READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF RESOURCES

TO:	COUNCIL		
DATE:	19 FEBRUARY 2008	AGENDA ITEM:	
TITLE:	BUDGET 2008/09		
LEAD COUNCILLORS	COUNCILLOR SUTTON COUNCILLOR LOVELOCK	AREA COVERED:	CORPORATE-WIDE
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
AUTHOR:	DAVE PEASLEY / ALAN CROSS	TEL:	2741 / 939 0741 2058 / 939 0058
JOB TITLE:	DIRECTOR OF RESOURCES / HEAD OF FINANCIAL SERVICES	E-MAIL:	dave.peasley@reading.gov.uk / alan.cross@reading.gov.uk

1. PURPOSE AND SUMMARY OF REPORT

1.1 This report sets out the budget for the Council covering the forecast capital and revenue expenditure and resources for 2008/09, together with the draft General Fund budget and Capital Programme for decision by Councillors.

1.2 Sections 6 and 7 of the report set out my advice to Councillors on the robustness of the Budget and the adequacy of balances and reserves as required by the Local Government Act 2003.

1.3 At the time of writing this report the Council Tax Plans for Royal Berkshire Fire and Rescue Service and Thames Valley Police Authority have not yet been agreed. Therefore, it will be necessary to update this report once the Council Tax for RBFRS and TVPA have been confirmed.

RECOMMENDED ACTIONS

The Leader and Deputy Leader of the Council propose the following recommendations.

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In the event that the Council decides to set a General Fund balance which is significantly less than that advised by the Director of Resources of a minimum £3m, then the reasons for this difference be recorded in the Minutes of the Council Meeting.

3. **CONTEXT FOR SETTING THE 2008/09 BUDGET**

3.1 The 2008/09 budget has been built taking into account spending patterns and pressures experienced over the past few years, forecasts for next year and taking into account current Council priorities.

3.2 The budget strategy outlined in this report is designed to meet the challenges ahead and provide flexibility to deal with varying service pressures which may arise.

3.3 The 2008/09 budget is part of a rolling medium term service and budget plan which aims to achieve a service-led approach to budget setting linked to Best Value and the Council's developing service priorities and policies, within an overall financial framework designed to align budget and service planning and strike the optimum balance between spending and tax levels.

Budget Strategy

3.4 The detailed 2008/09 budget has been drawn up by Officers in accordance with the Financial Guidelines approved by Cabinet and in consultation with Lead Councillors as part of a medium term plan designed to:

- Provide high quality services.
- Enable resources to be directed towards priority services in line with agreed medium term priorities.
- Maximise efficiency and provide value for money within the framework of Best Value including the identification of savings to meet Government Efficiency Targets.
- Strike the right balance between resources for day-to-day services and investment for the future.
- Optimise the balance between spending and tax levels.

- Hold balances to enable flexibility to deal with the risks the Council faces over the year.

Challenges Faced

3.5 In building the 2008/09 Budget the Council has faced a number of issues such as:

- Containing demand led budgets (especially community care).
- Impact of Waste PFI and increasing waste recycling costs.
- Responding to the challenge of Every Child Matters.
- Transforming Services Programme.
- Reshaping Services Programme.
- Achievement of savings and driving efficiency across the Council.
- Providing for Pay and Reward costs.

Meeting Priorities

3.6 Although it has been necessary to take account of a range of pressures, the Budget for 2008/09 takes account of the re-allocation of resources to key priority areas such as:

Table A

	Additional Funding £000
Concessionary Fares	570
Learning Disabilities	718
Older Peoples Services	825
Other Community Care	425
Waste Management	1743
Children & Families	250

3.7 Funding has also been made available in the Capital Programme to meet investment priorities for improving council assets and the infrastructure of Reading.

3.8 Full details of the Council's objectives and priorities for 2008/09 and over the medium term will be included in the Corporate Plan to be submitted to Council for approval on 1st April 2008.

4. LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 For the first time the Local Government Finance Settlement has been announced for 3 years in-line with the Comprehensive Spending Review (2008/09 to 2010/11).

4.2 Appendix 1 summarises the settlement for Reading over the 3 year period.

4.3 Reading's Formula Grant Allocations will be limited to the minimum floor increase.

Year	Minimum Floor	Increase
	%	£000
2008/09	2	1052
2009/10	1.75	939
2010/11	1.5	818

General Fund Budget

4.4 The draft General Fund Budget for 2008/09 totals £116.4m. The increase in the budget over 2007/08 is set out in Table B.

Table B

	£m
APPROVED BUDGET 2007/08	111.5
Payroll Cost Inflation	1.8
Increments/Pay and Reward	0.5
Inflation Non Pay Budgets	2.4
Capital Financing Costs	-0.4
Income Reductions	0.2
Income Increases	-1.4
Unavoidable Pressures to Maintain Services	5.2
Savings	-3.7
Net Impact of Government Specific Grant Changes	-0.7
Transfer of Government Grant to FGA	2.2
One off Funding Changes	-1.2
Budget Requirement 2008/09	**116.4**

General Fund Balance

4.5 The forecast General Fund balance is set out below.

Table C

	Approved Budget 2007/08 £000	**Latest Forecast 2007/08 £000**	**Draft Budget 2008/09 £000**
Forecast Balances 1 April	4052	4,864	5,379
Use of Balances	-107	+515	-1319
Forecast Balance 31 March	3,945	5,379	4,060

4.6 As at 31 March 2009, the forecast General Fund balance is £4.1m, which will provide a degree of financial flexibility over the next year, and as a contingency against increased costs and pay awards. The forecast balance at 31 March 2009 represents 3.5% of budgeted net expenditure.

4.7 Given the level of budget pressures and variances Reading has experienced since becoming a Unitary, £3m is considered to be the minimum level of balance that should be held.

Budget Monitoring

4.8 Detailed monthly budget monitoring arrangements are in place across the Council which have been designed to provide an early warning of possible budget variations in order that early remedial action can be taken where appropriate. In addition, finance staffing resources are directed to key budget risk areas (eg Community Care because of the demand led nature of these services). In recent years devolved accountancy arrangements have been put in place to strengthen financial advice and support to Directorates. It is essential that Service Managers operate within the approved budget to minimise the risk of overspending.

4.9 All Directorates have access to detailed financial information via the Council's Oracle Financials system, and budget monitoring reports have been developed to enable financial commitments to be recognised when entered into and all budget holders and Directorates monitor their budgets and flag up potential variances at an early stage so remedial action to keep net expenditure within approved budgets in line with the Council's Budget framework can be agreed. The prime responsibility and accountability for budget monitoring and keeping within approved budgets rests with budget holders and Directorates.

4.10 It is intended to submit Budget Monitoring reports to Cabinet in July, October, January and February (this latter report being as part of 2009/10 budget setting). These reports will then be considered by Scrutiny Panels.

4.11 As part of setting the budget, a top level risk assessment has been undertaken. Although subjective, this assessment is a helpful tool in the overall management of the budget, and is consistent with Corporate Governance and Best Practice. During the year management will focus resources on key risk areas as part of the overall monitoring and management of services so the risk of overspending is minimised.

Council Tax Levels 2008/09

4.12 Under the Council Tax system about 69% of properties in Reading are in Council Tax Bands A to C. This means that the average Council Tax across all properties on the valuation list will be considerably lower than the Council Tax at Band D.

4.13 For 2008/09 Reading's average Council Tax is expected to be £ 983, an increase of 1.3%.

4.14 Assuming the budget is set at £116.4m then Reading's Band D Council Tax will be £1212.66, an increase of 1.9% over the 2007/08 Council Tax of £1,190.04. The Thames Valley Police Council Tax is £144.76, an increase of 4% and Royal Berkshire Fire & Rescue Authority Council Tax is £52.54, an increase of 4.9%, which will give an overall Council Tax at Band D of £1409.96, which represents an overall increase of 2.2%.

Capital Programme 2008/09

4.15 Subject to Cabinet approval of new schemes, forecast Capital Expenditure in 2008/09 totals £ 113.8 after allowing for slippage of £20m.

4.16 Section 9 (Table N) summaries how the proposed programme will be funded.

Housing Revenue Account (HRA)

4.17 Council at its meeting on 29th January 2008 approved a rent increase from 1 April 2008 of an average £2.68 per week (3.4 %). The approved HRA budget and the probable outturn are included in the draft budget book.

4.18 The HRA budget plans will provide a forecast balance on the account of £5.2m as at 31 March 2009.

5. GENERAL FUND BUDGET – DETAILED PROPOSALS

2007/08 Current Year

5.1 The latest forecast for 2007/08 compared to the original budget is set out in Table D below.

Table D

	Approved Budget £000	Latest Forecast £000	Variance £000
Net Expenditure	111,622	111,000	-622
Add to (+) / Use of (-) Balances	-107	+515	622
to fund service expenditure	111,515	111,515	0

5.2 A summary of the budget variances for 2007/08 is set out below. Appendix 2 sets out details of the Directorate variances.

Table E

	£000
Environment, Culture and Sport	290
Procurement Savings and Additional Grant	-375
Education and Children's Services	97
Housing and Community Care	938
Capital Financing Costs	-1572
	- 622

5.3 This represents a 0.6% variance against budgeted net expenditure.

Draft General Fund Budget Build 2008/09

5.4 Appendix 3 sets out the draft budget for 2008/09 which totals £116.4m. A summary of Directorate budgets are set out in the draft budget book accompanying this report.

5.5 The 2008/09 budget has been drawn up in accordance with the Financial Guidelines agreed by Cabinet, and in line with the following service priorities, which are consistent with the Council Medium Term Priorities.

Budget Build

5.6 The budget allows for inflation (pay and prices) increases of £4.2m. The provision for pay awards for non-teaching employees has been set at 2% in line with the Chancellor of the Exchequer's expectation of increases in public sector pay awards. Inflation on non-pay budgets is based on estimated contractual commitments. The Employers Pension Fund Contribution rate is set to remain unchanged at 14.7%.

5.7 The budget also allows for budget pressures and growth items arising from increases in demography, changes in service demand and new statutory responsibilities to the value of £5.2m (details are given in Appendix 3(a)).

5.8 Account has also been taken of a net increase in income of £1.2m (Appendix 3(b)).

5.9 As part of the Council's continuing drive to provide Best Value, savings of £ 3.7m have been allowed for. These savings which are set out in Appendix 3(c) are considered manageable in terms of their impact on overall service provision and have been identified as part of the process of ensuring resources available are directed towards priority areas of service provision. Those counting towards Gershon Efficiency Targets have been identified accordingly and total £3.2m. Over the 3 year period 2005/06 to 2007/08. Gershon efficiencies of £12.1m have been achieved/identified, £2m over the target set for the period of £10.1m.

Resource Allocation

5.10 The allocation of resources is heavily influenced by Government and other pressures for example the Government tells us how much we should spend in our schools and related budgets. We also need to manage costs such as Landfill Tax and demographic demand on services for the elderly and people with learning disabilities.

5.11 These factors together with the expectation of low Council Tax increases means that the Council has limited scope to move resources around or to develop and fund new ideas and priorities.

5.12 The Council has reviewed its allocation of resources to major service blocks, and is satisfied that the allocation is correct and in line with the Council's priorities.

5.13 However, through our Re-shaping and Transforming Services we ensure that our resources reflect our local priorities by actively finding ways to reprioritise spending within service areas, introducing cost cutting efficiencies and improvements to customer access. Changes in reprioritisation of resources are included in the Annual Budget Report and where identified reflected in the Medium Term Plan.

5.14 In addition to ensuring adequate funding for core services, priorities for further revenue funding include Waste Management, Community Care and Children & Families.

5.15 With regard to Capital Investment priorities this plan includes the capital financing implications of the Council's Capital Strategy Asset Management Plan and resulting Capital Programme.

5.16 Many of the Council's priorities are reflected in the proposed Capital Programme over the medium term resulting in a shift of revenue resources to meet the revenue implications of funding these capital priorities. This shift of resources means that savings need to be made in other areas of the revenue budget.

5.17 Priorities for capital funding include Civic Centre regeneration, school replacement programme, transport infrastructure improvements and completion of the upgrade of leisure facilities.

5.18 The Council will continue to maximise external funding where this supports Council priorities.

Review of Fees and Charges

5.19 Detailed fees and charges increases are set out in Appendix 4.

Managing the Budget Over the Year

5.20 During next year it will be necessary to manage revenue income and expenditure carefully to ensure they meet budget profiles and keep net expenditure within the overall budget set by the Council. As set out in Section 4, paragraphs 4.8 to 4.11, detailed budget monitoring and financial control arrangements are in place to manage budget risk associated with running a multi-million pound organisation responsible for delivering a wide range of complex and often demand led services to the people of Reading.

5.21 Capital resources and expenditure will also be closely monitored and, in keeping with the practice adopted in previous years, capital schemes will only be committed once resources are in the bank and available to fund them.

Capitalisation

5.22 Expenditure of a capital nature (eg equipment purchases, new IT system costs) has been identified for funding from capital resources in order to maximise available revenue resources as follows:

Table F

	£000
2007/08	1,000
2008/09	1,000
	2,000

6. RISK MANAGEMENT

Over the last year, as part of developing the Council's Corporate Governance arrangements, considerable work has been undertaken on Risk Assessment and Management.

In December 2006 Cabinet approved a review of the Risk Management Strategy and in setting the 2007/08 Budget a Budget Risk Management Statement was agreed.

The work undertaken across the Council has resulted in a Corporate Risk log of key Business Risks. This log is updated annually by CMT and has been presented to the CCEA Scrutiny Panel.

Work has now been undertaken to cascade the Risk Management process to Directorate Management Teams and Directorate based risk logs have been developed.

Link to the Budget

As part of drawing up the budget a top-level risk assessment has been undertaken which, although subjective, is a helpful tool in the overall management of the budget.

This risk assessment is designed to test the overall robustness of the budget. A risk scoring matrix has been used to provide an indication of the potential scale of each risk. This is based on a combination of risk probability and risk impact as shown below. The work described above on Business Risks has been used to inform the Budget Risk Assessment.

<table>
<tr><th colspan="6"><u>Table G</u></th></tr>
<tr><th colspan="6">Risk Assessment Scale</th></tr>
<tr><td rowspan="3">Risk Index</td><td></td><th colspan="4">Probability</th></tr>
<tr><td></td><th>Very Low</th><th>Low</th><th>High</th><th>Very High</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Impact</td><td>Marginal</td><td>1</td><td>2</td><td>3</td><td>4</td></tr>
<tr><td>Significant</td><td>5</td><td>6</td><td>7</td><td>8</td></tr>
<tr><td>Critical</td><td>9</td><td>10</td><td>11</td><td>12</td></tr>
</table>

<u>Table H</u>

Overall Budget Risk Assessment

Risk	Risk Score
Overall Budget: Expenditure	
Inadequate allowance made for inflation	6
Underassessment of service demands from Customers	7
Unexpected increase in cost of Partnership Arrangements	6
Unexpected increase in Contract Payments	7
Increased costs due to Legislative Change	6
Increase in Project and other Workloads (capacity)	7
Overall Budget: Achievement of Income	
Stakeholder resistance leading to Modified Proposal	2
Delay in implementing Fee Increases	2
Customer resistance/reduced customers	5
Underachievement of grant funding	6
Increased/unexpected competition	3
Downturn in economy	6
Savings Options	
Delays in implementing	6
Unexpected or increased one-off costs	6
Value of saving proves to be too high	7
Lack of capacity to deliver – option delayed	7
Measures identified to deliver Gershon savings are not achieved	6

Appendix 5 summarises the top level risk assessment for each Directorate.

The Budget Risk Management Statement at Appendix 6 sets out roles and responsibilities for managing budget risks for approval by Council.

Following review the statement is unchanged from that approved last year.

Key Corporate Budget Risks are summarised below:

Table I

Corporate Based	Mitigation
Overall capacity to deliver aims and objectives of the Council	Development of Medium Term priorities and improvement in service and financial planning to clearly focus resources on the delivery of priorities.
Reliance on income.	Budgets have been realigned to reflect current income trends. Monthly Budget Monitoring provides an effective early warning system of potential problems.
Budgets are insufficient to meet increasing demand (eg Social Services)	Budgets for 2008/09 have been drawn up in the light of customer and demographic demand for services. Again, effective budget monitoring arrangements are in place to identify potential problems at an early stage so remedial action can be taken.
Impact of variations in interest rates on Capital Financing Costs	The Council has for many years undertaken a proactive approach to Treasury Management and uses specialist advisors to assist the Council in maximising the funding position. At present the Council's long- term borrowing requirement is fully funded at fixed interest rates. (See Appendix 9)
Insufficient Capital resources	Apart from allowing for a reasonable element of slippage, Capital Schemes are only released or committed when funding is available. The Capital Financing Budget has been set reflecting the estimated level of borrowing needed over 2007/08 and 2008/09 to fund the Council's Capital Programme priorities.
Unforeseen events leading to unplanned expenditure in year	Such events are identified through Budget Monitoring and will be funded by a combination of finding in-year savings elsewhere in the Budget and/or use of balances and reserves.
Impact of inflation	2% has been allowed for non teaching staff pay awards. For non staffing budgets, inflation has been based on estimated contractually committed inflation.
Pay and Reward Costs	Negotiations are progressing well to agree a new Pay and Reward structure. The budget for 2008/09 includes a provision of £1m towards the likely eventual costs of any

Corporate Based	Mitigation
	revised structure. Further provisions may be necessary in future years depending on the outcome of negotiations.
Re-shaping Services – one off costs e.g. redundancy	For 2008/09 no provision has been made in the Revenue Budget for one off costs arising from re-shaping initiatives. Such costs are funded in year as they arise. However, the council does hold a balance sheet reserve of £1.m.
Pension Fund Increases	Following discussion with the Actuary the Employer's Pension Contribution Rate will remain unchanged at 14.7%.
Collection of Local Tax and other income	Collection is monitored on a monthly basis as part of the corporate monitoring of PIs. The position regarding tax collection performance was reported to Cabinet and Council in January 2008. Provision for bad debts is also reviewed monthly and when the final accounts are drawn up.
Savings	Directorates are responsible for implementing agreed savings. Any potential problems are picked up through monthly budget monitoring.
Other reserves and provisions including insurance arrangements	Section 7.15 to 7.21 sets out details relating to reserves and provisions, including insurance provisions to meet potential insurance liabilities not covered by the Council's insurance policies.
Partnerships, major projects and associated funding arrangements	Project/Programme Management Arrangements are put in place to manage a wide range of major projects and partnerships. These arrangements are based on the PRINCE project management methodology. Partnership and other external funding sources are identified as part of these arrangements and ongoing monitoring takes place through the life of projects and partnerships. Further work building on that undertaken during 2007/08 is proposed for 2008/09 to

Corporate Based	Mitigation
	ensure robust governance arrangements are in place for all major partnerships.
School Budgets	Schools are funded by the DSG so do not normally impact upon the General Fund Budget. A number of schools are facing budget problems and Officers are working with these schools to agree options to address the problems faced. The extent of this has reduced over the year.

As set out in Appendix 6, it is the responsibility of managers to take ownership of, and be accountable for the resources they manage. This includes implementing agreed proposals for corrective action to bring net expenditure in line with the approved budget under their control.

Advice on the Robustness of the Budget

The Council is a multi-million pound organisation providing a wide range of statutory as well as discretionary-based services, which can often be subject to external influences outside the Council's direct control.

Therefore the Council faces risks in delivering its objectives and the budget underpinning its activities.

To help manage these potential risks the 2008/09 Budget has been drawn up to reflect forecast trends in expenditure and income, which have been subject to the risk assessment process outlined in this section of the report.

Robust Budget Monitoring and Internal Control arrangements are in place throughout the Council, and these act as an effective early-warning system in identifying potential problems and for managing potential areas of risk.

Taking all of these factors into account and the proposed level of the General Fund balance, I consider that the Council is setting a tight but secure Budget for 2008/09.

In providing this assessment, I would make the following further points:

(a) **The overall budget has limited capacity to meet unforeseen costs or income shortfalls. Therefore careful monitoring and early corrective action will be essential to keep net expenditure within the Budget next year.**

(b) Over the medium term the Council is planning to undertake a range of ambitious projects as part of delivering its medium term priorities. The financial impact of these projects will be increasing capital financing costs, which given small Government Grant increases and expectation of low Council Tax increases will mean that these forecast increases will need to be funded from ongoing savings.

(c) I consider the level of balances of £4.1m and reserves of £18.6m provides a robust financial position to help manage the risks set out in Table I, bearing in mind the sound budget management arrangements in place.

(d) In setting the 2008/09 Budget it is planned that £1.3m of balances will be used to keep the Council's Budget Requirement to £116.4m. The use of balances is a short-term funding measure which will increase budget pressures in future years. To put this into context, the planned use of balances of £1.3m is greater than the increase in FGA for 2009/10 of £0.9m (however, see point (e)).

(e) The medium term financial plan included in the report assumes a continuing use of reserves over the next 3 years to help even out fluctuations in net expenditure. The use of balances and reserves is a short term funding measure and over time it will be necessary for the Council to replace the use of balances and reserves with on-going savings.

I have used the Risk Assessment process set out in this section of the report to formulate my advice on the robustness of next year's Budget and the adequacy of balances and reserves.

This advice is set out in Section 7 of the report.

7. CONSIDERATION OF THE LEVEL OF GENERAL FUND BALANCE / RESERVES

The General Fund balance is held for the purpose of meeting unplanned or unforeseen expenditure which may be incurred over the course of the financial year, and to provide a degree of financial flexibility during the year and year-on-year (eg over the medium term).

Deciding the level of the General Fund balance is a matter of judgement.

CIPFA provide the following advice to Chief Financial Officers:

Clauses 25, 26 and 27 of the Local Government Act 2003 place a duty on the Chief Financial Officer to give advice on the minimum level of balance to be held by the Council throughout the forthcoming year, and also to advise on the robustness of the budget.

Setting the level of general reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget *for* a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

Budget Assumptions	***Financial Standing and Management***
The treatment of inflation and interest rates	The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc)
Estimates of the level and timing of capital receipts	The authority's track record in budget and financial management
The treatment of demand-led pressures	The authority's capacity to manage in-year budget pressures
The treatment of efficiency savings/productivity gains	The strength of the financial information and reporting arrangements
The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments	The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level
The availability of other funds to deal with major contingencies	The adequacy of the authority's insurance arrangements to cover major unforeseen risks

These factors can only be assessed properly at local level. A considerable degree of professional judgement is required. The C.F.O may choose to express advice on the level of balances in cash and/or as a percentage of budget (to aid understanding) so long as that advice is tailored to the circumstances of the authority for that particular year.

The advice should be set in the context of the authority's medium term financial plan and should not focus exclusively on short-term considerations. Balancing the annual budget by drawing on general reserves may be viewed as a convenient short-term option. However, where reserves are to be deployed to finance recurrent expenditure this should be made explicit. Advice should be given on the adequacy of reserves over the lifetime of the medium term financial plan.

CIPFA's Best Practice Guidance advises that in setting the budget, a Council must have regard to the advice given by its Chief Financial Officer, and both the advice of the Chief Financial Officer and the decision on the level of balance to be held, and reasons for any variance from the advice given be recorded in the minutes of the Council Meeting.

In order to fulfil my duties to advise of the minimum level of balance I have undertaken, in consultation with the Chief Executive and Corporate Directors, a risk assessment of Directorate Budget proposals to test their robustness. The results of this exercise are summarised in Section 6 and Appendix 5.

In past years our budgetary performance has been as follows:

Table J

Year	Approved Budget £000	Variance £000	Variance %
2007/08 (Estimate)	111,515	-622	-0.6
2006/07 (Actual)	108,282	-1,627	-1.5
2005/06 (Actual)	159,231	-1,047	-0.7

Based on the risk assessment exercise and budgetary performance in previous years my advice, based on the "traffic light principle", is as follows:

Table K

Ideal level of balance to be achieved over the medium term	5% of net General Fund Budget	GREEN
Planned Level	£4.1m, 3.5% of budget	GREEN
Recommended minimum level for 2008/09 of £3m	**£3m, 2.6% of Budget**	**GREEN**
Between £2.5m and £3m	£2.5m, 2.1% of Budget	AMBER
Between £2m and £2.5m		Moving from RED TO AMBER
Balance of £2m	£2m, 1.7% of Budget	RED

The recommended minimum level of £3m will provide "cover" against potential variances which in recent years have been minimal due to the sound budgetary control arrangements in place across the Council.

Maintaining this level of "cover" each year will provide flexibility to deal with:

- Adverse budget variations.
- New demands which were unforeseen when the budget was set.
- Ability to respond to opportunities requiring financial commitment from the Council which were not identified when the budget was set.
- Emergency situations which might require funding.
- "Bridging" or pump priming funding which might be needed pending receipt of grant funding, other contributions, or generation of capital receipts.

Maintaining a "healthy" balance is a key element underpinning the sound financial management of an organisation.

Forecast General Fund Balance

The forecast of the General Fund balance is as follows:

Table L

	Approved Budget 2007/08 £000	Latest Forecast 2007/08 £000	Budget 2008/09 £000
1 April	4,052	4,864	5,379
Use of Balances	- 107	+515	-1319
31 March	3,945	5,379	4060

The planned General Fund balance of £4.1m represents 3.5% of the budget (excluding schools block).

Other Provisions and Reserves

In closing the final accounts for 2006/07, proper and adequate provisions were made for known liabilities and forward commitments which will be incurred over 2007/08, 2008/09 and future years. These provisions and reserves total £20.7m and are set out in Appendix 7 together with the reasons for holding them.

Furthermore, reserves of £0.3m relating to the former County Council were held by the Council as Designated Authority on behalf of all Berkshire Unitaries were included in the final accounts for covering unforeseen costs which might arise in the future (mainly to cover future insurance claims).

These reserves are expected to reduce to nil by 31 March 2009 as claims are settled.

In looking ahead to the end of 2008/09 I expect the following movement in Reading's provisions and reserves.

Table M

	Provisions £000	Reserves £000	Total £000
1 April 2007	3618	17,052	20,670
Movement in the year	-1,613	+2,320	707
Forecast 31 March 2008	2005	19,372	21,377
Movement in the year	-813	-1,930	-2,763
Forecast 31 March 2009	**1,192**	**17,422**	**18,614**

The assessment of provisions and reserves has been made in accordance with Best Practice and Accounting Requirements in line with the advice given by CIPFA.

I consider the level of forecast provisions and reserves to be adequate on the basis of information known. As in previous years, I will keep the level of provisions and reserves under regular review, reporting the outcome of such review when the budget is set and the accounts closed each year. If appropriate, further advice on the adequacy of provisions and reserves will be included in Budget Monitoring reports submitted to Cabinet.

The management and use of provisions and reserves has been undertaken by me in accordance with the following objectives:

- Optimising the Council's overall financial position by creating a degree of financial flexibility over the year and between years.
- Maintaining contingencies against unbudgeted expenditure or unexpected events.
- Ensure funding of known or predicted liabilities falling in the year or future years.

Any proposal to set up or to vary any existing provision or reserve is subject to the approval of the Director of Resources or the Head of Finance.

8. HOUSING REVENUE ACCOUNT

Under the Local Government and Housing Act 1989 the Council has a duty to review its Housing Revenue Account for the forthcoming year by the end of February and budget to avoid a deficit in 2008/09.

Council at its meeting held on 29th January 2008 reviewed and approved the HRA and an average rent increase of 3.4% per week with effect from 1 April 2008, giving a forecast balance on the account at 31 March 2009 of £5.2m.

9. CAPITAL PROGRAMME 2008/09

CAPITAL GRANTS

9.1 For 2008/09 Government Capital Grant Allocations are estimated to total £62.2m, subject to the outcome of bids.

Forecast of Capital Receipts/Section 106 Receipts

9.2 During the period to 31 March 2009, it is estimated that circa £37m new usable receipts may be generated from sale of Council houses and mortgage repayments and land sales. Resources will increase further as Section 106 Receipt deals are agreed.

Partnership Funding

9.3 In recent years the Council has been successful in attracting Partnership Funding and winning resources from various competitive Government initiatives. During the year Officers will continue to take advantage of any bidding and partnership opportunities that may arise in order to maximise resources available to the Council.

Forecast of Capital Resources and Expenditure

9.4 Table N shows the forecast of capital expenditure and resources over the period 2007/08 and 2008/09.

Table N

	2007/08 £m	2008/09 £m
Estimated Approved Expenditure and Commitments	52.4	92.8
Other Schemes subject to approval	0	41.0
	52.4	133.8
Total		
	Funded by	**Forecast Resources**
Government Funding Allocations	12.8	62.2
Capital Receipts, Section 106 and Other Contributions	15.0	22.0
Forecast Borrowing 2007/08 (before any further slippage)	24.6	
Total Forecast Resources	52.4	84.2
		49.6
Allowance for Slippage		-20.0
Forecast Borrowing 2008/09		29.6

9.5 Under the Prudential Code for Local Authority Borrowing, the Council has greater freedom to borrow to fund Capital Investment subject to the Prudential Indicators set out in Appendix 8.

9.6 Reports seeking formal scheme and spending approval will be submitted to Cabinet in March/April.

10. TREASURY AND INVESTMENT MANAGEMENT STRATEGY AND PRUDENTIAL CODE FOR LOCAL AUTHORITY BORROWING

10.1 Appendix 8 sets out the Treasury Management Strategy. The Strategy sets out the detailed Prudential Indicators for approval by the Council.

10.2 The Prudential System for Local Authority Borrowing came into force on 1 April 2004.

10.3 The Council's Treasury Management Strategy has been drawn up to reflect the CIPFA code.

10.4 Regulations require us to have an Investment Management Strategy. This is included within Appendix 8 recognising that we have taken advantage of low long term interest rates to fund future Capital Programmes.

11. THREE YEAR INTEGRATED BUDGET PLANNING: 2009/10 TO 2013/14

11.1 Appendix 9 sets out the Medium Term Financial Plan which will be incorporated in the Council's Corporate Plan published in March 2008. The Plan will be reviewed and updated in June /July in light of the 2007/08 Final Accounts.

12. CONTRIBUTION TO STRATEGIC AIMS

12.1 Equal Opportunities - The budget has been prepared taking into account the Council's personnel policies. The budget reflects the Council's commitment to improving the access of all groups in the community to the use of Council services.

12.2 Sustainability - The budget has been prepared taking into account the Council's environmental policies, and reflects the Council's commitment to promoting awareness of environmental issues.

13. COMMUNITY ENGAGEMENT AND INFORMATION

13.1 The proposed Budget has been discussed with representatives of the Business Community at the Annual Statutory Business Ratepayers Meeting.

14. LEGAL IMPLICATIONS

14.1 The Council has a legal duty to set a precept and Council Tax by 11 March each year.

14.2 The Local Government Act 2003 places a duty on the Council's Section 151 Officer to advise on the robustness of the proposed budget and the adequacy of balances and reserves (see sections 6 and 7 of the report).

14.3 The requirements of the Act are as follows:

(a) **Reporting on the Robustness of Estimates**

In setting the Budget each year the Head of Financial Services is required to report on the robustness of the Budget and also the adequacy of proposed financial balances and reserves.

The Council in setting the Budget is required to "have regard" to the report when making its Budget decisions.

CIPFA Best Practice Guidance recommends that where the Council sets its balances at a different level to that recommended, then its decisions and the reasons for any variance from the advice given should be recorded in the minutes of the Council Meeting.

(b) **Budget Monitoring**

With regard to Budget Monitoring, the Act requires that the authority must review its Budget "from time to time during the year", and also to take any action it deems necessary to deal with the situation arising from monitoring.

Currently Budget Monitoring reports are submitted to Cabinet three times a year (in July, October and January) and therefore we comply with this requirement.

15. FINANCIAL IMPLICATIONS

These are covered in detail in the report.

16. LIST OF BACKGROUND PAPERS

Local Government Finance Settlement announcements from the DCCG Supported Capital Expenditure announcements from Government Departments and GOSE.