Appendix 1

PRESSURES INCLUDED IN THE 2011/12 BUDGET

	Growth/ Pressure £000
ENVIRONMENT, CULTURE & SPORT	
Reduced payment from TVPA for Coroners Officers	68
Miscellaneous	10
	78
RESOURCES & CHIEF EXECUTIVE'S UNIT	
Borough Elections	95
Childcare Solicitors	108
Miscellaneous	4
	207
EDUCATION & CHILDRENS SERVICES	
More children in external care due to increased volumes	416
	416
HOUSING & COMMUNITY CARE	
OP/PD cost pressure	**836**
LD cost pressure	**912**
Ordinary residence pressure (cross service)	**271**
MH cost pressure	**250**
Supporting People cost pressure	**427**
	2696
Total Growth & Pressures Built into the 2011/12 Draft Budget	**3397**

BUDGET 2011/12 - SAVINGS PROPOSALS **Appendix 2**

	MANAGEMENT ACTION (Incl PIP)	SERVICE REDUCTION OR CHANGE	INCOME GENERATION	TOTAL SAVING
	£000	£000	£000	£000
Chief Executive and Resources	2103	122	332	2557
Environment,Culture & Sport	1930	975	2315	5220
Education and Children Services	1580	1909	336	3825
Housing & Community Care	1634	4312	274	6220
In Year Target for further Income Generation and Procurement savings				1000
Total	**7247**	**7318**	**3257**	**18822**

BUDGET 2011/12 - SAVINGS PROPOSALS

Chief Executive's and Resources

	MANAGEMENT ACTION (Incl PIP) £000	SERVICE REDUCTION OR CHANGE £000	INCOME GENERATION £000	TOTAL SAVING £000	IMPACT
CHIEF EXECUTIVE'S AND RESOURCES					
Policy, Customer Services and Community					
Reduction in employee and running costs/income generation	540		30	570	VFM (PIP related)
Information Technology contract savings	375			375	VFM savings from contract negotiations
End support to Social Enterprise Berkshire		70		70	
Communications					
Reduction in employee and running costs/income generation	70		20	90	VFM
Finance					
Reduction in employee and running costs/income generation	518		20	538	VFM (PIP related)
Additional Housing Benefit recovery income			200	200	Reflects current trends in income recovery
Central Administration and Democracy					
Reduced lease costs - Fountain House	125			125	VFM (agreed march 2010)
Reduced Election costs			62	62	Sharing of costs with referendum
Reduction in employee and running costs	200			200	Reduced meetings and Civic offices opening hours
Target reduction in building costs (across the Council)	40			40	Part of Asset Management review to drive VFM
Development & Valuation					
Reduction in employees and running costs	50			50	Reflects current workload requirements.
Human Resources					
Reduce TU Facilities time		52		52	Reasonable time off in lieu for TU duties will be given.
Senior Management Restructure					Personnel Committee have endorsed proposal for consultation
Reduction in Senior Management costs	185			185	Will enable smooth transition to new senior management structures across the Council. Agreed by Personnel Committee
Total for CRES	**2103**	**122**	**332**	**2557**	

	MANAGEMENT ACTION (Incl PIP) £000	SERVICE REDUCTION OR CHANGE £000	INCOME GENERATION £000	TOTAL SAVING £000	IMPACT
ENVIRONMENT, CULTURE & SPORT					
Cultural Services					
Reduction in employee and running costs/income generation	1,005		750	1,755	Savings across Culture and Sport are due to smarter procurement since Culture and Sport merged. Income generation has been achieved through a review of programming across the three venues that have resulted in a more efficient programme with less risk. A similar review with regard the Sports Programme and courses has also taken place. Other income generation has arisen from IT improvements, new programming initiatives and a review of facility hire charges across the service. 2009/10 saw RBC Culture in the top 13 outliers with regard Value for Money with high performance and high cost. Savings proposed for 2011/12 have resulted in Culture moving positively towards a High performance low cost status.
Cease seasonal displays in Parks		35		35	The saving is made up from a vehicle, a member of staff and in year 2 onwards, materials. This will mean changing all of the roadside displays from bedding displays and other horticultural displays to lower maintenance regimes (e.g. station and other roundabouts, IDR splitter beds, roadside parks displays and some parks e.g. Eldon Square). In some instances this will be to grass and in others to a low maintenance planting (shrubs and evergreens). Alternative funding routes will be sought.
Reduce frequency of roadside grass cutting		80		80	The verges around Reading are currently cut 10 times per year. The reduction to 5 times per year will lead to a saving of 2 members of staff and associated machinery. The grass currently grows to about 9 to 12 inches around April during the spring flush. This is likely to become about 18 inches to 2 foot. Machinery is due to be replaced this spring and can be specified to undertake the work. There is a likelihood more arising will be more difficult to clear from footpaths, will sit on verges for longer and be displaced onto paths etc by pedestrians.
Review of Car Park charges across Sport & leisure facilities.			50	50	Requires cabinet approval. To adopt and administer a consistent approach to car parking charges across Sports and Leisure facilities in line with Car Park Strategy B. A few leisure facilities within Sports and Culture do not currently charge car parking fees and charges elsewhere are variable.

Total	**1,005**	**115**	**800**	**1,920**	
Environment & Consumer Services					
Reduction in employee and running costs/income generation	353		480	833	Fees and Charges approved by Cabinet 29/11/10.
Waste Collection & Disposal changes	25	78	20	123	Reduction in employee and running costs. Changes to management of Bins off the Street and contamination of recycling.
Charging for the collection of Green Waste (eg £22.50pa for collection. 50% take up assumed)			178	178	Part of changes to recycling operations from review.
Street Care changes		138		138	Reduction in employee and running costs. Concentration of resources on statutory duties. Changes of scale of operation and concentration on core activities, which will result in reduced environmental cleansing, graffiti removal, enforcement monitoring and inspection and slower response times to enquiries.
Regulatory Services changes	20	235		255	Reduction in employee and running costs including in the following services: The Houses in Multiple Occupation team, Public Health team, Trading Standards, Licensing, Environmental Health and reduced out of hours services. Ceasing the out of hours dog warden service. Concentration on statutory duties, reduction in enforcement inspections and monitoring and slower response times to enquiries.
Further savings/income proposals being worked up	35	39	80	154	To be presented to Cabinet in February 2011.
Total	**434**	**490**	**758**	**1,681**	
Planning & Building Control					
Streamlining publicity/consultation process and revised pre-app service for development management		10	20	30	VFM - to be approved by PAC.
Reduction in staff capacity for planning and enforcement/monitoring work		64		64	Reduced capacity to respond to localism agenda. Will require further prioritisation of enforcement action.
Reduce use of external providers for training and conservation advice and reduced admin support etc	35			35	VFM - may need to buy in specialist advice for appeals.
Reduce Strategic Planning and monitoring functions		18		18	Reflects changes in national planning framework.
Total	**35**	**92**	**20**	**147**	
Transport & Highways					
Increase in charges for second and other permits.			20	20	Increased charges for second and other permits except by a minimal amount not supported but higher charges for business and discretionary permits supported.
Reorganisation of the Concessionary Fares scheme to comply with national statutory scheme.		238		238	Reading Borough Council scheme is currently extended beyond the national scheme to include free travel at all times including peak periods. Peak travel on concessionary passes approximately 4% of all bus journeys-costs not met by central government funding could be saved by reducing the scheme.

Further roll-out of on street pay and display parking			500	500	Charge for currently free on-street parking in various areas.
Enforcement policy-vehicle parking on or crossings over footways and verges.			25	25	Establishment of Controlled Parking Zone and a Traffic Regulation order needed prior to enforcement
Shrink the Highway maintenance business.		40		40	Reduces internal costs, addresses budget deficit and limit the use and cost of external contractors.
Contract changes and other efficiencies	288		192	480	Includes changes to supported bus routes plus bringing work in-house.
Total	**288**	**278**	**737**	**1,303**	
<u>**Other ENCAS Services (Director, BST and Grants)**</u>					
Reduction in employee and running costs	**169**			**169**	
Total for ENCAS	**1,930**	**975**	**2,315**	**5,220**	

Education and Children Services

	MANAGEMENT ACTION (Incl PIP) £000	SERVICE REDUCTION OR CHANGE £000	INCOME GENERATION £000	TOTAL SAVING £000	IMPACT
Education & Chuildren's Services					
Cross Directorate					
Review of Behaviour Services		200		200	Increased exclusions and statements for children with behaviour difficulties and associated increased
Review of Early Years Service		193		193	Reduction in service to support early years settings, schools budget
New Directions to move towards break even		85		85	potential reduced uptake of service with reduction in income
Better commissioning of external placements	250			250	part schools budget, increased use of tribunals and potential increase in demand for placements
LSCB and Children's Trust	19			19	VFM
Children's Social Care					
Minor management restructure and seeking to significantly enhance in house service capacity	145			145	Increasing numbers of children in care could render saving difficult to achieve and also reduced management capacity in social care
Business Transformation					
Change to service provision	50			50	VFM
Reduced schools union representation		25		25	Still budget left for union duties taking account of academy transfer; schools budget
Reduce school meals subsidy		120		120	Increased cost of meals may reduce meals uptake for those not entitled to free school meals; schools budget
Extended Services					
Increase fees/tax efficiency at workbased nursery (Kennet Day Nursery)			86	86	schools budget, may reduce occupancy and viability
Reduction in Youth Service & Intensive Services		427		427	Move from universal to targeted service with much less capacity to respond to areas requiring early intervention outside key target groups, potentially leading to more adverse outcomes across the borough (e.g. youth offending, anti-social behaviour)
Reduction in Connexions contract		345		345	End of universal service with consequent Increased level of NEETs
Reduction in Prevention and Support Service (PASS)		350		350	Only targeted provision leading to potential increase in youth offending and anti social behaviour
Increased play charges & minor management restructure		34	100	134	closure of after school and holiday play provision if uptake decreases following fee increases
School Improvement					

Reduction in service	407			407	knowing less about how our schools are performing and asking them to be more self reliant in improving by purchasing services from either the Council or other providers. Other service reductions in deprived areas or for vulnerable groups flowing from gran
CATs					
Rationalisation of some front line posts and seeking buyback from schools		130	150	280	Reductions in service to vulnerable families unless schools buyback using the pupil premium, potential increase in requests for statements if services not bough back
PIP					
Ongoing Impact of PIP, largely post reductions, but also including training and accommodation rationalisation & student awards service ceasing	619			619	Reduced capacity across DECS, incuding performance, data gathering and interpretation, finance and business support. Specific reduced capacity in youth service.
Senior Management Restructure					
Reduction in Senior Management posts	90			90	Reduced management capacity across the Directorate.
Total for DECS	**1580**	**1909**	**336**	**3825**	

BUDGET 2011/12 - SAVINGS PROPOSALS **Housing and Community Care**

	MANAGEMENT ACTION (Non PIP) £000	SERVICE REDUCTION or CHANGE £000	INCOME GENERATION £000	TOTAL SAVING £000	IMPACT
1) Adult Services					
a) Older People/ Physical Disability					
Intermediate Care (Reablement) project		783		783	Focus on re-ablment and prevention as part of services transformation and improved use of resources. Agreed by Cabinet in 2009. This is the continue implementation of this approach
Review of In-house services and efficiency	150			150	Change to how in-house services are delivered with the use of alternatives and focus on delivery of personalised services
Improved Commissioning	124			124	VFM savings from contract negotiations, agreed by Cabinet in November 2010
Re-configuration of in-house residential units. Merger of Edward Hughes and Tanfield		159		159	This is required due to the need to deliver service in a different manner, the need to improve the physical accommodation and the need to reduce the excess capacity. Currently subject to public consultation with report to Cabinet in January.
b) Learning Disability					
LD Services Transformation Project		1,888		1,888	Services transformation through the reduced use of residential accommodation and increased use of Support living in the community based on personalisation of services and improved outcomes for clients and carers.
Review of In-house services and efficiency		101		101	Change to how in-house services are delivered with the use of alternatives and focus on delivery of personalised services and the impacts of self directed support
c) Mental Health					
MH transformation project	100			100	Staffing Reductions due to retirement and vacancy management
d) Cross Cutting					
Supporting People		626		626	Changes to Supporting People program through service re-design. This will focus on improving outcomes for clients by re-designing services and improving VFM. Agreed by Cabinet in November 2010
Revision to Fairer charging policy and Residential Charging			230	230	Revision to Charging Policy to reflect the changes required to support Self Directed Support. (Cabinet report in November, current subject to public consultation). Final report to Cabinet in March for decision on these changes.

Review of Social Care workforce	163			163	Transformation of the Social Care workforce to meet the needs of Self Directed Support. This is required as the role of the social care workforce is changing as more clients take responsibility for their own budgets
Transport Services		175		175	There are currently Transport services provide by RBC, Readibus, Reading Buses, NHS etc and there is a need to review the effective of the RBC in-house service and change the way the various transport options are used. This review will improve the transport experience for clients.
To reduce the Resource Allocation system		90		90	As more clients received a personal budget and are able to make choices about how there needs can be meet in different ways, the overall resources required will be slightly less (the pilot has shown that overall when clients adapt services to meet their needs the overall costs reduces slightly). This saving reflects this trend by amending the overall allocation made to clients thorough the resource allocation
Future of Social Care		250		250	The Council is currently consulting on a revision of the eligibility criteria with individuals with the highest needs directly supported by the Council and those will lower needs supported through universal, preventative and advise services. These proposals are currently subject to Public Consultation. Final decision will be in March around these
Management of Commissioing (Inflation) Pressures	427			427	To work with providers to agree reasonable rates for services in 201/12
2) Housing Services					
Service efficiency/productivity	70			70	Improvements to back office function delivery
Professional services	75			75	Reduction of engineer post and admin
Reduction in staffing /Domestic Violence Co-coordinator		76		76	Staff reductions - Change to way services are delivered
3) Safer and Stronger Communities					
Service changes	2	164		166	Changes to PCSO, DAAT funding and Neighbourhood Wardens
4) Strategy and Performance					
Changes to structure and service delivery	274			274	VFM and service delivery change
Changes for training			44	44	Income generation - Charing for certain cousres provided
5) Finance and Resources					
Changes to SDS - impact on DP and CPT teams	43			43	Services transformation and delivery of services in different ways
PIP Procurement changes	66			66	VFM and service delivery change
Changes to Finance and FAB teams	123			123	VFM and service delivery change
6) PIP (Hours reductions)	17			17	Staff Voluntary taking reduction in hours or increased unpaid leave
Total	**1,634**	**4,312**	**274**	**6,220**	

APPENDIX 3

BRIDGE HALL

Oxford Road, Reading, RG1 7PN

Opening Times: Monday to Sunday: 9.30 am to 10 pm

Hall Hire Charges

Hall User	**1 April 2010 until 31 March 2011**	**1 April 2011 until 31 March 2012**
Main Hall - Community Use (regular user)	£6 / hour	£6.25
Main Hall - Community Use (regular user with own public liability insurance)	£5.35 / hour	£5.60
Main Hall – Community Use	£6.45 / hour	£6.70
Main Hall – Private Hire	£12.55 / hour	£13
Commercial Use	£214 / day	£225

Income Target	**8,100**	**9,100**
Income Raised	***6,800*** *to 30/11/10*	

FEES AND CHARGES 2010/2011 > 2011/12

DEPARTMENT:

DESCRIPTION	CATEGORY	Charge Unit	Fees 2010/2011 (Excluding VAT)	Proposed Fees 2011/2012 (Excluding VAT)	Propose Increase £/p	Proposed Increase %	Additional Information
Play Service							
After-School Clubs	All Children	Session	£ 7.50	£ 10.00	£ 2.50	33.33%	
Play Clubs	RBC Residents / RBC Employees						
	Pre-booked	Full Day	£ 17.50	£ 20.00	£ 2.50	14.29%	
		Half Day	£ 8.75	£ 10.00	£ 1.25	14.29%	
	On-site	Full Day	£ 18.00	£ 20.60	£ 2.60	14.44%	
		Half Day	£ 9.00	£ 10.30	£ 1.30	14.44%	
	Non RBC Residents						
	Pre-booked	Full Day	£ 26.00	£ 30.00	£ 4.00	15.38%	
		Half Day	£ 13.00	£ 15.00	£ 2.00	15.38%	
	On-site	Full Day	£ 26.50	£ 30.60	£ 4.10	15.47%	
		Half Day	£ 13.25	£ 15.30	£ 2.05	15.47%	
Allowances paid to carers							
Foster allowances	Age range 0 - 4	week	£ 134.71	£ 137.40	£ 2.69	2.00%	Rate of increase may be subject to change in line with national recommendations of the Fostering Network
	Age range 5 - 7	week	£ 153.45	£ 156.52	£ 3.07	2.00%	
	Age range 8 - 12	week	£ 191.02	£ 194.84	£ 3.82	2.00%	
	Age range 13- 18	week	£ 232.34	£ 236.99	£ 4.65	2.00%	
Residence Order rates	Age range 0 - 4	week	£ 74.23	£ 75.71	£ 1.48	1.99%	
	Age range 5 - 7	week	£ 86.57	£ 88.30	£ 1.73	2.00%	
	Age range 8 - 10	week	£ 94.88	£ 96.78	£ 1.90	2.00%	
	Age range 11 - 12	week	£ 103.16	£ 105.22	£ 2.06	2.00%	
	Age range 13 - 15	week	£ 111.97	£ 114.21	£ 2.24	2.00%	
	Age range 16 - 18	week	£ 146.30	£ 149.23	£ 2.93	2.00%	

FEES AND CHARGES 2011/12		Charge Unit	Actual Fees 2010/11 (Excluding VAT)	Proposed Fees 2011/12 (Excluding VAT)	Proposed Increase £ / p	Proposed Increase %	2011/12 Fee (20% VAT)	Additional Information
DEPARTMENT:	BUILDING CONTROL							
CATEGORY	DESCRIPTION							
		LABC						
CHARGING FOR SOLICITOR AND OTHER PROPERTY ENQUIRIES	Charge for Solicitor and Other Enquiries		£38.15	£45.00	£6.85	17.96%	£54.00	Includes the first 5 copies of A4
	Additional copies per sheet thereafter	Sheet		£0.20			£0.24	
DEMOLITION	DEMOLITION NOTICE		£ 200.00	£ 200.00	-	-	£200.00	

		Charge Unit	Actual Fees 2010/11 (Excluding VAT)	Proposed Fees 2011/12 (Excluding VAT)	Proposed Increase £ / p	Proposed Increase %	2011/12 Fee (20% VAT)	Additional Information
DEPARTMENT:	LICENSING							
CATEGORY	DESCRIPTION							
HACKNEY CARRIAGE, PRIVATE HIRE AND SCHOOL TRANSPORT (WHERE APPLICABLE)	Allocation of temporary replacement Hackney Carriage or Private Hire Vehicle Plate			£35.00			£35.00	New Charge

FEES AND CHARGES 2011/2012 DEPARTMENT: STREETCARE DESCRIPTION	CATEGORY	Charge Unit	Actual Fees 2010/2011 (Excluding VAT)	Proposed Fees 2011/2012 (Excluding VAT)	Proposed Increase £ / p	Proposed Increase %	2011/2012 Fee Including VAT at 20%	Additional Information
Green Waste								
Net service cost - current* £772k (2009-10 including estimated below the line charges and disposal costs)	240 litre new Green Waste bin (new customers)	Each	£32.50	£32.50	£0.00	0.00%	£32.50	
	90 litre new Green Waste bag (new customers)	Each	£10.00	£10.00	£0.00	0.00%	£10.00	
	Bin collection charge for existing customers and from year 2 for new customers.	Each	£0.00	£22.50	£22.50	N/A	£22.50	NEW charges for 2011-12
	Additional bin charge for 2nd or other bins	Each	£0.00	£12.50	£12.50	N/A	£12.50	NEW charges for 2011-12
Net service cost - proposed* £595k	Bag collection charge for existing customers and from year 2 for new customers	Each	£0.00	£7.50	£7.50	N/A	£7.50	NEW charges for 2011-12
** Extra income generated £177.5k (assumes 50% take up)	Additional bag charge for 2nd or other bags	Each	£0.00	£5.00	£5.00	N/A	£5.00	NEW charges for 2011-12
Bulky Waste - Option 1 **(increase prices by 40% and remove concessions)**	**Domestic** Fridge freezers - Domestic	Each	£ 23.50	£ 32.90	£ 9.40	40.00%	£ 32.90	
ALL CONCESSIONS MUST BE REMOVED IN ORDER TO GAIN £100K EXTRA INCOME	Special Collections - All collections up to any 5 items (restrictions apply)	1-5 Items	£ 23.50	£ 32.90	£ 9.40	40.00%	£ 32.90	
	As above but 6 - 10 items	6-10 Items	£ 30.50	£ 42.70	£ 12.20	40.00%	£ 42.70	
Net service cost - current* £100k (2009-10 including estimated below the line charges)	Estimated collections on request - Half load	Half Load	£ 122.00	£ 170.80	£ 48.80	40.00%	£ 170.80	
	- Full load	Full Load	£ 235.00	£ 329.00	£ 94.00	40.00%	£ 329.00	
TO ACHIEVE THE £100K INCREASE IN INCOME, ALL CONCESSIONS MUST BE REMOVED.	Domestic central heating boiler	Each	£ -	£ 98.11	£ -		£ 98.11	New charge 2011-12
	Cast iron bath and rest of suite	Each	£ -	£ 122.65	£ -		£ 122.65	New charge 2011-12
	Domestic cast iron radiator	Each	£ -	£ 33.11	£ -		£ 33.11	New charge 2011-12
	Piano	Each	£ -	£ 98.11	£ -		£ 98.11	New charge 2011-12
Net service cost - proposed* £0 (break even)	Garage door	Each	£ -	£ 98.11	£ -		£ 98.11	New charge 2011-12
	Restrictions include: large amounts or rubble /garden waste							
** Extra income generated £100k (assumes ALL concessions removed)	**Current scheme: OAPS and those in receipt of benefits are entitled to 2 free collections plus other discretionary free collections per year.**							
	Proposed New Scheme: REMOVE ALL CONCESSIONS.							

FEES AND CHARGES 2011/2012 DEPARTMENT: ADULT COMMUNITY CARE CATEGORY	DESCRIPTION	Charge Unit	Actual Fees 2010/2011 (Excluding VAT)	Proposed Fees 2011/2012 (Excluding VAT)	Proposed Increase £ / p	Proposed Increase %	Additional Information
LEARNING DISABILITY							
	Whitley Wood Hostel Respite	Night	£248.00	£255.00	£7.00	2.82%	OLA Rate
	Adult Placement	Week	£430.00	£440.00	£10.00	2.33%	OLA Rate & Client Full Cost Rate
MENTAL HEALTH	Focus House	Week	£845.00	£865.00	£20.00	2.37%	OLA Rate & Client Full Cost Rate
OLDER PEOPLE							
Elderly	Std Residential	Week	£700.00	£720.00	£20.00	2.86%	OLA Rate & Client Full Cost Rate
	Residential EMI	Week	£735.00	£750.00	£15.00	2.04%	OLA Rate & Client Full Cost Rate
OTHER CHARGES							
	Domiciliary Services Inc Supported Living & Adult Placement Services	Hour	£13.15	£13.50	£0.35	2.66%	Client Rate
	Extra Care - Home Care	Hour	£13.45	£13.80	£0.34	2.55%	Client Rate
	Meals On Wheels	Meal	£2.95	£3.05	£0.10	3.43%	Client Rate
	Day Care	Day	£5.90	£6.05	£0.15	2.58%	Client Rate

All above are temporary and are subject to review on the completion of the Fairer charging consultation and due to changes being introduced due to Self Directed suppor

A full schedule of charge for RBC in-house service for Self Directed Support Clients will be published in March 2011

HOUSING GENERAL FUND
Temporary Accommodation Charges

	10/11 Charge	11/12 Charge	% increase
Short Term Lets			
1 Bedroom	138.09	145.96	5.7%
2 Bedroom	153.70	162.46	5.7%
3/4 Bedroom	170.63	180.36	5.7%
Bed & Breakfast			
1 room	180.33	190.55	5.7%
2 room	241.81	255.53	5.7%

APPENDIX 4

BUDGET RISK ASSESSMENT MATRIX	DIRECTORATE BUDGET REQUIREMENTS			
	ENVIRONMENT CULTURE & SPORT	CHIEF EXECUTIVE'S & RESOURCES	EDUCATION & CHILDREN SERVICES	HOUSING & COMMUNITY CARE
EXPENDITURE				
Inadequate allowance for inflation	4	6	6	9
Underassessment of service demands from customers	16	6	16	12
Unexpected increased cost of Partnership Arrangements	8	4	12	9
Unexpected increase in Contract payments	6	9	9	6
Increased costs due to Legislative Change	16	6	9	6
Increase in project & other workloads (Capacity)	8	12	12	16
Impact of Economy	4	6	9	9
ACHIEVEMENT OF INCOME				
Stakeholder resistance leading to modified proposals	12	2	6	6
Delay in implementing fee increases	4	2	4	12
Customer resistance/reduced customers	6	2	12	9
Underachievement of Grant Funding	6	2	12	4
Increased/unexpected competition	4	2	8	4
Impact of Economy	12	4	9	9
SAVINGS OPTIONS				
Delays in Implementing/Modified Proposals	12	8	9	16
Unexpected or increased one off costs	2	8	12	12
Value of saving proves to be too high	12	6	12	10
Lack of capacity to deliver- option delayed	12	8	9	12
Measures identified to deliver Efficiency Savings are not achieved	12	12	8	9

SUMMARY OF SIGNIFICANT DIRECTORATE BASED BUDGET RISKS

ENVIRONMENT,CULTURE & SPORT
Volatility of income from service activities (Crematorium, Trade Waste, SPA, Planning, RSL, Hexagon & Libaries)
Increased Maintenance costs across buildings
Full value of savings not achieved
Lack of Project Management Capacity & resources to take forward projects & priorities
Lack of revenue support to capital investment
Increasing Customer expectations
Management of implementation of major traffic schemes(e.g. Reading Station)

CHIEF EXECUTIVE'S/RESOURCES
Lack of capacity & resources to take forward projects and new initiatives
Increased costs relating to Civic Offices (e.g. Asbestos & Maintenance)
Additional Contract Costs (e.g. IT)
Additional Child Care Solicitors costs (linked to DECS)
Reduction in income from Local Land Charge Searches

EDUCATION & CHILDRENS SERVICES
Increase social care & SEN referrals & costs due to national & local factors
High use of agency staff and staffing above establishment levels in social care
Contributions from partners to run services as their budgets are cut
Diversion of prevention budgets to meet social care demand pressures
Home to school transport costs
Grant reductions over time
Less schools budget headroom limiting futurer joint funding opportunities
Need to maintain safeguarding in the face of overall reducing budgets
Income recoveries from Acadamies &Schools
Changes to schools funding formula
Creation of in house foster care capacity
Reduced management capacity
Impact on Reading of changes to PCT's

HOUSING & COMMUNITY CARE
That demand for services will continue to increase beyond those using Government guidance
That the new demand will continue and the current staffing levels will no longer be able to support all client needs
That as services are transformed, there will be an increase in the costs of dual running services
That the requirements to improve overall performance of the Directorate can not be fully supported by efficiency savings
That the level of planned savings are not achieved

APPENDIX 5

RISK MANAGEMENT STATEMENT

MANAGING BUDGETARY RISK

1. **INTRODUCTION**

1.1 This statement sets out the Council's approach to managing budgetary risk.

1.2 The statement covers the framework for this, which flows from the Council's Constitution, Standing Orders and Financial Regulations, and the roles and responsibilities of Officers and Councillors.

1.3 This statement should be considered in the context of financial devolution where the responsibility for budget preparation, monitoring ownership and accountability for use of resources is vested in Directors, Heads of Service and Budget Holders.

2. **OBJECTIVES**

2.1 Managing budgetary risk is undertaken to achieve the following objectives:

- Identifying and preventing barriers to the achievement of the Budget Strategy
- Maintaining sound budgetary control
- Assisting in the accountability of use of resources
- Developing Best Practice in Financial Management

3. **RISK MANAGEMENT FRAMEWORK**

3.1 The Council is committed to delivering high quality Best Value services to its customers.

3.2 As part of its Local Code of Corporate Governance the Council is committed to ensuring the effective use of financial resources to maximise outcomes to customer and the community.

3.3 The Council seeks to achieve the aims and objectives described above by managing and seeking to minimise financial risk in the following ways.

a) Maintaining a clear set of Standing Orders and Financial Regulations which set out how financial activities should be conducted to maintain the highest standards of probity.

b) Following a clear budget-setting process through the issue of Financial Guidelines and standard reporting of budget proposals each year.

c) Delivery of a risk-based Internal Audit Plan.

d) Undertaking a detailed monthly budget monitoring process which is reported to CMT and Councillors to an agreed annual timetable.

e) Maintaining the independent role of the Accountancy and Audit function so that professional and unfettered advice can be given to Senior Management and Councillors in support of the Chief Financial Officer's Section 151 responsibilities.

f) Giving advice and guidance to Managers and Councillors on the financial implications of proposals including the requirement to complete the Financial Implications sections of reports to CMT and Councillors.

g) Undertaking a risk assessment of budgets to assist decisions on the level of balances and reserves that should be held each year.

h) Provision of Financial Management and Oracle Financials System training.

4. ROLES AND RESPONSIBILITIES

4.1 Role of Councillors

The role and responsibilities of Councillors are to:

- Set the overall Policy and Financial Framework of the Council to ensure the overall financial health of the Council and effective use of resources
- Consider the Financial Implications arising from proposals reported to them
- Consider reports on the results of budget monitoring and where appropriate consider recommendations for corrective action to keep net expenditure within budget
- Consider the identified financial risks associated with proposals reported

4.2 Role of Corporate Management Team (CMT)

The role of CMT is to:

Maintain an overview of the Council's financial position and associated risk and to recommend the actions necessary to keep net expenditure within budget.

Provide clear leadership to managers and staff to drive:

- Efficient use of resources
- Good corporate governance

- Value for money to tax payers
- Zero tolerance to fraud
- Sound risk management

4.3 Role of Chief Financial Officer (Director of Resources)

The role of the Chief Financial Officer (in Reading the post of Director of Resources) is enshrined in statute and CIPFA Guidelines.

With regard to the management of financial risk the role can be summarised as follows:

- Advising Councillors and Senior Management on key financial risk faced by the Council and appraisal of the financial implications of proposals and policies.

- Ensuring robust and sound financial systems are in place for use by Directors and Budget Holders to enable effective budget management and monitoring.

- Through the role of Internal Audit ensure compliance with the Council's Standing Orders and Financial Regulations. Internal Audit's role is to advise on best practice and sound processes. It is not Internal Audit's role to directly manage risk.

- Ensuring the relevant and timely financial information is available to both Officers and Councillors.

- Advising on effective systems of internal and financial control.

- Ensuring that a prudential framework is in place so that commitments are in balance with available resources.

- Assisting in the development of Performance Management and resource allocation so that resources are used effectively to support Council objectives.

4.4 Role of Directors/Heads of Service/ Budget Holders

The responsibilities of Directors, Heads of Service and Budget Holders are:

- Take ownership of and be accountable for the resources they manage.

- Making realistic and properly thought through recommendations and proposals to Councillors based on risk assessment.

- Comply with the Council's Standing Orders, Financial Regulations and rules and procedures set out in the Budget Holders Manual.

- Undertake monthly monitoring of their budget and report potential and identified variances, together with proposals for corrective action to bring net expenditure in line with the approved budget under their control.

- Undertake a risk assessment of proposals, clearly setting out the financial implications of such proposed actions and the barriers to that achievement.

- Maintenance of accurate and reconciled management and activity data which is used for budget building and financial projections.

4.5 **Role of Directorate Finance Teams**

The role of Directorate Finance Teams is as follows:

- Assistance to Directorate Budget Holders in the preparation of sound and accurate budgets.

- Assistance to Directorate Budget Holders in the use of the financial systems, in particular the Managers View Budget Monitoring process.

- Production and interpretation of financial reports and analysis as agreed with Budget Holders and Accountancy.

- Day-to-day advice related to the control of budgets.

- Assistance and advice on the reconciliation of Control Accounts and Directorate based systems to Corporate Systems (eg Oracle).

- Day-to-day advice on the financial implications of proposals made.

4.6 **Role of Accountancy Section**

The role of Central Accountancy and the devolved Directorate Accountancy teams can be summarised as follows:

- Reporting to the Head of Financial Services and Senior Managers/CMT on the soundness of budget proposals.

- Provision of advice and guidance on Financial Guidelines, financial implications of proposals and changes in Government legislation, stakeholder expectation.

- Providing advice and guidance on financial matters to Senior Managers and Budget Holders

- Checking compliance with Standing Orders, Financial Regulations, reconciliations and other finance related processes and procedures.

- Ensuring that relevant and timely financial information is provided to Directorates, and assistance with the interpretation of such information.

- Co-ordinating the overall process for budget setting, budget monitoring and accounts closure to ensure timely production of reports and final accounts.

- Providing assistance on assessing the financial risks associated with Council activities and proposals.

5. SUPPORTING DOCUMENTS

a) Budget Holder Manual
b) Council Constitution, Standing Orders and Financial Regulations
c) Financial Guidelines
d) Advice on Clienting Capital Projects
e) Budget Monitoring Timetable
f) CIFPA Guidelines on the Role of the Chief Financial Officer.

FORECAST STATEMENT OF PROVSIONS & RESERVES

Appendix 6

		FORECAST BALANCE 31 MARCH 2010 £000	USE IN THE YEAR £000	ADDITIONS IN THE YEAR £000	FORECAST BALANCE 31 MARCH 2011 £000	USE IN THE YEAR £000	ADDITIONS IN THE YEAR £000	FORECAST BALANCE 31 MARCH 2012 £000	USE IN THE YEAR £000	ADDITIONS IN THE YEAR £000	FORECAST BALANCE 31 MARCH 2013 £000	USE IN THE YEAR £000	ADDITIONS IN THE YEAR £000	FORECAST BALANCE 31 MARCH 2014	USE IN THE YEAR £000	ADDITIONS IN THE YEAR £000	FORECAST BALANCE 31 MARCH 2015
PROVISIONS																	
HOMELESSNESS COSTS	1	40			40			40			40			40			40
PENSION LIABILITIES	2	2226	-623		1603		-623	980	-200		780			780			780
NORTH WHITLEY PFI	3	135			135			135			135			135			135
TOTAL		**2401**	**-623**	**0**	**1778**	**0**	**-623**	**1155**	**-200**	**0**	**955**	**0**	**0**	**955**	**0**	**0**	**955**
RESERVES																	
ORGANISATIONAL CHANGE	4	3400	-3000	1800	2200	-2200		0			0			0			0
LEGAL & TAXATION	5	750	-500		250			250			250			250			250
TRANSFORMING SERVICES	6	1591	-800		791	-791		0			0			0			0
PRUDENTIAL CODE	7	4273	-1000	750	4023	-1000		3023			3023			3023			3023
PENSION RESERVE	8	1000	-750		250			250			250			250			250
REPAYMENT OF GRANTS	9	950	-700		250			250			250			250			250
PROPERTY LIABILITIES	10	300	-100		200			200			200			200			200
GENERAL FUND MISC A/C's	11	96			96			96			96			96			96
SELF INSURANCE	12	4892	-493	551	4950	-1110	535	4375	-600	475	4250	-600	475	4125	-600	475	4000
LEA RETAINED DSG	13	-392			-392			-392			-392			-392			-392
NORTH WHITLEY PFI	14	6900		300	7200		300	7500		300	7800		200	8000		200	8200
AREA BASED GRANT	15	250			250			250			250			250			250
EMERGENCY PLANNING	16	300	-270	170	200			200			200			200			200
SUB TOTAL RBC		**24310**	**-7613**	**3571**	**20268**	**-5101**	**835**	**16002**	**-600**	**775**	**16177**	**-600**	**675**	**16252**	**-600**	**675**	**16327**
BCC LIABILITIES RESERVE	17	349			349			349			349			349			349
SUB TOTAL BCC		**349**	**0**	**0**	**349**	**0**	**0**	**349**	**0**	**0**	**349**	**0**	**0**	**349**	**0**	**0**	**349**
TOTAL		**24659**	**-7613**	**3571**	**20617**	**-5101**	**835**	**16351**	**-600**	**775**	**16526**	**-600**	**675**	**16601**	**-600**	**675**	**16676**

NOTES:

1.Provision to meet lease agreement liabilities.

2. Provision to meet pension fund liabilities arising from agreed organisational change.

3.Provision to meet Contractual payments under this arrangement.

4. Reserve to cover costs associated with organisational change,new pay and reward arrangements,redundancy and early retirement costs and variations in pay awards to assumptions made in the Budget each year.

5.Reserve to meet unbudgeted legal costs & liabilities arisng from taxation matters

6.The Transforming Services Reserve has been established to help provide resources for the Council's Transforming Services programme (including efficiency savings programme) and advice and support in procurement of Corporate IT contracts.

7. Reserve set up to enable borrowing costs from unsupported borrowing to be phased in over a period of time and as cover to meet the cost of potential equal pay claims.

8. Reserve set up to cover potential future pension fund liabilities.

9. Reserve set up to allow for adverse reductions to the Council's expected Govt. Grant Income.

10. Reserve set up to meet potential property liabilities,energy costs, emergency works to the Civic Offices and transitional costs associated with changes in acommodation requirements.

11. Minor General Fund Reserve Accounts, the largest being the Pupil Integration Reserve relating to excluded children

12.Reserve set up to meet estimated liabilities in connection with internally held insurance risks.

13. Reserve set up to show unallocated balance of DSG.

14. Reserve to meet Contractual payments under this arrangement.

15. Reserve to meet expenditure relating to ABGs.

16. Reserve to cover additional costs arising from emergencies as a result of flooding and adverse winter conditions.

17. Reserves held by the Council as Designated Authority on behalf of all Berkshire Unitaries in respect of former BCC insurance and liabilities

All of the above Provisions & Reserves are kept under regular reveiw and adjusted in the light of this assessment when setting the budget and closing the accounts.Such review will take account of the minimum level of provisions & reserves to be held in accordance with good financial management practice and in the light of the overall financial position of the Council.

Appendix 7

Treasury Management Strategy Statement and Investment Strategy 2011/12

<u>Contents</u>

<u>Annexes</u>

Treasury Management Strategy Statement and Investment Strategy 2011/12 to 2013/14

1. Background

1.1 The Treasury Management Strategy Statement (TMSS) is an annual statement the Council is required to approve each year of our intended treasury activity, setting constraints under which that activity will (usually) operate. Given the technical nature of the subject, by way of introduction the statement is intended to explain

- how the Council tries to minimise net borrowing costs over the medium term
- how we ensure we have enough money available to meet our commitments
- how we ensure reasonable security of money we have lent and invested
- how we maintain an element of flexibility to respond to changes in interest rates
- how we manage treasury risk overall.

1.2 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.

1.3 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."*

1.4 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk (including choosing not to act in advance of an emerging need to invest or borrow). 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, Refinancing Risk and Legal and Regulatory Risk.

1.5 The strategy takes into account the impact of the Council's Revenue Budget and estimated 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).

1.6 The purpose of this TMSS is to approve the:

- Treasury Management Strategy for 2011-12 (Borrowing and Debt Rescheduling - Section 3 - Investments - Section 4)
- Prudential Indicators – (NB: the Authorised Limit is a statutory limit, and you are asked to approve its increase during the year by the amount required to move to HRA self financing, assuming this is confirmed for April 2012 – see section 3.2)
- MRP Statement – Section 6 & Annex E
- Use of Specified and Non-Specified Investments – Annex C & D

1.7 The Council has approved the adoption of the CIPFA Treasury Management Code. The Council has incorporated 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. The code envisages that the Council will provide estimated Prudential Indicators for three years ahead. However, the Government has provided for only a two year grant settlement, so for those indictors where it is not possible meaningfully to plan the third year only two years ahead are shown.

2. Balance Sheet and Treasury Position

2.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR)[1], together with Balances and Reserves, are the core drivers of Treasury Management Activity. 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**
General Fund CFR	202.0	201.0	203.4
HRA CFR	53.8	54.8	55.8
Total CFR	255.8	255.8	259.2
Less: Existing Profile of Borrowing		175.6	169.1
Maximum External Borrowing Requirement		**80.2**	**90.1**
Balances & Reserves		**24.5**	**24.7**
Cumulative Net Borrowing Requirement/(Investments)		**55.7**	**65.4**

2.2 The Council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position (an that expected for 31/3/2011) 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[2] (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements. In recent years at 31 March the Council has had an excess of creditors over debtor averaging around £25m over the last 4 years (17m-£40m). Assuming this persists, the cumulative borrowing requirement over the next two years will reduce to about £40m.

[1] The Capital Financing Requirement as the measures of the Council's underlying need to borrow for capital purposes is the sum of all borrowing historically that has not yet been repaid from annual charges to the revenue account.

[2] This is a key indicator of prudence and should not exceed the Capital Financing Requirement. As the CFR represents the level of borrowing for capital purposes, and revenue expenditure cannot be financed from borrowing, net physical external borrowing. should not exceed the CFR other than for short term cash flow requirements.

2.3 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. The Capital Programme is under continuing review, and is currently estimated as

Capital Expenditure	**2010/11 Approved £m**	**2010/11 Revised £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
Non-HRA	61.1	46.5	42.7	28.7
HRA	6.5	7.8	5.6	5.9
Total	**67.6**	**54.3**	**48.3**	**34.6**

2.4Capital expenditure is expected to be financed as follows [3]:

Capital Financing	**2010/11 Approved £m**	**2010/11 Revised £m**	**2011/12 Estimate £m**	**2012/13 Estimate £m**
Government Grants	33.4	28.0	28.9	18.5
Major Repairs Allowance	3.0	3.0	4.6	*4.7
Other contributions	4.6	3.5	0.0	0.0
Borrowing & Further Capital receipts	26.6	19.8	15.8	11.4
Total	**67.6**	**54.3**	**48.3**	**34.6**

* Notional Figure (within HRA) assuming self financing occurs

2.5 Affordability - Incremental Impact of Capital Investment Decisions:

One indicator of affordability is 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.

The table below shows the estimated impact resulting from these calculations. The estimates shown are a "worse case scenario", in the event that no capital receipts were achieved and all the capital expenditure in the tables above proceeded. This is unlikely to be the case, as we envisage managing expenditure carefully to reduce or, if possible eliminate the need for new borrowing, given the wider financial position. However, a balance will need to be struck between the important and urgent capital expenditure needs and the desire to minimise borrowing.

[3] The element to be financed from borrowing impacts on the movement in the Capital Financing Requirement. An increase in the CFR in turn produces an increased requirement to charge minimum revenue provision for debt repayment in the Revenue Account.

Incremental Impact of Capital Investment Decisions	2010/11 Estimate £	2010/11 Probable £	2011/12 Estimate £	2012/13 Estimate £
Increase in Band D Council Tax (in Year)	7.40	5.09	5.32	3.72
Increase in Band D Council Tax (on-going)	31.14	21.93	21.74	15.01
Increase in Average Weekly Housing Rents	0.49	0.47	0.11	0.13

In 2011/12 there is a Council Tax freeze, and therefore the increase is a notional one, effectively offset by other savings in the budget.

2.6 Affordability - Ratio of Financing Costs to Net Revenue Stream:
Another indicator of affordability is the ratio of financing costs to the Council's net revenue stream which highlights the revenue implications of historic and proposed borrowing financed capital expenditure. This is a measure of the proportion of the total revenue budget required to meet capital financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Estimate £m	2010/11 Probable £m	2011/12 Estimate £m	2012/13 Estimate £m
Non-HRA	9.2%	9.0%	10.4%	10.6%
HRA	6.0%	6.1%	6.5%	6.5%

By way of comparison, in 2011/12, in the formula grant settlement, the Government has assumed we have (non HRA) financing costs of just over £11m. We are budgeting for the actual costs to be 17% higher at £12.95m. Actual HRA debt remains slightly less than that on which receive subsidy.

3. <u>Borrowing and Rescheduling Strategy</u>

3.1The Council's balance of actual external debt portfolio at 31/03/10 (gross borrowing plus other long-term liabilities) is shown in Annex A. This Prudential Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

3.2The **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).

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	250	250	**250**	250	250
Other Long-term Liabilities (including PFI)	1	41	**42**	42	42
Total	**251**	**291**	**292**	**292**	**292**

The borrowing limit has been left unchanged at £250m at this stage but It is expected that we will need to increase the limit for the second half of 2011/12 so borrowing can be put in place as necessary to take account of the move to HRA self financing. In principle, the limit will need to increase by up to the amount Government requires us to pay them on the move to HRA self financing (now expected to be around £150m). The other long term liability limit has been increased to take account of the PFI liabilities that were brought on balance sheet in the 2009/10 financial year, and the planned lease of crematorium equipment. Similar changes are made below to the operational boundary.

3.3The **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	240	240	**240**	240	240
Other Long-term Liabilities	1	41	**42**	42	42
Total	**241**	**281**	**282**	**282**	**282**

3.4The Director of Corporate Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations.

3.5In conjunction with advice from its treasury and leasing advisor, Arlingclose Ltd, the Council will keep under review the following borrowing options:

- 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
- Leasing Finance

3.6 On 20 October following the CSR announcement the PWLB increased the cost of new local authority fixed rate loans to 1% above the cost of the Government's borrowing (an increase of about 0.85%). Nevertheless, to a significant extent, the PWLB remains an attractive potential 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 and needed

3.7 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 (Reading's average for 2011/12 is expected to be 3.9%) and investment earnings (expected to be in the 0.9-2.0% range), despite long term borrowing rates being at relatively 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. Unless this situation changes, the use of internal resources in lieu of borrowing will, in 2011/12, be the most cost effective means of financing capital expenditure.

3.8 PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. At present the Council has no borrowing exposure to variable rates (other than its LOBO exposure), though most investment returns are effectively at a variable rate. Exposure to variable interest rates will be kept under regular review. In principle when the spread between long-term rates and variable rates changes by 0.50% (over a period of time), in conjunction with the Authority's Treasury Advisor, the Council will give some consideration to the opportunity (or otherwise) to alter the exposure.

3.9 The Council has £30m loans which are LOBO loans (Lender's Options Borrower's Option) of which £20m of loans are currently in or will be in their call period in 2011/12. In the event that the lender exercises the option to change the rate (current rates are in the 3.99% - 4.32% range) or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loan(s) by borrowing from the (short term) market or PWLB. The default response will be early repayment without penalty.

3.10 Other than for HRA self financing, which will be dealt with separately, the Council is not planning to borrow in advance of spending needs beyond the 2011/12 financial year[4] before the final quarter, when it will only consider doing so if a clear need for finance emerges during the first quarter of 2012/13, and in the opinion of the Director of Resources (on advice from Arlingclose) risk is best managed by arranging that finance a quarter in advance of borrowing need. Should this occur, investment balances will be higher for a short period of up to about 3 months before expenditure is incurred.

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

- Savings in interest costs with minimal risk
- Adjusting the balance of 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 in consultation with Arlingclose, the Council's advisor.

3.12 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 level of fixed interest rate exposure is 130% and variable rate exposure is -30%.

	2010/11 Approved %	**2011/12 Estimate %**	**2012/13 Estimate %**	**2013/14 Estimate %**
Upper Limit for Fixed Interest Rate Exposure	140	140	125	125
Upper Limit for Variable Interest Rate Exposure	50	50	50	50

[4] It is permissible under the Prudential Code to borrow in advance of need. If such borrowing is likely to be undertaken, in accordance with the CLG's Guidance the TMSS should include the Council's reasons for doing so. Where such borrowing over the term of the Prudential Indicators takes place, the cash will form part of invested sums until the related capital expenditure is incurred.

3.13The 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.

<table>
<tr><th>Maturity structure of fixed rate borrowing</th><th>Position[5] at 31/1/2011 %</th><th>Lower Limit for 2011/12 %</th><th>Upper Limit for 2011/12 %</th></tr>
<tr><td>under 12 months</td><td>11</td><td>0</td><td>25</td></tr>
<tr><td>12 months and within 24 months</td><td>15</td><td>0</td><td>25</td></tr>
<tr><td>24 months and within 5 years</td><td>12</td><td>0</td><td>25</td></tr>
<tr><td>5 years and within 10 years</td><td>13</td><td>0</td><td>25</td></tr>
<tr><td>10 years and within 20 years</td><td>1</td><td rowspan="5">40</td><td>100</td></tr>
<tr><td>20 years and within 30 years</td><td>0</td><td>100</td></tr>
<tr><td>30 years and within 40 years</td><td>0</td><td>100</td></tr>
<tr><td>40 years and within 50 years</td><td>49</td><td>100</td></tr>
<tr><td>50 years and above</td><td>0</td><td>100</td></tr>
</table>

The position at 31/1/2011 includes LOBOs, treated as maturing on their earliest option date. (We do not envisage the option will be exercised. The revised TM Code of Practice has recommended that the Maturity Structure of fixed rate borrowing is broken down into several ranges if significant debt is held in periods in excess of 10 years. To maintain flexibility, rather an overall limit of at least 40% of our debt having a minimum duration is set, though in principle all of it could be in any of the longer periods.

[5] Position is shown with maturity measured from 1 April last (i.e. < 12 month is money maturing by 31/3/11)

4. Investment Policy and Strategy

4.1 Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently.

4.2 The Council's investment priorities are:

- **S**ecurity of the invested capital;
- The Council's **L**iquidity position as a whole, to avoid a situation where invested funds are needed significantly before their maturity;
- an optimum **Y**ield which is commensurate with security and liquidity.

The CLG's Guidance on investments reiterates "SLY" (security and liquidity ahead of yield) as key to a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

4.3 CLG guidance envisages investments to be categorised as 'Specified' or 'Non Specified' investments based on various criteria (with "non specified" investments in principle carrying a higher risk, though this does not mean they should not be used). Potential instruments for the Council's use within its investment strategy are set out in Annex C & D. The Director of Corporate 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.

4.4 The 2008-09 credit crisis refocused attention on the treasury management priority of security of capital monies invested. The Council continues to periodically review its counterparty list, and Arlingclose periodically advise us of update to the credit standing of the institutions we do, or may consider investing with. As well as credit ratings and other alternative assessments of credit strength including information on corporate developments and market sentiment are considered. In 2009/10 the Council only lent to the eight institutions with access to the UK Government UK Credit Guarantee Scheme and a minimum AA long term rating (at the start of the year), and this practice has continued to date (though the formal CGS arrangements have ended). The CLG's Investment Guidance state that a specified investment is one made with a body or scheme of "high credit quality" and goes on to recommend that the Investment Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed. Such decisions will be based on an assessment of the authority's Balance Sheet position and consideration of the Upper Limit for total principal sums invested over 364 days being set as a Prudential Indicator.

4.5 Changes to investment strategy (recommended by Arlingclose) for 2011/12 include (the addition a of):

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

- Local Authority Bills
- Term deposits in Sweden

And formally extending the maximum duration for new deposits to 2 years, (although given the HRA subsidy change we do not envisage making (significant) use of this extension.

4.6 The management of risks, including the risk of loss of the borrowed capital are identical to all forms of investment as set out in this strategy. The risk associated with interest rate changes are based on the Interest Rate forecast at **Annex B** and the current "cost of carry". The Council's current level of investments is presented at **Annex A**. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

4.7 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 invariably below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure.)

4.8 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.

4.9 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. However, 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.

4.10 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.

4.11 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. In practice the Council is not currently investing (other than in tradable instruments) beyond 367 days, but the formal limit is being left unchanged to allow flexibility to respond to market conditions.

Upper Limit for total principal sums invested over 364 days	2010/11 Approved £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
	40	40	40	40

4.12 Collective Investment Schemes (Pooled Funds)

The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

Investments in pooled funds will be undertaken with advice from Arlingclose. Hitherto, the Council has not invested in Pooled Funds, but their performance and continued suitability in meeting the Council's investment objectives are periodically monitored. In particular during 2011/12 CCLA Investment Managers (Churches, Charities & Local Authorities) are expected to introduce a money market fund specifically targeted at local authorities. There may be some longer term advantages from becoming a "founder investor", and the Council may consider a modest (c.£500k) investment, subject to advice from Arlingclose when the fund is launched.

4.13 Investments which constitute capital expenditure

Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the CLG's guidance on "non-specified investments". Placing of such investments has accounting, financing and budgetary implications. In view of the Council's capital programme commitments, some of our borrowing has been done in advance of immediate need and a bond helps to mitigate the cost of this.

The Council has determined a maximum of £11m limit to investments which constitute capital expenditure.

5 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.

6 2011/12 MRP Statement[6]

6.1 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 Council's MRP statement, is attached as Annex D. Whilst the statement is substantially unchanged from last year, the approach has been developed to recognise that where we are able to identify the use of "supported borrowing" from 2009/10, we will use the "regulatory method". This helps ensure MRP is made in a similar way to money being provided to the Council through the RSG settlement to fund annual debt repayment.

6.2 The other change is to include formally the MRP requirements in respect of leases and PFI schemes that came on balance sheet last year. MRP in respect of PFI and leases brought on Balance Sheet under the 2009 SORP and IFRS is set to match the annual principal repayment for the associated deferred liability.

7 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

7.1 The Director of Resources will report the outturn on treasury management activity at the June Council cycle as part of the report in relation to closure of accounts.

7.2 In addition, there is a requirement to report as a minimum at least once during the year on the progress of the strategy. As has become the practice, it is expected that each budget monitoring report will include a brief update of the key issues (identifying any likely variance against the budget) and a "mid year" report will be produced for a convenient Cabinet and Council cycle in the early autumn.

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[6] The MRP Statement requires Council approval.

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8 Other Items

8.1 Reform to the Council Housing Subsidy System

CLG introduced a consultation paper setting out proposals to reform the council housing subsidy system in March 2010, and the new Government has taken this reform forward. The consultation proposed a removal of the subsidy system by offering a one-off debt settlement (which broadly speaking requires authorities such as Reading in negative subsidy to make a one off payment to CLG, probably in April 2012. Final details of the new system are yet to be received, but there is provision within the Localism Bill to enable the new system to start in 2012. A further consultation was launched by Government just as this report was being prepared, the details of which will be reported to cabinet in due course. This change will be significant; the expected payment to Government will be over £150m.

8.2 CIPFA is expected to propose some possible changes to the accounting arrangements, to ensure that the General Fund is not better or worse off because of the HRA change. The change will require the Council to fund the amount owed in the medium term through internal resources and/or external borrowing either from the PWLB or the market. The type of loans taken will be decided on in discussions with the Council's Treasury Advisor.

8.3 Bond Issues

The increase in margin over gilt rates has prompted some speculation in the local authority debt market that local bond issues may provide a cheaper funding source. The small number of issues currently trading are understood to trade at a margin of 0.6-0.8% above gilts (i.e. 0.2-0.4% below PWLB rates). It is thought that to obtain these rates it will be essential to obtain a formal credit rating (which would entail some cost (possibly up to £20k, with an annual maintenance cost too)). It is also believed that the minimum size of issue is such that authorities such as Reading (unless we want to have a very high proportion of our borrowing tied up in a single bond issue, which could be undesirable) will need to club together with other authorities to provide a viable route to market. (Even then the minimum commitment is likely to be £50m). We will monitor developments.

8.4 Training

CIPFA's Code of Practice requires the Director of Corporate Resources 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. A members' training session was held during 2010. The need for future training for councillors will be kept under review.

The CLG's draft revisions to its guidance on local government investments recommend that the Investment Strategy should state what process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training and investment management. The position in Reading is that day to day activity is carried out under the direct supervision of the Assistant Chief Accountant by a number of Accountancy staff (for daily cover reasons) following a tightly set procedure and guidelines. Activity is reviewed at least monthly by the Director of Resources and Head of Finance. All the staff involved are either qualified Accountants or receiving accountancy training. Those involved regularly will attend seminars (which usually have a training or continuing professional development content) provided by Arlingclose (or others). In the course of the last two year's, CIPFA, working with the Association of Corporate Treasurers, has marketed a more specialised qualification, but discussion with Arlingclose and others has identified that in reality this is the unmodified ACT qualification and it appears that more than half the syllabus is not directly relevant to local authorities and some key aspects of LA treasury management are not included, so there are no plans to pursue this type of training at present.

8.5 Investment Consultants

The CLG's Guidance on local government investments recommend that the Investment Strategy should state:

- Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and
- How the quality of any such service is controlled.

Reading Borough Council has appointed Arlingclose as its advisor. They provide information about a range treasury issues including detailed information about counterparties and advice about the investment strategy and the mix of counterparty limits to set to ensure a balanced portfolio with an acceptable level of risk. Whilst this will not usually encompass every day to day transaction, it is done in such a way as to minimise the risk of default or having poorly structured debt or investment portfolio. The Director of Resources and Head of Finance periodically consider (usually informally) whether Arlingclose continue to provide a satisfactory service under their mandate and discuss directly with them any concerns. More significant concerns (if any) would be reported to cabinet/scrutiny/council as appropriate. Arlingclose's initial 3 year mandate which ends during 2010/11 has been renewed for a further two years, and extended to include advice about leasing (the fees for leasing normally being met as a commission on transactions).

ANNEX A

EXISTING PORTFOLIO PROJECTED FORWARD

The table shows the portfolio at the end of January and how it will develop over the next three years if no new borrowing or lending is done. On the basis of the projections in the report it is likely that net new borrowing will be required over this period.

	31/01/11 Portfolio £m	**% Net**	**31 Mar 11 Estimate £m**	**31 Mar 12 Estimate £m**	**31 Mar 13 Estimate £m**	**31 Mar 14 Estimate £m**
External Borrowing:						
Fixed Rate – PWLB	162.4	94	160.1	145.6	139.1	129.6
Fixed Rate – Market	45.7	26	40.7	30.0	30.0	30.0
Market	22.0	13	7.0	0.0	0.0	0.0
Total External Borrowing	230.1	133	207.8	175.6	169.1	159.6
IFRS Long Term Liabilities:						
- PFI *	37.5		37.5	37.5	37.5	37.5
- Operating Leases						
Total Gross External Debt	267.6		245.3	213.1	206.6	197.1
Investments:						
Managed in-house						
- Short-term monies (Deposits/ on call)	47.7	-27	20.0	0.0	0.0	0.0
- Long-term investments *(maturities over 12 months, but tradeable)*	10.0	-6	10.0	0.0	0.0	0.0
Total Investments	57.7	-33	30.0	0.0		
Net Borrowing Position (excluding PFI)	172.4	100	177.8	175.6	169.1	159.6

* At this stage in the life of the PFI contracts the annual change in liabilities is very small, so a constant figure has been used in this projection.

ANNEX B

Arlingclose's Economic and Interest Rate Forecast (January 2011)

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Official Bank Rate													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**2.00**	**2.50**	**2.75**	**2.75**	**3.00**	**3.00**	**3.00**
Downside risk	-	-	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**1.65**	**1.90**	**2.15**	**2.40**	**2.50**	**2.50**	**2.75**	**3.00**	**3.25**	**3.50**	**3.50**	**3.50**	**3.50**
Downside risk	- 0.25	- 0.25	- 0.25	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50	- 0.50
5-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**2.75**	**3.00**	**3.25**	**3.50**	**3.75**	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**	**4.25**	**4.25**	**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	- 0.25	- 0.25
10-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**3.90**	**4.00**	**4.10**	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**	**5.00**	**5.00**	**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	- 0.25	- 0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**4.50**	**4.75**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.25**	**5.25**	**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	- 0.25	- 0.25
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.50**	**4.50**	**4.50**	**4.50**	**4.75**	**4.75**	**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	- 0.25	- 0.25

- The recovery in growth is likely to be slow and uneven.
- 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.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion will remain a driver of global credit market sentiment.

Underlying assumptions:

- The framework and targets announced in the Comprehensive Spending Review (CSR) to reduce the budget deficit and government debt will be put to the test; meeting the 2010 borrowing target of £149bn will be crucial to the gilt market's confidence in the credibility of the deficit reduction plans.
- Despite Money Supply being weak and growth prospects remaining subdued, the MPC has gravitated towards increasing rates in the new year as global inflation continues to rise along with household inflation.
- Consumer Price Inflation is stubbornly above 3% and is likely to spike above 4% in the first quarter of 2011 as a result of VAT, Utilities and Rail Fares.

- Unemployment remains near a 16 year high, at just over 2.5 Million, and is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is mainly due to part time work, leaving many with reduced income.
- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.
- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore the outlook for growth.
- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

ANNEX C

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)
- Local Authority Bills (LA 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:

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limits %/£m
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) Barclays Bank Lloyds Banking Group HSBC Royal Bank of Scotland Group (inc. Nat West) Santander UK Plc Clydesdale Bank Co-Operative Bank Nationwide Standard Chartered	 £20m £30m £20m £20m £12m £5m £5m £20m £20m
Term Deposits/Call Accounts	Non-UK Australia France Netherlands Germany USA Canada	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+ Australia and NZ Banking Group Commonwealth Bank of Australia National Australia Bank Westpac Banking Group BNP Paribas Credit Agricole CIB Credit Agricole SA Rabobank Deutsche Bank AG JP Morgan Chase Bank Bank of Montreal Bank of Nova Scotia	Max Amount: 15% of Total Exposure Max Duration: 1 Year

	Finland Switzerlan d	Canadian Imperial Bank of Commerce Toronto-Dominion Bank Royal Bank of Canada Nordea Bank Finland PLC Credit Suisse	
Gilts	UK	DMO	No limit
T-Bills	UK	DMO	No limit
LA-Bills	UK	Other UK Local Authorities	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	£10m/institution
AAA-rated Money Market Funds	UK/Ireland / Luxembou rg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	30%/37.5%
Other MMFs and CIS	UK/Ireland / Luxembou rg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£10m

NB

***Non-UK Banks** - These will be restricted to a maximum exposure of 25-30% per country. The Council has no current 'Term Deposits/Call Accounts' investments with Non-UK institutions.*

***MMFs** - Arlingclose emphasise diversification for all investments including MMFs. i.e that clients spread their investments in Money Market Funds between two funds or more.*

ANNEX D

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	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ CDs with banks and building societies	✓ ✓	✓	3 years (except Nationwide)	33% in aggregate	No
▪Gilts ▪Bonds issued by multilateral developmen t banks ▪Bonds issued by financial institutions guaranteed by the UK government ▪Sterling denominate d bonds by non-UK sovereign government s	✓ (on advice from treasury advisor)	✓	Gilts – 60 years, other bonds – 10 years (Note these investments are tradable)	£25m/33% in aggregate (whichever is higher)	No
Money Market Funds and Collective Investment Schemes, which are/ are not credit rated	✓ (on advice from treasury advisor)	✓	These funds do not have a clearly defined maturity date	£25m/33% in aggregate (whichever is higher)	No
Government guaranteed	✓		10 years	£10m	Yes

bonds and debt instruments issued by corporate bodies		✓			
Non-guaranteed bonds and debt instruments issued by corporate bodies	✓	✓	5 Years	£10m	Yes
Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	£5m	Yes

1. 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.
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.

ANNEX E

MRP Statement (proposed)

1. In 2008/09 and subsequent years identified the general fund adjusted CFR as at 31 March 2008 (excluding the amounts therein in relation to assets under construction). We will then apply the CFR (4% reducing balance) method to the remaining portion of the CFR in subsequent years, also making the commutation adjustment.
2. From 2009/10 where we are able to identify the use of "supported borrowing" we will also apply the CFR (reducing balance) method.
3. From 2008/09, in respect of asset lives, where we are unable to identify easily assets funded by "supported" borrowing or otherwise (including assets under construction as at 31 March 2008) we will use an asset life method. For this purpose we have developed standard categories of asset life to streamline processes, and so far these include.
   - major new buildings on Council owned land where a 40-60 year asset life (unless the design life is demonstrably shorter) will be appropriate
   - major extensions to existing buildings, or major remodelling of infrastructure – where a 20-40 year asset life may be more appropriate
   - major refurbishment of existing buildings – where a 20 year life can reasonably be presumed
   - major transport infrastructure (i.e. new roads or major remodelling of junctions) – 30 years
   - other transport capital expenditure – 15 years
   - small items capitalised revenue expenditure – 10 years
   - vehicles, where typically a 5 year life will be reasonable for smaller vehicles; in some cases (e.g. refuse freighters 7-8 years, in line with maintenance contracts) a longer life will be appropriate

   We will keep this categorisation under review
4. The asset life method will be used for assets under construction at 31 March 2008 when they are eventually completed unless we are able to identify that their funding was from "supported" borrowing, in which case the CFR method will be used

3\. Where investments are made in financial instruments that score as capital expenditure where the Council expects full repayment, no MRP will be made

4\. In addition to MRP determined as above the Council will (from 2009/10) make MRP in respect of leased and PFI assets that come on balance sheet because of the transition to IFRS, which will be equal to the notional debt repayment implicit in the lease/PFI agreement due in each financial year.

Appendix 8

Medium Term Financial Plan 2012/13 to 2014/15

1. This report sets out the Council's Forecast 3 year Medium Term Financial Plan over the period 2011/12 to 2014/15.

Prudent Management of Public Resources and Value for Money

1.1 The Council is committed to providing good value for money in undertaking its activities and delivering services to the community.

1.2 Effective budget management; sound HR Strategies; deployment of new technologies; new and efficient ways of working and cost effective procurement continue to be the key drivers to ensure public confidence in the Council and to resource local priorities.

1.3 The Council's Performance Management Framework using the 'Balanced Scorecard' approach measures progress in achieving targets and priorities, and the Council's Risk Management strategy is designed to test the robustness of plans and the threats and opportunities associated with the delivery of priorities.

1.4 The Council collects performance data on a range of statutory and local performance measures and through an annual cycle of reporting continuously monitors progress against these measures.

Economic Climate

1.5 The MTFP tables account of the current uncertain economic climate. For example a cautious approach has been taken to investment returns and the generation of capital resources.

Governance and Efficiency

1.6 The way the Council manages its financial activities and spending of local and national tax payers money is increasingly under the spotlight.

1.7 It is therefore essential that the Council continues to maintain its sound governance arrangements, be clear about its priorities and resource allocation, and to pursue a relentless drive to improve value for money in everything it does.

1.8 Regarding finance and efficiency the Coalition Agreement includes the following:

Finances and Efficiency

- We will introduce a council tax freeze for 2011/12 to reduce the burden on residents.
- We will continue to work with the current agreed budget for 2010/11.
- We will instigate a review of all council services to ensure they provide value for money and good service quality, properly reflecting the needs to Reading's residents. In addition, we will lead the current Performance Improvement Programme (PIP).
- We are committed to maintaining and improving front line services and where practical will seek to reduce the costs of delivery. Any cost savings will be prioritised in back office functions before front line services.

Budget Monitoring

1.9 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 (e.g. Community Care because of the demand led nature of these services). Devolved accountancy arrangements have been in place for several years 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.

1.10 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.

1.11 Regular Budget Monitoring reports are submitted to Cabinet and CCEA Scrutiny Panel.

1.12 As part of setting the Annual Budgets and Medium Term Financial plan, 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.

2. ALLOCATION OF RESOURCES IN THE MEDIUM TERM 2012/13 to 2014/15

Resource Allocation

2.1 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.

2.2 The Spending Review 2010 set out the framework for Public Sector funding over the next 4 years. The forecast Local Government Finance Settlement over this period indicates a cumulative reduction in grant funding for non schools related services of 24% by 2014/15. The Medium Term Plan has been updated to reflect the reduced level of Government funding.

2.3 Through the Council's Performance Improvement Programme 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.

2.4 For example, in addition to ensuring adequate funding for core services, priorities for further revenue funding include safeguarding children and meeting demand for services to the elderly.

2.5 Over the Medium term the Council will be reviewing its asset portfolio with a view to rationalizing and optimizing the use of assets to reduce running costs and generate capital receipts.

2.6 Priorities for capital funding include school improvement programme, creating additional school places, transport infrastructure improvements, IT investment to drive efficiency upgrading leisure facilities, as well as meeting health and safety requirements associated with Council owned buildings.

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

Local Government Finance Settlement

The forecast of Government funding is set out below:

Table A

	Forecast Formula Grant Funding £m	Variance Over Previous years £m	%
2012/13	**50.3**	**-5.6**	**-10**
2013/14	**49.3**	**-1.0**	**-2**
2014/15	**45.6**	**-3.7**	**-8**

2.8 The Government has announced grant funding for 2011/12 and 2012/13 and indicated that it will review the system of Local Government Finance for 2013/14 and future years.

2.9 Forecast funding for 2013/14 and 2014/15 are based on current methodology.

2.10 At the current time no allowance has been made in grant forecasts in the MTFP for the transfer of public health responsible to the Council from 2013/14 or the localisation of Council Tax Benefit. Therefore the MTFP will need to be updated in future years to reflect these proposed changes.

Medium Term Financial Planning

2.11 Appendix A sets out General Fund indicative planning budgets for the period 2012/13 to 2014/15. These planning budgets have been drawn up in the context of current government funding allocations, and the assumption of a continuing freeze in Council Tax.

Summary of Forecast Budgets

2.12 The table below sets out the Council's projected General Fund Budget before savings for the period 2011/12 to 2014/15.

Table B

Year	Projected Budget £m	Increase over Previous year %
2012/13 2013/14 2014/15	127.4 133.3 140.5	2.4 4.6 5.1

2.13 The table below sets out forecast income from Formula Grant and varying levels of Council Tax Increase.

Table C

Year	0% £m	0.5% £m	1% £m	1.5% £m	2% £m	2.5% £m
2012/13 2013/14 2014/15	118.9 117.9 114.2	119.2 118.6 115.2	119.6 119.3 116.3	119.9 120.0 117.4	120.3 120.7 118.4	120.6 121.4 119.5

2.14 The following assumptions have been made: -

a) <u>Pay and Price Increases</u>

Table D

	2012/13	2013/14	2014/15
Payroll Inflation (incl. Increments)	1%	3%	3%
Pension Contribution Rate	15.4%	15.7%	16.0%
Other Inflation (Default) (Government Target)	2%	2%	2%

Sensitivity of Assumptions

2.15 Every 1% variation in assumptions equates to:

Table E

	£m
Council Tax	0.7
Formula Grant	0.6
Other Grants	0.2
Pay Awards (excluding Teachers)	0.9
Pension Fund	0.9
General Inflation	1.1
Variation in fees and charges	0.4
Capital Financing Costs of £1m	£80k

Fees and Charges

2.16 Fees and charges will be reviewed annually in light of levels of service provision, statutory guidance and market conditions.

2.17 Detailed Budget Guidelines are set out in Appendix C.

Factors Impacting on the Allocation of Resources

2.18 Over and above assumptions around pay and price inflation and Government funding this section highlights the significant factors that will impact on the allocation of resources over the period of the plan.

Waste Collection and Disposal

2.19 The forecasts contained within this plan take account of known increases in landfill tax announced by the Chancellor of the Exchequer in March 2007 of £8 pa per tonne from 1st April 2008.

2.20 In order to reduce the projected costs of Waste Disposal in the future and improve recycling rates the Council together with Bracknell Forest and Wokingham Council has entered into a Private Finance Initiative Partnership to manage waste disposal over the next 30 years. The cost arising from the partnership are included in the plan.

Ageing Well - Services to the Elderly

2.21 The Council Ageing Well Strategy is designed to develop local services to the elderly to offer greater choice and promote independence. The capital programme includes provision for the build of extra care housing facilities as part of this strategy.

2.22 In keeping with most Council's responsible for Community Care, Reading faces significant on-going budget pressure due to an ageing population and the requirement to provide care.

2.23 In order to manage the financial impact of the increasing demand required, the Council as part of the Ageing Well Strategy, is modernising existing Service Provision and driving forward efficient ways of commissioning and delivering services to the elderly. (e.g development of extra care housing, reablement services).

2.24 As already indentified the most significant service budget pressure faced by the Council is the demand led nature of Community Care. It is therefore essential that the modernisation programme and other efficiency measures planned are delivered on time and to budget each year.

Children & Families

2.25 Additional resources of £0.4m have been built into the 2011/12 Budget to increase staffing levels to improve safeguarding of children at risk and meet service demand. This is in addition to the £0.9m of additional resources built into the 2010/11 budget.

Education (Schools Funding)

2.26 Under Government rules funding for schools is delivered through the allocation of the Dedicated Schools Grant.

2.27 SG is allocated to schools via a funding formula agreed between the Council and the Schools Forum (a group representing schools).

2.28 The current level of DSG funding and standards for 2010/11 is £84.3m and for the 2011/12 years the Government has announced provisional funding of £87.6m. Appendix E outlines the formula used to allocate this money.

2.29 With regard to funding improvements to school buildings and facilities and pupil places this is achieved through specific Government Grant allocations, section 106 funding and the Council's own resources.

Capital Programme

2.30 The Council has a programme of capital investment to maintain and improve Council facilities and the wider infrastructure of the Borough.

2.31 Whilst the Council is very successful in attracting Government and other external funding (e.g Lottery, and private developer funding) as well as proceeds from the disposal of surplus assets there is still a need to fund a significant element of the capital programme from borrowing.

2.32 The funding and repayment of borrowing is an increasing cost to the Council's revenue budget which then has to be paid for by driving forward savings in net expenditure.

2.33 Over the duration of the MTFP it will be necessary to keep the capital programme under constant review to ensure its affordability.

2.34 General Fund borrowing levels (new borrowing less repayments) are set to increase in 2010/11 by £ 8.3m and expected to rise further by £7.3m in 2011/12 and by £2.2m in 2012/13. This increase in borrowing should be seen as a worst case scenario as the forecast funding of the programme does not yet take account of funding from potential capital receipts where opportunities of around £20m have been identified or potential funding from Section 106's where the terms of 106 agreement match expenditure in the capital programme.

2.35 Given the significant savings required over the medium term current forecast debt levels and borrowing are considered unaffordable.

2.36 The working assumption for 2013/14 and future years is that there will be no net increase in borrowing. This means that borrowing to fund new schemes will be limited to annual principal repayments in borrowing (approximately £7M). Furthermore it is likely that capital receipts may need to be used to reduce borrowing rather than increase resources to fund new capital expenditure as part of ensuring that a sustainable on-going General Fund budget is set each year. The current planned capital programme and funding will be reviewed during 2011/12 with the aim of reducing reliance on borrowing in 2011/12 and 2012/13 in order to make progress to stabilise debt outstanding.

Pay and Grading

2.37 In keeping with all other Councils, Reading has a requirement to modernise its Pay & Grading arrangements. The financial plan allows for the estimated cost of changes necessary to ensure we maintain a fair and fit for purpose pay & reward framework for our staff.

Equal Pay Claims

2.38 Currently the Council has received 180 equal pay claims which officers and legal advisors are assessing. In the event that any of these claims prove to be successful the Council will apply for a Capitalisation Direction from the Government to allow costs to be spread over time. The need to make provision in the Councils agreement for equal pay claims will be subject to regular review with the Council's External Auditor. Equal Pay Claims remain a significant risk to the Council.

Income from Fees and Charges

2.39 A number of income budgets such as planning, building control, land charges, leisure and cultural services can be subject to market trends and change in the economy. Therefore, careful monitoring of these budgets is essential so that any changes are identified quickly and remedial action taken.

Demonstrating Efficiency and Value for Money

2.40 The Council has a solid track record of identifying and delivering efficiency savings and providing value for money in running the Council and its activities.

2.41 Over the period of the plan the need to drive forward efficiency savings will continue. This will be achieved through the Council's Performance Improvement Programme.

Performance & Improvement Programme

2.42 Over the period 2010/11 to 2014/15 the PIP project has identified efficiency savings of £7m.

2.43 The cumulative target to 31 March 2012 is £3m and the budget proposals contained within the report will deliver the target set.

2.44 Project Management resources supported by Deloittes are in place to drive forward PIP projects and it is part of the core business of all mangers to contribute to PIP and the drive to improve efficiency and standards of customer service.

Service Review and Moderation

2.45 Under this strand there are various projects to modernise service delivery such as.

- Services to Elderly People – Re-ablement
- People with learning disabilities – support living
- Safeguarding Children
- Fostering of children

VFM Outliers

2.46 Through benchmarking this Council has identified potential high cost service areas. These areas are subject to review as part of the Efficiency and Improvement and Service Modernisation strands to identify opportunities to reduce cost and improve the VFM of these services.

Income Generation and Cost Recovery

2.47 Every year the Council reviews its level of fees and charges as part of the annual budget setting round.

From 2010/11 onwards the Council has started a fundamental review of cost recovery to ensure that where appropriate.

- Fees and Charges are set to recover the full costs including support costs associated with the service provided or where they do not, there is a clear policy reason for subsidising the service.
- Comparisons are made with Fees and Charges provided by others where competition exists or the service is provided by other authorities.
- That any subsidies given are supported by policy objectives.

Promoting a culture of "looking after the Pennies"

2.48 The Looking After the Pennies Campaign has two strands, firstly inviting staff to come up with "Bright Ideas" that would save money and also improve efficiency. The second strand was giving guidance to teams on "good housekeeping measures", such as using second class post, saving energy, using council venues for meetings, making use of corporate framework contracts, minimising printing etc.

General Fund Balance

2.49 Over the period of the plan the forecast General Fund Balance is £5m depending on budgetary performance and consideration of use of balances when the budget is set each year.

Forecast Savings

2.50 The table below shows that very significant savings over and above those already identified in the report will be needed over the duration of this plan.

Table F

Year	Freeze 0% £m	0.5% £m	1% £m	1.5% £m	2% £m	2.5% £m
2012/13	8.5	8.2	7.8	7.5	7.1	6.8
2013/14	6.9	6.5	6.2	5.8	5.5	5.1
2014/15	10.9	10.6	10.2	9.8	9.5	9.1

2.51 In order to achieve this level of savings it will be necessary for the Council to undertake an increasingly radical review of how it organises and delivers its processes and functions, its policies, service provision, capital programme and resource allocation to enable an on-going sustainable budget.

2.52 The savings set out in Table F are net of savings from PIP, full year Impact of 2011/12 savings proposals (see Appendix A) and Income generation targets.

2.53 The following table sets out the gross savings required assuming a continued freeze in Council Tax.

Table G

	Net Savings (Table F) £m	Savings identified (Appendix A) £m	Gross Savings £m
2012/13	8.5	5.7	14.2
2013/14	6.9	2.3	9.2
2014/15	10.9	1.4	12.3

Housing Revenue Account (HRA)

2.54 The Council's case for retaining the Housing Stock (Stock Option Appraisal Retention Case) was approved in 2006/07. The actions and financial planning arising from the retention case will form the core of the HRA Business Plan which will need to be updated to reflect the replacement of the current housing subsidy system with the new self financing system from 2012/13.

Capital Investment Programme

2.55 The following table summarises the forecast capital programme and funding over the period 2010/11 to 2012/13 in line with the Council's Capital Strategy.

Table H

	2010/11	2011/12	2012/13
	£m	£m	£m
Housing and Community Care	12.3	15.4	9.1
Education, Children and Families	11.0	8.8	6.3
Culture and Sport	1.1	2.4	0
Transport	19.7	6.9	9.8
Environment	2.3	4.1	0
Corporate	7.9	10.7	9.4
Forecast Programme	54.3	48.3	34.6
Funded By:			
External Sources (Grants)	31.0	32.5	23.2
Section 106 and Capital Receipts	3.5	0	0
Borrowing/Further Capital Receipts	19.8	15.8	11.4
Total Funding	54.3	48.3	34.6

2.56 As already set out in the report the forecast level of borrowing shown in Table H above is considered unaffordable. Therefore the capital programme and how it is funded will be reviewed during 2011/12 with the aim of reducing the reliance on borrowing and to stabilise debt outstanding. As part of the review an asset disposal plan will be put in place to generate capital receipts.

2.57 The working assumptions is that the programme will be limited to schemes funded by external grant, capital receipts and Section 106 receipts and that there will be no net increase in borrowing after 31/3/2013 (other than for schemes with a clear spend to save business case).

2.58 In meeting these investment requirements, the Council is constrained by the Prudential Indicators, which place a constraint on the on-going revenue impact of borrowing, to ensure affordability in the longer term as far as this is possible. This places a particular premium on identifying the ongoing

revenue costs arising from new capital investment before the initial decision to invest is made, and undertaking a cost benefit analysis of the scheme on the basis of whole-life costings (i.e. for the operational life of the new facility). This in turn will focus attention on the funding of planned maintenance, and the budget provision to be made for depreciation and renewal of assets.

Generating Resources/Partnership Working

2.59 The Council seeks to support its key priorities, especially in relation to addressing relative deprivation and inequality, through maximising external funding both directly to the Council and to partner agencies and the voluntary / community sector. The Community Renewal Team has a corporate role in identifying and securing discretionary funding from UK and EU sources and working across the Council to co-ordinate this.

2.60 In addition to the funding actually obtained a key element of this work corporately is about developing relationships with key funders and partner agencies. Increasingly the Council is looking to develop strategic relationships that deliver best value with partner agencies and maximise resources across shared priorities.

3. Robustness of the Medium Term Plan

3.1 In setting the budget each year the Chief Financial Officer (in Reading's case the Director of Resources) is required 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.

3.2 The advice given is done so in the context of the Medium Term Plan and is based on a risk assessment.

3.3 The rest of this section sets out a risk assessment of the Medium Term Financial Plan and the advice of the Director of Resources as to the robustness of the plan and the minimum level of balance to be held throughout the period of the plan.

Risk Assessment

3.4 The Council has a well developed and embedded risk management culture across the organisation which assess both inherent and residual risks using the following scoring matrix.

The scoring system is shown below

Table I

Likelihood	Almost Certain (above 95%)	5	10	15	20	25
	Highly Likely (Above 75%)	4	8	12	16	20
	Likely (above 40%)	3	6	9	12	15
	Possible (above 10%)	2	4	6	8	10
	Rare (Less than 10%)	1	2	3	4	5
		Negligible	Slight	Moderate	Critical	Catastrophic
	Impact					

The following table is a high level risk assessment of the Medium Term Plan:

Risk Assessment - Table J

Risk	Inherent Score	Residual Score	Comments	Sensitivity
Impact of significant changes in Council policy	16	16	Subject to local and national influences.	Depends on change proposed
Reliance on income which in recent years has declined	16	16	Budget forecasts based on current trends.	Monitoring provides early warning of problems 1% variation = £0.3m
Budgets prove insufficient to meet increasing demand	16	12	Major risk areas: Community Care/Children Services	Depends on specific issue.
Impact of interest rate variations	16	12	Robust Treasury Management Strategy to manage variations in place.	Impact depends on the mix of fixed and variable interest rate loans and level type and duration of investments held.
Failure to generate planned capital resources	12	9	No capital receipts assumed for 2011/12 budget.	Extra borrowing costs £80k per £1m.
Unforeseen events leading to Unplanned expenditure	20	16	Balance and Reserves held for such events to mitigate impact.	1% variance in budget £1.2m Depends on events.
Impact of inflation	16	8		1% variation = £1.1m
Impact of Pay Awards	9	6		1% variation = £0.9m
Impact of Pay and Reward costs	9	6	Key implementation from 1 May 2011	No backdating or protection allowed for.
Non delivery/slippage in achieving savings	16	16		5% variation = £0.8m pa
Failure to meet Fees and Charges target	16	12	Annual increases in income generation assumed.	1% variation = £0.5m
Equal Pay claims	16	16	Currently subject to legal process.	Depends on legal judgement.
Pension Fund increase	6	6	Rate agreed for 3 years.	1% variation = £0.9m
Non Collection of Local Tax	8	4	Collection Rate reduced by 0.25% for 2011/12.	1% un-collectable = deficit pa £0.7m
Adverse changes in Government Funding Allocations	12	12	Settlement confirmed for 2011/12 and 2012/13.	1% variation = £0.6m
Adverse change in funding/resources from partners	16	16	Partnership protocols being developed to manage risks.	Depends on specific issues.

Advice on the Robustness of the Plan

3.5 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 of the Council's direct control.

3.6 Therefore the Council faces risks in delivering its objectives and the Medium Term Financial Plan underpinning its activities over the medium term.

3.7 To help manage risk the Medium Term Plan has been risk assessed as set out in earlier paragraphs of this section of the Plan. The Plan itself has been drawn up to reflect forecast trends in expenditure and income based on existing Council policies, known external influences (e.g. Government Policy).

3.8 The Council has a solid track record of living within its approved budget each year although for 2010/11 there is a forecast overspend.

Table K

Year	Approved Budget	Variance	Variance
	£000	£000	%
2010/11 F	122,904	-399	-0.3
2009/10 A	120,387	-294	-0.2
2008/09 A	116,386	+20	-

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

3.10 At the heart of the Council's Transforming Services Programme and financial management processes are the objectives of driving efficiency, offering value for money and improving services to customers.

3.11 Taking all of these factors into account including the risk assessment set out above and the forecast level of balance and reserves the Director of Resources considers that the Medium Term Plan is extremely challenging and will not be achieved without the council delivering the level of savings identified in Table G. As already indicated this will require a fundamental review of how the council organises and delivers its processes and functions, policies service provision, capital programme and revenue resources allocation.

3.12 In providing this assessment, the Director of Resources has made the following further points:

Generating Savings

3.13 It is essential that the significant savings targets identified in the plan are delivered to ensure that net expenditure is kept within forecast resources.

3.14 Through the Council's Performance Improvement Programme, the framework is in place to identify and deliver savings each year to meet targets set.

3.15 As a contingency against the risk of shortfall or delay in achieving savings the Council plans to hold a healthy level of balances and reserves.

3.16 The implementation of savings often results in one off costs such as redundancy. Depending on the value of these costs it is intended to fund them from reserves over 2010/11 and 2011/12.

3.17 However where redundancy and early retirement costs are identified in respect of new savings identified then it will be necessary to take account of these costs in calculating the net saving as funding from reserves will not be available.

3.18 Therefore early identification and implementation of savings will be essential to maximise the value of savings to be built into future budget rounds.

Level of Capital Investment and Funding

3.19 Given the significant level of savings to be achieved over the medium term the Council can no longer afford for its level of General Fund borrowing to increase. As set out earlier in the report the capital programme and how it is funded will be reviewed during 2011/12 with the aim of reducing the reliance on borrowing and stabilising debt.

3.20 The working assumption from 2013/14 onwards is that there will be no increase in the level of borrowing. Therefore, borrowing to fund new schemes will be limited to the annual value of borrowing repaid. Furthermore it is likely that capital receipts will be used to repay borrowing rather than to fund new capital expenditure. To help achieve the aim the Council is reviewing its asset portfolio to identify opportunities for capital receipts.

Managing Service Demand

3.21 Throughout the period of the plan it will be necessary to manage service demand within financial tolerances set.

3.22 The most significant budget pressures are around Waste Disposal, Children and Families and Community Care. For these areas, plans are well developed to manage budget pressures, but it is critical that those plans are delivered on time and to target.

3.23 With regard to Community Care it is essential that the modernisation of the service continues and plans implemented to develop Extra Care Housing and Personalisation to both improve choice and cost reduction.

Use of Balances and Reserves

3.24 Currently the Council holds a healthy level of balance and reserves. For 2011/12 £1.6m of balances and reserves are being used. This plan assumes no further use of reserves.

Consideration of the General Fund Balance and Level of Reserves

General Fund Balance

3.25 Based on the risk assessment exercise and past budgetary performance, the advice of the Director of Resources on the minimum level of balance to be held throughout the life of the Medium Term Plan, based on the "traffic light" principle, is as follows:

Table L

Ideal level of balance to be achieved over the life of the Plan	5% of the net General Fund Budget £6m	Green
Planned level £5.0m	4.1%	Green
Recommended minimum level £5m	4%	Green
Between £4.5m and £5m	3.8% (4.75m)	Amber
Between £4m and £4.5m	3.4% (£4.25m)	Red
Less than 4m	3.2% (4m)	Red

3.26 The recommended minimum level of £5m will provide cover against potential variations in net expenditure and provide flexibility to deal with the various risk identified in this section of the plan.

- ♦ Adverse budget variations.
- ♦ New demands which were unforeseen when the plan was set.
- ♦ Ability to respond to opportunities requiring financial commitment from the Council which were not identified when the budget was set.
- ♦ Emerging 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, and generally supporting the management of the council's cash flow.

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

Other Provisions and Reserves

3.28 Appendix B sets out forecast provision and reserves together with an explanation of benefits and opportunity cost of holding them.

3.29 The management and use of provisions and reserves is undertaken in accordance with the following objectives:-

- Optimising the Council's overall financial position by creating a degree of financial flexibility over each year and between years.
- Maintain contingencies against unbudgeted expenditure or unexpected events.
- Ensure funding of known or predicted liabilities falling in the year in question or future years.
- Overall balances, provisions and reserves are held to mitigate against the risks set out.

Further details and explanation of the Council's Final Accounts and Budget can be found on the Council's website at www.reading.gov.uk under "Council and Democracy/Council Finances".

Appendix B

RESERVE	POLICY/REASON	ESTIMATED LEVEL	BENEFITS	OPPORTUNITY COST
General Fund	Policy based on annual and MTFP Risk Assessment.	March 11 } March 12 }£5.0m March 13 } March 14 } March 15 }	Provides general contingency for unforeseen or unavoidable expenditure. Stability for longer term planning. Interest on Balance to reduce cost to taxpayer. Every £1m saves £15k pa.	Could be used to fund one off expenditure which would result in interest loss of and reduce benefits. Could be used as a one off reduction in level of Council Tax increase.
Housing Revenue Account	Local Government and Housing Debt 1989 section 76 (3) forbids budgeting for any year end deficit on HRA. The balance on the HRA is determined by the level of	March 11 £6.6m March 12 £5.6m March 13 £4.0m March 14 £2.2m March 15 £1.6m	Provides general contingency for unavoidable or unforeseen expenditure. (for example repairs following bad weather).	Could be used to fund HRA capital or one off HRA revenue expenditure. However, every £1m used would result in loss of interest of £15k pa.

	Risk associated with budgets, the requirements of the HRA Business Plan and stock options retention strategy.		Stability for longer term planning including meeting decent homes standards. Interest on balance helps to reduce costs, every £1m saves £15k pa.	
<u>Section 106 Receipts</u>	Receipts are spent in line with Section 106 agreement when unfettered they are used to fund capital expenditure priorities.	March 11 £6.5m March 12 March 13 March 14 March 15 Balance depends on the value of new receipts and when receipts are used.	Money received from developers as part of their Section 106 obligations to fund capital expenditure will reduce borrowing costs. In as much as S106's exist there is likely to be a matching need for expenditure overtime.	Monies can only be used for purposes specified in the agreement.

Capital Receipts (Uncommitted)	Policy to use capital receipts to fund capital expenditure each year.	NIL	Use of capital receipts reduces the need to fund capital expenditure from borrowing.	Could be used to repay debt rather than to fund new capital expenditure.
School Balances	Balances held by individual schools, to meet unforeseen or unavoidable expenditure. Balances built up to meet future specific items of expenditure.	March 11 £2m March 12 £2m March 13 £2m March 14 £2m March 15 £2m	Provides financial stability to schools. Provides a contingency against unforeseen and unexpected costs.	Could be used by schools to fund one off Revenue or capital expenditure. DCSF has introduced rules to require the Council to clawback excess balances at individual schools and re-distribute to all schools.
Organisational Changes	Reserves to cover cost associated with organisation change redundancy costs, Pay and Reward changes and transition costs relating to other changes in terms and conditions.	March 11 £2.2m March 12 0 March 13 0 March 14 0 March 15 0 Balance depends on any Equal Pay claim liabilities and impact of pay awards and value of redundancy cost incurred.	Contingency to meet variations in employee costs and related claims. Over that provided for in the budget each year.	Could be used to fund one off Revenue or capital expenditure.

<u>Legal and Taxation</u>	Contingency held to meet unbudgeted legal and taxation liabilities.	March 11 £0.25m March 12 £0.25m March 13 £0.25m March 14 £0.25m March 15 £0.25m	Provides a contingency to meet unforeseen and unexpected legal and taxation costs.	Could be used to fund one off Revenue or capital expenditure.
<u>Transforming Services</u>	Contingency held to meet costs relating to: Pump Primary for Transforming Services initiatives. Procurement costs relating to Corporate IT Contracts.	March 11 £0.8m March 12 0 March 12 0 March 14 0 March 15 0	Provides reserves necessary to meet estimated one off costs. Provide flexibility to fund Transforming Services initiatives.	Could be used to fund one off Revenue or capital expenditure.
<u>Prudential Reserves</u>	Reserves set up to enable the cost of unsupported borrowing to be phased in over time and to meet any costs arising from Equal Pay Claims.	March 11 £4m March 12 £3m March 13 £3m March 14 £3m March 15 £3m	Level of reserve will depend on outcome of Equal Pay claims.	Could be used to fund one off Revenue or capital expenditure.

Pensions Costs	Reserves set up as a contingency to meet future fluctuations in Pension Liabilities.	March 11 £0.25m March 12 £0.25m March 13 £0.25m March 14 £0.25m March 15 £0.25m	Contingency reserve to provide flexibility in meeting the cost of any fluctuations in future Pension Liabilities.	Could be used to fund one off Revenue or capital expenditure.
Repayment of Grants	Reserve set up to fund adverse reductions to the Councils expected grant income.	March 11 £0.25m March 12 £0.25m March 13 £0.25m March 14 £0.25m March 15 £0.25m	Contingency reserves to provide flexibility in funding any adverse reductions to Government Grant.	Could be used to fund one off Revenue or capital expenditure.
Property Liabilities	Reserves set up to meet potential liabilities relating to property (e.g. asbestos, dilapidations).	March 11 £0.2m March 12 £0.2m March 13 £0.2m March 14 £0.2m March 15 £0.2m	Provides flexibility in meeting unforeseen and unavoidable Property Liability costs.	Could be used to fund one off Revenue or capital expenditure.
GF Miscellaneous	Minor reserves account.	March 11 £0.1m March 12 £0.1m March 13 £0.1m March 14 £0.1m March 15 £0.1m	These reserves have specific purposes mainly associated with the Museum.	Can only be used for the purpose for which they were set up.

Insurance Funds	Reserve set up to meet estimated liabilities in connection with internally held risks. Level of funds based on annual review of liabilities.	March 11 £4.95m March 12 £4.4m March 13 £4.3m March 14 £4.1m March 15 £4m	Funds self Insurance Liabilities in order to minimise external premiums.	If "surplus" funds become available then these could be used to fund capital or revenue expenditure.
North Whitley PFI	Reserve set up to ensure HRA can meet contract payments over the life of the scheme.	March 11 £7.2m March 12 £7.5m March 13 £7.8m March 14 £8.0m March 15 £8.2m	Provides financial stability over the long term to enable contract payments under the PFI to be funded, at a cost rising broadly in-line with RPI.	Can only be applied to the funding of contract payments under the PFI scheme. Part of the HRA and part of the long term plan associated with the PFI.
Emergency Planning	Reserve set up to provide financial flexibility to respond to flooding and adverse Winter weather conditions.	March 11 £0.2m March 12 £0.2m March 13 £0.2m March 14 £0.2m March 15 £0.2m	Provides financial flexibility over and above existing annual revenue budget provision.	If reserve not needed there it could be used to increase general fund balance for used to fund other expenditure.

Appendix C

1. FINANCIAL GUIDELINES FOR SETTING THE REVENUE BUDGET 2012/13 TO 2014/15

1.1 Introduction

In setting the budget over the Medium Term, it is important that individual service budgets are drawn up in accordance with a common and transparent framework, owned by services and directorates and endorsed by the Cabinet and Council.

These guidelines have been set for the 3 years from 2012/13 – 2014/15, to help the Council develop a strategy to develop its budget process for the medium term, which will be reviewed by Councillors and Corporate Directors annually.

Officers are required to develop proposals for setting budgets over a medium term cycle which match the Council's strategic priorities.

Whilst Local Government Finance Legislation requires the detailed budget to be set one year at a time, for financial planning these guidelines move the Council to a five year rolling budget process.

1.2 Guiding Principles

These budget guidelines have been developed within a consistent corporate framework to:

- Implementation of agreed savings and efficiency proposals
- allocate resources to Council priorities
- minimise in appropriate competition between services for resource allocations
- enable a cross-service and partnership approach to be taken (e.g. where there is a shared customer base or areas of commonality)
- avoid one Directorate or service making a budget saving at the expense of another
- ensure that where significant services are provided between Directorates (including the provision to schools), there is a transparent method for charging a fair cost.

The guidelines are designed to positively encourage managers to do the following:

- bring forward innovative ideas and options to make more effective use of existing resources, clearly identifying how the ideas may develop over a the medium term, including any requirements for pump priming money.

- link the budget setting process to Service Plans, Best Value Reviews and the requirement for the identification of options, which will produce efficiency savings.
- focus attention on corporate and service priorities and improving performance.

1.3 **Service Guidelines**

The 2011/12 Approved Budget, adjusted to take account of the full year effect of savings identified in setting the 2011/12 budget, will be assumed to be the Base Budget for 2012/13.

It is important that all budget holders identify/estimate the potential impact on their respective budgets of pay awards, inflation, other expenditure and income variations but these variations will not be added to the Base Budget until they have been considered and approved by Lead Councillors. Therefore budget holders should not assume that in setting the 2012/13 Budget there will be any automatic increase in the adjusted Approved Budget for 2011/12.

However the Council will continue to implement nationally agreed pay awards.

The following corporate financial guidelines should be used in estimating changes in expenditure and income over the medium term.

Employee Budgets

- No allowance for any cost of living pay award.

- The cost of increments should be identified, budgeting for vacant posts at the bottom of their grade.

- The application of a vacancy factor should be considered at a Directorate level, and be transparent when adopted for all or part of a Directorate.

- With regard to salary oncosts the following rates should be used:

Superannuation Fund Rate 15.4% (excluding teachers)
Employers National Insurance 9%
Total Oncosts 24.4%
Teachers Superannuation Rate 14.1%

Other Costs

- A schedule of non-pay budgets where there is a legal or contractual commitment to an inflationary increase should also be identified within each Directorate and agreed with the Accountancy Section.

- The general rule is that no allowance will be made for uncommitted inflation and a general uplift in budgets for inflation.

- For employees not in the Pension Scheme no Superannuation Contribution Rate should be budgeted for, but in these cases an Employers' National Insurance Rate of 12.7% should be used.

The following table gives the default rates of inflation etc. to be used in forecasting budgets over the medium term.

	2012/13 %	2013/14 %	2014/15 %
(Including pay awards, increments and other pay changes	**1**	**3**	**3**
Teachers	**TBA**	**TBA**	**TBA**
All Other Employees			
Employers Pension Contribution Rate Teachers	**TBA**	**TBA**	**TBA**
All other employees	**15.4**	**15.7**	**16.0**
Employers National Insurance	**0**	**0**	**0**
Inflation default for forecasting purposes	**CPI Sept**	**CPI Sept**	**CPI Sept**
Where ever possible Actual or Committed rates should be used where known			
Fees and charges default guidelines	**RPI Sept.**	**RPI Sept.**	**RPI Sept.**

The above assumption will be kept under regular review and revised as appropriate.

Income

- In building income budgets it is essential that a realistic assessment of income achievement is undertaken. Budget holders should use their knowledge of past trends and current market conditions in assessing income levels for the future and the scope for increases in fees and charges.

  It is important to look at not only financial information but also non-financial information such as activity data on customer usage and trends to help build realistic income estimates.

  Variations to the existing approved budget for income must be clearly identified and explained.

- **Variations in fees and charges need to be considered taking into account the Council's priorities and objective to ensure that proposals are consistent with these priorities and objectives.**

- **Where increases in fees and charges are proposed which may affect other service budgets then the Director proposing the increase is responsible for bringing this to the attention of other Directors so overall income and expenditure budget assumptions are consistent.**

1.4 **Variations in Income and Expenditure or Existing Service Levels/Policies**

The general rule is that there should be no allowance made for service growth. (Service growth being the provision of a new service or an increase in the standard of an existing service but does not include demographic or demand led issues, see ** below).

Where Directorates identify service growth or there is a new statutory obligation these should be clearly identified and the effect reported to, and approved by, Councillors before the sum involved is added into the annual budget and medium term forecasts. These items should be analysed under three headings of Budget Pressures, New Statutory Responsibility and Committed Growth.

** Directorates should also separately identify the implications of the ending of Specific Government Grant allocations including potential alternative funding sources.

Demographic & Demand Issues (excluding schools)

It is important that Directorates produce robust forecasts of the impact future demand and demographic changes. Services which identify increases in demand should bring forward a clear statement of the assumed demand, and its likely variation *(e.g. the central projection is there will be 100 clients, but we anticipate this may vary between 90 and 120)*, how that projection varies from historical levels and proposals. Directorates should demonstrate that there has been full consideration of:

- Options for changing existing policies so that the service can be managed within the Directorate target budget.

- alternative provision of the service at a lower cost together with a transparent statement of the effect of the change in demand on the base budget.

- if the first two steps described above are not appropriate, full justification as to why to be produced for consideration by Councillors before any increase is included in the base budget.

1.5 **Savings**

Each Directorate is required to work up a full range of budget savings options for consideration by Councillors. Directorates are encouraged to be “free thinking” in drawing up options which:

- identify opportunities for efficiency savings, consistent with the requirements of the Government Efficiency Savings Review process.

- challenge current methods of service delivery and identify alternative ways of providing services.

- challenge existing policies and service levels so a complete range of service reductions are identified.

Options should be written up and presented so that they reflect all the sections contained within these guidelines so that it is clear that DMT’s have properly considered every issue (including lead-in times, one-off costs and impact on services and policies).

All options also need to be considered in the light of the statutory requirement to provide the service and at what minimum level, or whether the service is discretionary.

1.6 Schools Budgets

The schools budget should be drawn up in line with the requirements of the Dedicated Schools Grant and the framework agreed with the Schools Forum. The following will need to be taken into account in drawing up individual school budgets:

- the impact of school pupil demographic changes.
- pay and price variations.
- opportunities for achieving efficiencies (as set out in 4.6 above).

1.7 Planned or Capital Maintenance Needs

As part of the budget process, each Directorate is requested to identify planned/capital maintenance needs, in particular Health and Safety requirements.

Where Directorates identify such needs a full explanation of the requirement, including alternative funding sources, should be given so they can be assessed for inclusion in to the Capital Grid maintained by the Capital Strategy and Appraisal Group and also Asset Management Plans.

1.8 Risk Management

In drawing up revenue budget proposals, risk assessments should be undertaken to test the robustness of proposals and to identify key factors which may impact on the proposals put forward. Where appropriate action plans should be put in place to manage/mitigate the risks identified.

2. CAPITAL PROGRAMME GUIDELINES AND PROCESS

2.1 Officer arrangements for drawing up and monitoring the capital programme and generation of resources is via the following groups:

Capital Strategy and Appraisal Group
Land and Property Group
Capital Monitoring Group

The work and suggestions for drawing up the capital programme and its funding are the subject of briefings to Lead Councillors and the Cabinet.

2.2 **Overall Control**

The development of 3 year rolling capital programme and resources should be drawn up within the context of the following objectives:

(a) The generation of additional reserves and balances, with appropriate contingencies.
(b) The opportunities to invest to save.
(c) Maintaining Council assets and the Borough's infrastructure to agreed standards.

The Capital Strategy, Asset Management Plans, and Capital Guidelines are consistent with these aims.

2.3 **Capital Programme Guidelines**

The capital programme should be drawn up within an overall framework of forecast resources available.

Within the overall framework of forecast resources available, service and/or Programme planning totals should be set which recognise:

Existing commitments
Government allocation and expectations
Approved strategies and plans (eg Local Transport Plan)
Council priorities and objectives
Cross cutting proposals
Invest and Save

2.4 Criteria for Prioritising Individual Schemes

Within service or programme area planning totals scheme priorities should be drawn up consistent with the achievement of the Directorate's Service Plans, priorities, policies and objectives, and in accordance with:

- Health & Safety requirements
- Leverage for External Funding opportunities
- Invest to save opportunities
- The need to maintain assets identified from Asset Management Plans
- Service development aspirations (eg ongoing from Best Value Reviews)

Services should only put forward priorities in the light of service reviews where completed, or following formal option appraisals of the best way of securing the outcomes intended by the proposed investment. Such appraisals should include a thorough consideration of the revenue impact (eg higher costs of maintenance, protecting trading income) of investing or not investing.

The Corporate Officer Capital Strategy and Appraisal Group will manage the process of drawing up capital programme options which match the capital guidelines and the likely level of resources available over the next five years.

Capital programme options to match the likely resources available will be presented against the background of this schedule, to give Councillors the full picture on corporate investment demand and show them what would not be funded as well.

When drawing up Capital Schemes, Directorates should ensure that robust cost estimates, validated by Building Services/External Consultants, as appropriate, are produced.

2.5 Generating Capital Receipts

In order to assist longer term planning of the capital programme and the certainty of resources, Officers will be working towards generating capital receipts options over a five year period, so that realistic and sustainable capital programme can be set which strike the right balance between resources for capital and the need to increase reserves.

2.6 **Risk Management**

In drawing up the capital programme and individual scheme proposals, a risk assessment should be undertaken to test the robustness of proposals and to identify key factors which may impact on the proposals put forward. Action plans should be put in place to mitigate/manage risk identified. Project officers should be appointed for all schemes within the capital programme. Project officers need to ensure that proper arrangements are in place to manage and monitor the project(s) under their control and ensure that Councils rules and procedures are correctly followed (standing orders, procurement, Council and other approvals etc).

3. PROCUREMENT

When setting future years budgets, regard should be given to the Corporate Procurement Strategy and The Council's Contract Procedure rules. In particular, budgets and projections should be based on Corporate and agreed framework contracts. Further advice and guidance can be found in the Procurement Toolkit (available on the intranet).

4. BUDGET MANAGEMENT – ESSENTIAL PRACTICE FOR BUDGET MANAGERS

1. Ensure you are clear who is responsible for the budget/commitment decision (all budgets identified to one accountable person responsible for 2 to 7 below).

2. Ensure you know the budget you have for the year (track it to the financial system).

3. Ensure you know what you have committed to spend (continually update forecast for the year and beyond).

4. Ensure you know the financial impact of the commitment you are about to undertake (for the year and beyond).

5. Ensure you have considered Value For Money (VFM) in respect of this commitment (is this the most effective, efficient, economical way of delivering the service).

6. If insufficient budget – secure additional budget or cease commitment process.

7. If you are the budget manager you are responsible for all the above. Your Service Accountant will play an essential role in this process and must be informed of all variations to budget.

Appendix D

Schools Budget

The Dedicated Schools Grant (DSG) and income from the Young People's Learning Agency (YPLA), provided to fund Post-16 education, are combined to fund the Schools' Budget.

The DSG is a ring-fenced grant provided by the DfE to councils in order to fund their education provision. Part is retained centrally to fund Council provision such as Pupil Referral Units, Special Educational Needs (SEN) provision in other LAs and independent special schools and the under 5s free entitlement provided by Private Voluntary and Independent (PVI) providers.

From April 2011 the Council is required to introduce a Early Years Single Funding Formula (EYSFF). The intention of the formula is to fund early years provision in maintained nursery schools, primary schools with nursery classes and PVI providers using a single formula. The formula must be participation based and include an element for deprivation. The Council has agreed one years protection for providers that lose funding to be paid for by reducing the gain for other providers.

DSG not retained is distributed to schools through the Council's local funding formula for schools and the EYSFF. When combined with YPLA funding the resulting allocations to schools are called the Individual Schools Budget (ISB).

The DSG and schools funding formula are based on the January census of pupil numbers preceding the relevant financial year. The Council's budget shows estimates based on the autumn 2010 census and, as a result, will change when January 2011 census data becomes available.

From April 2011 the following grants will be mainstreamed into DSG: -

description	t amount £000's
l Standards Grant	2,858
l Standards Grant (Personalisation)	797
l Development Grant	3,711
l Lunch Grant	185
Minority Achievement Grant	582
Tuition	545
led School Sustainability	390
led School Subsidy	346
ial Strategy Primary	828
ial Strategy Secondary	134
na grant	26
tional circumstances grant	122
	10,524

Please see table below for a broad distribution of indicative DSG: -

	2011-12 indicative £m	2010-11 per S251 Budget* £m
Estimated DSG	86.4	84.2
Formula allocation from table below less post-16 (£75.9m - £6.5m)	69.4	69.3
Estimated retained (includes EYSFF funding for PVI's)	14.6	14.9
Estimated balance available to meet cost pressures, to be allocated to schools or headroom	2.4	0

- Prior year comparatives have been adjusted for mainstreamed grants.

The Council is responsible for the allocation of this money to schools, after consultation with the Schools' Forum. Whilst Schools Forum has to agree increases in budget for a limited number of items, for example school specific contingency, prudential borrowing and breaches of the Central Expenditure Limit, on most matters of allocation the final decision rests with the Council (within rule set by DfE which protect schools against losses and/or guarantee minimum increases). Each year the main discussion focuses on the "headroom", the available money where there is some discretion, currently estimated to be up to £1.0m in 2011/12 taking into account known cost pressures, such as a predicted overspend from 2010/11, deductions that would result from academy conversions, increases in numbers of children with bands 4 to 6 statements (before any action to reduce costs, currently out to consultation) and an allowance for increases in numbers of children funded through the EYSFF during the year.

Schools' Forum has agreed the Council can retain £0.3m mainstreamed grants that are currently retained and has deferred a decision on retention of the School Lunch Grant (£185k).

Schools' Forum has identified funding of some children with defined needs full-time in Early Years provision as a priority for headroom. SEN funding is a priority for the Authority given current unfunded pressures.

Mainstreamed grants can either be allocated in 2011/12 on the same cash basis as 2010/11 or using the same formulae but with updated data. Schools Forum has recommended the Council allocate mainstreamed grants using the same formulae with updated data. Schools Forum will be consulted on the method for allocating any grant not previously delegated to schools which will be in line with the most appropriate method.

A pupil premium has been introduced by the Government, which will paid to schools according to a formula determined by the Government in addition to the DSG. The allocations for 2011-12 are £430 for each child known to be eligible for free school meals, £200 for each child from a Services family and £430 for each child look after by the Council. The current estimate for the total pupil premium allocations for Reading is £1.2m. Final pupil premium allocations will be determined by numbers of children on roll at the January 2011 census.

The following schools are expected to have converted to academy status by the 31st March 2011: -
Highdown
Reading School
Kendrick
Churchend

The formula allocations for these schools, including an element centrally retained DSG recovered from the Authority as determined by a prescribed formula, will be paid directly by the YPLA.

The indicative formula allocations in the Table below include allocations related to the converting schools, which would be deducted from the DSG and post-16 funding provided to the Council. The indicative allocations are as follows: -

Highdown	£6,548,000
Reading School	£4,173,000
Kendrick	£3,639,000
Churchend	£1,030,000
Total	£15,390,000

The table below shows how the indicative ISB, based on autumn census data, is likely to be allocated to schools based on the assumption the Council allocates mainstreamed grants using the same formulae with updated data: -

Indicative 2011/12 ISB formula allocations to schools £000's

Formula driver	**Nursery schools**	**Primary schools**	**Secondary schools**	**Special schools**	**Total**
EYSFF	1,630	1,922	0	0	3,552
Pupil numbers	0	25,919	19,980	23	45,922
Places	73	323	740	3,945	5,081
Deprivation	0	2,842	1,964	0	4,806
Mainstreamed grants iv	160	5,144	3,422	290	9,016
School Characteristics	0	1,654	924	0	2,578
Lump sum/taper	0	1,219	230	0	1,449
Pupils with SEN i statements	26	934	369	0	1,329
EAL ii/UA iii ethnic groups	0	840	230	0	1,070
Low prior attainment	0	301	87	0	388
Protection	0	158	529	0	687
Total	**1,889**	**41,256**	**28,475**	**4,258**	**75,878**

i) Special Educational Needs
ii) English as an additional language
iii) Under Achieving
iv) Excludes delegated Ethnic Minority Achievement Grant (EMAG) which is included under EAL/UA ethnic group driver

The indicative allocation of the EYSFF to the PVI providers is £2,522,000