250)	250	0	0
		Share of £750k Central savings to be identified	(140)	0	0	0
		<b>Total GBE</b>	<b>(785)</b>	<b>470</b>	<b>0</b>	<b>0</b>
<b>RESOURCES</b>						
Efficiency	999 RES	Town Hall Annexe -relocation of staff -saving across rates	(225)	0	0	0
Service Reduction	S03 RES	VFM review of legal services	0	(100)	0	0
Efficiency	999 RES	Review of Property Services	0	(50)	0	0
		<b>Total Resources</b>	<b>(225)</b>	<b>(150)</b>	<b>0</b>	<b>0</b>
<b>IMPROVEMENT &amp; DEVELOPMENT</b>						
Service Reduction	S09 I&D	CSC - reduced costs in line with grant	0	(150)	0	0
		<b>Total I &amp; D</b>	<b>0</b>	<b>(150)</b>	<b>0</b>	<b>0</b>

CHIEF EXECUTIVE						
	<b>Total Cex</b>		0	0	0	0
CORPORATE						
	<b>Total Corporate</b>		0	0	0	0
	<b>TOTAL SAVINGS</b>		<b>(4,423)</b>	<b>(1,835)</b>	<b>(200)</b>	<b>0</b>

Summary By Type	Prov'l Settlement		CSR10	
	11/12 £'000	12/13 £'000	13/14 £'000	14/15 £'000
Efficiency	(2,054)	(160)	(100)	0
Service Reduction	(835)	(865)	0	0
Contractual Negotiation	(239)	(100)	(100)	0
Demography	465	0	0	0
Income Generation	(100)	200	0	0
Other	(1,660)	-910	0	0
	<b>(4,423)</b>	<b>(1,835)</b>	<b>(200)</b>	<b>0</b>

## **Appendix E (iii) – Description of 2011/12 Growth and Savings Items**

### **Descriptions of Growth Items**

**EDUCATION & CHILDREN'S SERVICES**

**COMMUNITY & WELLBEING**

**GREEN & BUILT ENVIRONMENT**

**RESOURCES**

**IMPROVEMENT & DEVELOPMENT**

**CORPORATE**

**CENTRAL**

**DRAFT**

## **Descriptions of Savings Items**

**EDUCATION & CHILDREN'S SERVICES**

**COMMUNITY & WELLBEING**

**GREEN & BUILT ENVIRONMENT**

**RESOURCES**

**IMPROVEMENT & DEVELOPMENT**

**CHIEF EXECUTIVE**

**DRAFT**

# SLOUGH BOROUGH COUNCIL

## Cash Limits

### 2011/12 to 2013/14

	2010/12 Revised Budget £'000	2011/12 Base Budget £'000	2012/13 Budget £'000	2013/14 Budget £'000
<b>Education &amp; Children's Services</b>	24,534	20,486	19,416	19,416
<b>Community &amp; Wellbeing</b>	36,990	35,216	34,198	33,765
<b>Green &amp; Built Environment</b>	26,243	24,857	25,348	25,370
<b>Central Directorates</b>	22,679	18,936	18,567	18,567
<b>Corporate</b>	(83)	(247)	(249)	(249)
<b>Inflation to be allocated</b>		1,300	1,050	1,100
<b>Total Service Directorates</b>	110,363	100,549	98,331	97,970
<b>Treasury Management</b>	3,334	4,926	7,829	7,846
<b>Earmarked Contingencies &amp; Other</b>	1,382	2,431	393	(3,902)
<b>Area Based Grant</b>	(11,100)	0	0	0
<b>Transfer to/(from) Balances</b>	0	0	0	0
<b>Budget Requirement excluding Parishes</b>	103,979	107,906	106,553	101,914
<b>Funding Available</b>	103,979	105,110	100,945	101,400
<b>Budget Gap</b>	0	(2,796)	(5,607)	(513)

(2,796)      (5,607)      (513)

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**Statement on Adequacy of reserves and robustness of estimates**

**SECTION 25 REPORT  
2011/12 ROBUSTNESS OF BUDGET AND LEVEL OF RESERVES AND  
BALANCES**

**1. Introduction and Purpose of Report**

- 1.1 To review the Council's General Fund Budget, Capital Programme, Earmarked Reserves and General Fund Balances to ensure the robustness of the estimates included.

**2. Executive Summary**

- 2.1 Under Section 25 of the Local Government Act 2003, the Strategic Director of Resources as the Council's Chief Financial Officer ( the Council's 151 Officer) is required to report to the Council on:

- 1) The robustness of the estimates included within the budget
- 2) The adequacy of the reserves and balances

- 2.2 Under the Act, Members must have regard to the contents of this report when making their decisions on the budget.

**3. Proposals**

- 3.1 It is proposed that Members consider the contents of this report when making their decisions on the Council's budgets at this meeting.

**4 . Recommendation**

- 4.1 The Council is recommended: to consider the contents of this report in approving the General Fund and Capital Programme 2011/12 budgets and that the Section 25 report on the robustness of the budget be noted.

*"The Strategic Director of Resources reports that the estimates of income and expenditure forming the Council's General Fund Revenue Budget for 2011/12 have been prepared on the basis of existing plans, known current and future commitments and the financial implications of the proposals for service development, improvement and efficiencies.*

*Where it has been necessary to do so, in the case of certain budgets (e.g. pay, investment income and income from fees and charges), assumptions have been used for inflation, interest rates and service take-up that, on the basis of current and predicted levels of activity, are considered to be reasonable and prudent.*

*However, Members will appreciate that some budgets are more sensitive and responsive to changes in demand, often caused by factors outside of the Council's control. In the event of any unanticipated changes it may be necessary to take corrective action and the effectiveness of this relies on good systems of budgetary control, monitoring and risk management.*

*It is important, therefore, to review actual performance against budget on a regular basis in order to ensure budgets remain on track, particularly the realisation of savings/efficiency proposals as well as being proactive in identifying emerging risks and responding accordingly, taking remedial action where this is appropriate.*

*Set within this wider control framework and the adequacy of the Authority's financial arrangements generally, the Chief Financial Officer considers the Council's budget estimates for 2011/2012 to be robust although the medium term position facing the Council remains challenging.*

*With regard to the medium term, Members will be aware of a number of pressures facing the Council. These need to be considered in the context of the national framework being applied to local government, which, amongst other things, requires increasing efficiencies and restrictions on council tax increases. Against this backdrop the expectation is that, future years' budgets will come under increasing pressure with a growing emphasis on prioritisation, efficiency, innovation and collaboration in service delivery. Members may therefore face difficult decisions in later years in order to sustain a balanced budget over the medium term*

*Whilst this has been reflected in part within the current service and financial planning framework the work required is likely to intensify for subsequent budget rounds.*

### **Statement on the Adequacy of Financial Reserves**

4.2 The Council is asked to consider the following statement in respect of the adequacy of the Council's proposed financial reserves:-

*"The Strategic Director of Resources reports that, having conducted a review of the Council's requirement for the minimum working balance, taking into consideration various matters including:-*

- the Council's spending plans for 2011/12 and the medium term financial position;*
- adequacy of estimates of inflation, interest rates;*
- treatment of demand led pressures;*
- impact of external partnerships;*
- the need to respond to emergencies.*
- Capital programme variations.*

*an amount of £5m is considered adequate for this purpose.*



*However, the extent to which the levels of general fund balance is diminishing in proportion to the forecast growing budget is a situation that is not sustainable over the medium term without a need to align expenditure more closely with ongoing resources and adopt a risk based . Combined with the uncertainty surrounding the outcome of the grant settlement, additional spending pressures arising due to demand led services and demographic pressures will mean that the level of general fund balances and unallocated reserves will need to be increased and maintained under review to secure sound financial standing in future years.*

*This statement is made on the understanding that any use of reserves and balances is undertaken in accordance with the Council's existing Financial Procedure Rules”*

## **5 Supporting Information**

- 5.1 The conclusion is that the processes followed have been generally sound and similar to those that have produced robust estimates in the past. In the light of information made available during the budget process, there is sufficient capacity in the proposed budget and available reserves and balances to cope with the financial risks the Authority faces in 2011/12.
- 5.2 The strength of the service and financial planning processes supported by a professional finance team, with the involvement of Service Management Teams, Directorate Management Teams, Strategic Directors and Corporate Management Team, and elected Members; the extensive consultation; the assessment of risk; the rigorous challenge; the inclusion of a central contingency; and the way in which it is underpinned by adequate balances; means that the draft budget is robust, comprehensive and geared to the delivery of the Council's key objectives and service priorities.
- 5.3 Section 25 of The Local Government Act 2003 includes a specific personal duty on the Chief Financial Officer (“CFO”) to make a report to the authority when it is considering its budget and Council Tax. Also, Section 26 of the Act gives the Secretary of State power to set minimum level of reserves for which an authority must provide in setting its budget. The Secretary of State stated that “the provisions are a fallback against the circumstances in which an authority does not act prudently, disregards the advice of its CFO and is heading for serious financial difficulty”.
- 5.4 The Local Government Finance Act 1992 also requires that authorities have regard to the level of reserves needed for meeting estimated future expenditure when calculating the next budget requirement.
- 5.5 There are also a range of safeguards to ensure authorities do not over-commit themselves financially. These include:
  - The CFO ‘S114’ powers, which require a report to all members of the authority if there is or is likely to be unlawful expenditure or an unbalanced budget

- The Prudential Code which applied to capital financing from 2004/05.

5.6 These safeguards are reinforced by the Use of Resources Assessment by the Audit Commission which includes a methodology to assess the financial performance and standing of the authority.

## **6. Guidance on Evaluation of the Estimates**

6.1 The Local Government Act 2003 does not provide any specific guidance on how to evaluate the robustness of the estimates. The explanatory notes to the Act do, however, stress that decisions on the appropriate level of reserves should not be based on a rule of thumb, but on an assessment of all the circumstances considered likely to affect the authority. In addition reference is also made to the CIPFA guidance on reserves and balances.

6.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) states that the following factors should be taken into account when the CFO considers the overall level of reserves and balances:

- Assumptions regarding inflation
- Estimates of the level and timing of capital receipts
- Treatment of demand led budgets (i.e. budgets where expenditure or income are to some extent beyond the Council's control)
- Treatment of efficiencies
- Risks inherent in any new partnerships etc
- Financial standing of the authority (level of borrowing, debt outstanding etc)
- The authority's track record in budget management (including the robustness of the Medium Term Financial Strategy)
- The authority's capacity to manage in-year budget pressures
- The authority's virement and year-end procedures in relation to under- and over- spends
- The adequacy of insurance arrangements.

The above issues are also of relevance when evaluating the robustness of the budget.

## **7. Reserves**

7.1 The estimated level of reserves as at 31 March 2011 are shown in Appendix F(i). The rationale for each of these reserves and the level required in each has been reviewed. The remaining reserves are considered to be both necessary and at adequate levels. In addition to the various earmarked reserves, the Council will have an estimated General Fund Balance of approximately £5m at 31st March 2011. The General Fund balance materially meets the recommended 'good practice' minimum of 5% of the budgeted net operating expenditure for the financial year 2011/12.

7.2. Reserves can be held for three main purposes:

- general reserves to meet the potential costs of emergencies or unexpected events, including a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing
- a contingency to meet the costs of events that are possible but whose occurrence is not certain – this also forms part of general reserves. For the financial year 2010/11 an Economic Factors Reserve has been set up to deal with any increased demand on Council services, additional costs (e.g. overall inflation or specifics such as higher than anticipated fuel cost rises), falls in income from fees and charges or reduced investment income.
- earmarked reserves to meet known or predicted liabilities over a period of time usually of more than one year. These earmarked reserves protect the Council against specific financial risks and this is a factor to be taken into account when assessing the adequacy of the totality of balances and reserves and the level of the General Fund Balance.

## **8. Strategic Budget Issues to Evaluate for Robustness**

### **8.1 Inflationary pressures**

Provision has been made for a national pay award of 1%. An assumption on staff turnover savings recruitment costs etc is made departmentally. Budgets have been prepared at out-turn prices (i.e. to take account of known or expected increases in the prices of goods and services). This is a tried and tested approach, although in the unusual economic situation currently being experienced an Economic Factors Reserve has also been set up as outlined above.

### **8.2 Capital Programme Revenue Effects and Financing**

The revenue budget includes all revenue effects of capital schemes. Particular emphasis has been placed on the major schemes regarding the Council's Heart of Slough project. Assumptions of new capital receipts in 2010/11 are based on realistic estimates received from the relevant officers in the Council.

### **8.3 Treatment of demand led pressures and efficiencies**

Particular care has been taken in compiling the key Council budgets which are often described as 'demand led' because their achievement is to some degree outside the Council's control. These types of budgets are likely to contribute significantly to any overall variation of actual achievement against budgets particularly so given the sensitivity of some services to demographic pressures – an issue resultant in considerable under funding for the Borough. Some of these budgets could be further affected by the prevailing economic recession and in all cases a prudent approach has been adopted in the estimates prepared.

#### 8.4 Savings Identified

Savings proposals for 2010/11 total approximately £4m. The main priority in achieving these savings was to protect front line priority services. Each of these efficiency proposals was evaluated for feasibility of achievement and found to be realistic. Each expenditure efficiency has been removed from the relevant budget and each agreed increase in income added to the relevant budget. Both expenditure and income efficiencies will be profiled on the Council's Financial Management System to make it clear that efficiencies are expected to be realised from the agreed date. Prior to the commencement of the financial year 2009/10 officers responsible for these services and the associated budget reductions or additional income will be reminded of the need to achieve the figures put forward within the agreed timescales. Monthly financial information will then be provided to help monitor progress, and any significant variations will be reported to both the Corporate Management Team and the Cabinet. These reports will contain proposals for corrective action where necessary.

8.5 At the time of writing this report there were a small number of efficiencies where the detailed managerial action plan for implementation had not been completed. On this basis these efficiencies have been included in the budget on a part year basis. In view of the clear political and managerial intent, relatively small sums involved, the robustness of the remaining budget and the overall adequacy of reserves, it is considered that there is no significant risk to the Authority arising from the inclusion of these sums.

8.6 Any one-off costs of achieving ongoing efficiencies have been built into rationale and projections of use of provisions.

### 9. **Investment Income**

9.1 The 2009/10 revenue budget for investment income is based on ensuring security of investment, liquidity and income yield, in that order. It assumes that the interest due from the Council's investment in the Icelandic Bank will not be received following the collapse of that bank. This assumption will not prevent the Council continuing to press for the payment of the sum due.

9.2 The Council's investment income budget for 2010/11 has been compiled on the basis of close tracking of actual and likely interest rates and with the help of external information sources. The emphasis has been on the least risky places to invest the Council's money and this, along with the trend in interest rate reductions and the agreed use of capital receipts has led to a significant reduction in the investment income built into the budget. In budgetary terms this is prudent and places the Council at less risk of exposure in-year.

### 10. **Capacity to Manage in-year Budget Pressures**

10.1 The Authority has a record of maintaining good financial and budgetary discipline in the face of mid-year pressures, including virement procedures that allow funds to be moved to areas of pressure. Although underspends and

overspends are not automatically carried forward, the Authority does have an approved carry forward scheme.

- 10.2 For a number of years, year-end out-turn has been within approved budget levels, although the trend to early overspends remains visible, this trend is reducing and the discipline to remain within overall budgeted levels is well established. This is a welcome change, although it does mean, quite rightly, that further development on accurate budgeting, profiling and forecasting is required and this is a major area of agreed focus for the Council's corporate management team.
- 10.3 Managers with budgetary responsibility receive ongoing financial training and support.
- 10.4 Budget holders receive regular information from their relevant finance lead and regular Financial Management System (FMS) reports. Both budget profiling and commitment accounting are used to assist the budgetary control process.
- 10.5 The Cabinet receives monthly budgetary performance reports, including proposed actions to deal with any variances from budget and early consideration of the of potential pressures.

## **11. Risk Management and Insurance Arrangements**

- 11.1 The Council has continued to improve its risk management approach which regularly updates the key risks and identifies actions which can reduce the likelihood and impact of those risks. The risks identified are fed into the budgetary process as appropriate.
- 11.2 In recent months the economic recession has featured as a key risk for several of the Council's income budgets and appropriate budgetary provision has been made in respect of these.
- 11.3 A further risk that has featured in previous budgets relates to the Job Evaluation and harmonisation project which is due to conclude at the end of the current financial year, removing a level of uncertainty previously experienced.
- 11.4 Specific service based and demand led budget risk considerations are identified and considered within the main budget report.
- 11.5 The Authority has a very low record of claims against its insurance policies. A comprehensive range of insurance policies are held, although these are subject to regular review to ensure that this is the most appropriate response to the risks faced.

## **12. Longer Term Considerations**

- 12.1 Although this report has the 2011/12 budget as its focus it is worthwhile considering briefly some of the key longer term financial issues facing the Council so that it can be established that no hidden issues could affect the forthcoming budget year.
- 12.2 The Council has a robust Medium Term Financial Strategy which is regularly updated and gives multi-year projections of the Council's revenue and capital position.
- 12.3 The Council makes contributions to the Berkshire Pension Fund on behalf of staff. The next actuarial review of the fund will be based on the position as at 31 March 2010. The results of the review should be known in late 2010 with any changes to contribution rates expected to be implemented with effect from 2011/12. The anticipated impact for the Authority will be reviewed as information becomes available and the current projection anticipates funding requirements in 2011/12.

## **13. Key Issues for Consideration and Options**

- 13.1 The key issues are whether:
- the base budget is realistic
  - the expenditure efficiencies are achievable
  - the additional income will be received
  - the reserves are adequate to deal with any shortfall in the budget
- 13.2 It is considered that these requirements are in fact met.
- 13.3 The Full Council can of course make changes to the budget even at this late stage, although it is advised that any such changes, if significant, could adversely affect the robustness of the budget if a full appraisal of their likely consequences is not undertaken.

# SLOUGH BOROUGH COUNCIL

## General Fund Reserves

\*(Will be reviewed in Nov)

	2009/10	2010/11		2011/12	2012/13	2013/14
	Actual	Committee Approved	Projected Out-turn	Projected Postion*	Projected Postion*	Projected Postion*
	£'000	£'000	£'000	£'000	£'000	£'000
<b><u>General Fund Balance</u></b>						
Balance as at 1st April	5,388	5,388	5,388	5,388	5,388	5,388
Planned Contribution to/(from) Revenue Account	0	0	0	0	0	0
	5,388	5,388	5,388	5,388	5,388	5,388
<b>Balance as at 31st March</b>	<b>5,388</b>	<b>5,388</b>	<b>5,388</b>	<b>5,388</b>	<b>5,388</b>	<b>5,388</b>
<b><u>Earmarked Reserves</u></b>						
<b>Balances as at 31st March:</b>						
Department Services	771	0	771	0	0	0
Miscellaneous Reserves:						
Economic Risk	350	0	350	350	350	350
Future Debt & Capital Requirements	5,338	2,927	3,935	3,096	3,966	4,692
Property fund/ Feasibility& Capital Disposal	605	610	605	300	400	500
Contingency	730	835	730	1,000	1,000	1,000
Finance System Upgrade	100	100	100	100	100	0

Berkshire Liabilities	500	515	515	400	300	200
LABGI	192	0	0	0	0	0
PFI	1,407	1,348	1,407	1,407	1,407	1,407
BSF	50	50	0	0	0	0
LPSA	936	0	0	0	0	0
LSP Management	136	0	0	0	0	0
LD Transfer from PCT	0	186	0	0	0	0
Organisational Change	227	250	227	0	0	0
Harmonisation	545	0	400	250	100	0
Sure start	370	370	370	200	100	0
	11,136	7,191	8,289	6,753	7,373	0
Trading Accounts	197	85	197	85	85	85
Insurance Reserves	516	375	516	375	375	375
Capital Reserves	342	0	342	0	0	0
<b>Total Earmarked Reserves</b>	<b>12,962</b>	<b>7,651</b>	<b>10,115</b>	<b>7,213</b>	<b>7,833</b>	<b>0</b>
<b>Total General Fund Reserves</b>	<b>18,350</b>	<b>13,039</b>	<b>15,503</b>	<b>12,601</b>	<b>13,221</b>	<b>0</b>



## Appendix I - Capital Investment Programme Summary

### SUMMARY OF CAPITAL PROGRAMME 2010/11 to 2016/2017

Summary	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
	Budget	Budget Estimate	Budget Estimate	Budget Estimate	Budget Estimate	Budget Estimate	Budget Estimate
<b>EXPENDITURE</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>GENERAL FUND PROGRAMME</b>							
Community and Wellbeing Education and Children's Services	2,369	1,119	4,900	50	3,500	500	0
Green and Built Environment	25,149	13,222	3,972	0	0	0	0
Green & Built Environment: Affordable Housing Resources	10,013	7,664	2,046	897	350	200	0
	1,339	1,833	1,610	0	0	0	0
	16,329	13,580	16,239	750	0	0	0
	<b>55,199</b>	<b>37,418</b>	<b>28,767</b>	<b>1,697</b>	<b>3,850</b>	<b>700</b>	<b>0</b>
<b>HOUSING REVENUE ACCOUNT</b>							
Housing Revenue Account	7,882	10,931	5,107	5,117	5,053	5,053	5,027
	<b>7,882</b>	<b>10,931</b>	<b>5,107</b>	<b>5,117</b>	<b>5,053</b>	<b>5,053</b>	<b>5,027</b>
<b>TOTAL CAPITAL PROGRAMME</b>	<b>63,081</b>	<b>48,349</b>	<b>33,874</b>	<b>6,814</b>	<b>8,903</b>	<b>5,753</b>	<b>5,027</b>
<b>SOURCE OF FINANCING</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>GENERAL FUND PROGRAMME</b>							
Capital Grants ®	-23,190	-12,169	-4,800	0	0	0	0
Capital Grants	-5,974	-4,751	-2,202	0	0	0	0
Revenue Contributions S106	-4,023	0	0	0	0	0	0
Capital Receipts	-2,726	-3,346	-450	0	0	0	0
Borrowing	-4,475	-15,010	-4,750	0	-700	0	0
	-14,811	-2,142	-16,565	-1,697	-3,150	-700	0
	<b>-55,199</b>	<b>-37,418</b>	<b>-28,767</b>	<b>-1,697</b>	<b>-3,850</b>	<b>-700</b>	<b>0</b>
<b>HOUSING REVENUE ACCOUNT</b>							
Capital Grants	-16	0	0	0	0	0	0
Contributions	-356	0	0	0	0	0	0
Major Repairs Allowance	-5,950	-4,977	-4,907	-4,917	-4,853	-4,853	-4,827
ALMO Borrowing	-1,538	0	0	0	0	0	0
HRA Balances	0	-2,850	0	0	0	0	0
Capital Receipts	-22	-3,104	-200	-200	-200	-200	-200
	<b>-7,882</b>	<b>-10,931</b>	<b>-5,107</b>	<b>-5,117</b>	<b>-5,053</b>	<b>-5,053</b>	<b>-5,027</b>
<b>TOTAL FINANCING</b>	<b>-63,081</b>	<b>-48,349</b>	<b>-33,874</b>	<b>-6,814</b>	<b>-8,903</b>	<b>-5,753</b>	<b>-5,027</b>

**Note:** Capital Grants ® = Restricted Grants

## Appendix H(ii) Capital Programme Detail

(See document attached)

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## Glossary of terms

**Balances:** Unallocated reserves which are essentially retained to cover uncertainties and risks which may require funding in the future.

**Billing authority:** The council that bills and collects both Council Tax from local residents and Business Rates from local business premises. For Council Tax, the bill issued will include the precepts from other authorities operating in the area. Slough BC is a billing authority.

**Budget Requirement:** The amount the authority estimates as its planned spending for the forthcoming financial year, after deducting income it raises from fees and charges, specific grants and funding from reserves.

**Capital:** Income received and funding spent on the creation and enhancement of the council's assets (e.g. land, buildings, infrastructure, equipment). What counts as capital has to meet specific criteria set out in legislation and accounting practice. Councils cannot use capital income for revenue purposes.

**Capping:** The power retained by the Secretary of State to limit an authority's budget requirement if he considers it, or the increase on the previous year's budget, to be excessive. All local authorities are potentially subject to capping once they have set their council tax or precept requirements.

**Cash Limits:** An amount of money agreed by the Administration within which a Directorate sets its budget, and subsequently within which it is expected to contain its net expenditure.

**Collection Fund:** The Collection Fund accounts for all monies relating to the receipt of Council Tax and the old Community Charge, and for payments made to the precepting authorities, the Thames Valley Police Authority and the Royal Berkshire Fire Authority, and to fund the Council's own demand to meet its budget requirement. Whatever balance remains on the fund in respect of the over/under recovery of Council Tax or Community Charge must be added to or subtracted from the following year's Council Tax bills.

**Comprehensive Spending Review:** The central government mechanism for establishing four-year expenditure plans for all public spending, resulting in multi-year funding settlements for local councils. The CSR 2010 covers the financial years 2011/12, 2012/13, 2013/14 and 2014/15.

**Discretionary Services:** Services where the council has the power to provide a service, but has no specific legal obligation (e.g. leisure and cultural services). Under the Local Government Act 2003, enhancements to statutory service provision which are over and above what is required by law (e.g. pre-planning advice) is defined as a discretionary service, thus allowing the council to levy a charge.

**Formula Grant:** The funding provided to local authorities by central government as part of the Local Authority Financial Settlement. Formula Grant is made up of Revenue Support Grant plus an allocation from the National Non Domestic Rate (NNDR) pool.

**General Fund / General Fund Services:** All services provided by the local authority, with the exception of the provision of council housing are defined as General Fund services.

**Hereditament:** Essentially meaning property, but used in local government to mean houses and other living accommodation, such as flats.

**Housing Revenue Account (HRA):** All councils that own and manage council housing are required by law to budget and account for the resulting income and

expenditure separately. The separate account is known as the Housing Revenue Account (HRA)

**Housing Revenue Account Subsidy:** The government grant for the provision of council housing. The grant is calculated via a formula which allocates grant to some local councils to support their HRA. It is a national redistribution formula and as such, individual authorities can receive funding via grant or be in “negative subsidy”, meaning funding has to be returned to central government from the local council.

**Local Government Financial Settlement:** The process, and announcement, of the amount of funding local councils will receive in Formula Grant. The Settlement is announced annually, but is now linked to the government’s Comprehensive Spending Review process, meaning that local councils receive notice of funding over a multi-year period.

**Local Strategic Partnership (LSP):** Non statutory bodies comprising of representatives all bodies delivering public services (including the health and voluntary sectors) in a local area.

**Mandatory Services:** Services which a local authority is required to provide specifically by law.

**Negative Subsidy:** The Housing Revenue Account Subsidy grant models income and expenditure in a council’s Housing Revenue Account. If the model calculates that income is greater than expenditure, the council is said to be in negative subsidy, and has to pay over this sum to central government.

**National Non-Domestic Rates (NNDR):** Also known as Business Rates, they are the means by which local businesses contribute towards the cost of local authority services. The rates are pooled by central government and redistributed to local councils according to the number of people living in the area. This money, together with revenue support grant forms each individual local authority’s Formula Grant allocation.

**Non domestic rating multiplier:** Business rates are calculated by multiplying the rateable value of the business premises by an amount set annually by central government, known as the Non domestic rating multiplier. For 2011/12 the multiplier is 43.3p in the £. For small business with rateable values below £6,000, this is reduced to 42.6p in the £.

**Precepting authority:** A local council that levies Council Tax but does not directly bill local residents. Precepting authorities include county councils, police authorities, fire and rescue authorities, parish and town councils and other local bodies such as the Norfolk Broads Authority. Precepts are added to the overall Council Tax bill produced by the Billing authority(ies) in the local area.

**Prudential Indicators:** The Prudential Framework introduced by the Local Government Act 2003 requires local authorities to prepare information on planned capital expenditure, borrowing and treasury management over a three year period, known as the prudential indicators. Detailed requirements are set out in the Prudential Code for Capital Finance prepared by CIPFA.

**Rateable value:** The rateable value is the annual rent a property would command if it was available on the open market at a set date. The business rate levied on a business property is calculated by multiplying the rateable value by the non domestic rate multiplier. Rateable values are determined by the Valuation Office Agency (VOA), an executive agency of HM Revenue & Customs. Revaluations are carried out every 5 years. The current rateable values are as at 1 April 2008.

**Revenue:** Income received and expenditure allocated to support the general running costs of the council.

**Rent Restructuring:** A long term Government initiative commenced in 2002/03 to require all social landlords to have a single approach to setting rent levels, based on a single formula. All local authorities are required to calculate housing rents for their HRA properties in accordance with the nationally determined Formula Rent system.

**Revenue Support Grant (RSG):** A government grant, forming part of the Formula Grant that is provided to local councils to support their general revenue expenditure.

**Section 151 Officer:** Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "...make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs." In most authorities the Director of Finance (or equivalent) is designated as the Section 151 Officer to fulfil this statutory role.

**Schools Forum:** Schools forums were set up by the government to give schools greater involvement in the distribution of funding for education in the local authority. Forums have a consultative and advisory role on key aspects of strategy and budget while having regard to wider education issues. The forum is made up of members representing primary, secondary and special schools, including schools governors and Head Teachers.

**Statement of Recommended Practice (SORP):** The Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (more generally known as the SORP), defines proper accounting practice for local authorities in the UK. Accordingly, it informs all local councils on various technical accounting matters, including the structure of their annual financial statements. It is prepared by a joint committee of the Chartered Institute of Public Finance and the Accountancy / Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC).

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