Public Document Pack

AGENDA FOR

CABINET

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To: **All Members of Cabinet**

Councillors : M C Connolly (Leader) (Chair), S Walmsley (Cabinet Member for Communites and Community Safety), T Isherwood (Cabinet Member for Environment), J Lewis (Cabinet Member for Leisure, Tourism and Culture), R Shori (Cabinet Member for Adult Care, Health and Housing), J Smith (Cabinet Member for Finance and Corporate Affairs), G Campbell (Cabinet Member for Children and Families), T Pickstone (Non portfolio holder) and I Gartside (Non portfolio holder)

Dear Member/Colleague

Cabinet

You are invited to attend a meeting of the Cabinet which will be held as follows:-

Date:	Wednesday, 18 December 2013
Place:	Ramsbottom Civic Hall, Market Place, Bury, BL0 9HT
Time:	6.00 pm
Briefing Facilities:	If Opposition Members and Co-opted Members require briefing on any particular item on the Agenda, the appropriate Director/Senior Officer originating the related report should be contacted.
Notes:	

AGENDA

6 MEDIUM-TERM FINANCIAL STRATEGY *(Pages 1 - 44)*

Agenda Item 6

REPORT FOR DECISION

Bury COUNCIL

REPORT TO:	**CABINET**
DATE:	**18 DECEMBER 2013**
SUBJECT:	**MEDIUM-TERM FINANCIAL STRATEGY**
REPORT FROM:	**DEPUTY LEADER/ CABINET MEMBER FOR FINANCE & CORPORATE AFFAIRS**
CONTACT OFFICER:	**MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES** **STEPHEN KENYON, ASSISTANT DIRECTOR OF RESOURCES (FINANCE & EFFICIENCY)**
TYPE OF DECISION:	**KEY**
FREEDOM OF INFORMATION/STATUS:	The report is for publication.
SUMMARY:	The report presents Members with a draft medium Term Financial Strategy for their consideration. The draft Strategy covers the years 2015/16 to 2016/17 and sets out the assumptions underpinning the draft budget forecasts for those years. This covering report outlines, at a strategic level, the challenges facing the Council in the light of the further and significant Government funding reductions announced as part of the 2013 Spending Review and suggests an initial strategic response to the position.
OPTIONS & RECOMMENDED OPTION	Option 1 - to approve the Medium Term Financial Strategy Option 2 - to reject or amend the draft Strategy

	Option 1 is the recommended option in order to ensure that the Council has a clear budgetary framework to take it through the challenges ahead.

IMPLICATIONS:	
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	The draft MTFS does not require any additional resources itself. However it will play a key role in directing the work required to produce a balanced 3 year budget for the Council.
Statement by Executive Director of Resources:	Wider resource issues will depend on final budget allocations made by Members.
Equality/Diversity implications:	A comprehensive Equality Impact Assessment has been completed.
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

TRACKING/PROCESS **DIRECTOR:** Mike Owen

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Yes	Yes		
Scrutiny Committee	Committee	Council	
14/1/14	18/12/13		

1.0 INTRODUCTION

1.1 The draft Medium term Financial Strategy (MTFS) attached to this report sets out the background to the Council's funding position for the coming two years (2015/16 and 2016/17), the assumptions made in preparing the budget forecast set out in the Strategy, and the Council's proposed approach to developing a significant cuts programme in order to deliver a sustainable balanced budget going forward.

1.2 Finance is central to all activities of the Council; virtually everything the Council does has a financial implication; whether it involves incurring costs, or generating income. Also the way money is spent influences the way services are delivered, the extent of the services we can deliver, the quality of our services and also how effectively the Council's vision can be fulfilled and the wishes of our residents met. For the purpose of this report the finances which are affected mostly are the net budget of £140m and what is termed the 'controllable' budget valued at £100m (which excludes items such as past pension costs, levies, debt charges etc.)

1.3 Local Government is experiencing unprecedented challenges. Ever increasing demands are being placed on services as a result of the economic environment, statutory duties, demographic changes and residents' expectations and this is happening at the same time as Government funding is being considerably reduced.

1.4 Analysis of all public spending cuts shows that over the past 4 years local government has borne the brunt of Government spending cuts and in Bury the Council has seen it's Government funding cut by over 30%. These cuts, together with rising costs and more demand for our services, means that the Council's budget has been cut by £38 million since 2010.

1.5 Based on the assumptions set out in the Strategy the Council now needs to cut a further £15.8m from its budget in 2015/16 and should Government spending cuts carry on at the same level then it is estimated that another £15m may have to be cut in 2016/17. This means that by the end of 2016 we will have taken approximately 70% of our controllable budget, and this should be considered in light of the fact that Bury is a Council that is already recognised as providing services at very low cost.

1.6 The times ahead will be difficult, and the Council has some very difficult choices to make, not the least in reconciling the need to make cuts with the need to meet our legal duties, and to satisfy as far as possible the wishes of our residents.

1.7 Budget cuts of this magnitude will have a significant impact on residents and the Leader of the Council has written an open letter that sets out clearly the difficulties that the Council faces and the potential impact on the services that the Council provides.

1.8 However, these funding challenges also present an opportunity to pro-actively review the services we deliver, how we deliver them, and how to secure maximum value for money. We have previously done this through the "Plan for Change" but it is clear that the position set out in the draft MTFS will require even more radical solutions to be found.

1.9 This report builds on the points made within the MTFS and outlines, at a strategic level, the challenges facing the Council in the light of the Government funding reductions announced as part of the 2013 Spending Review and suggests an initial strategic response to the position.

2.0 BACKGROUND

2.1 In considering the budget position set out in the MTFS Members are reminded of the extent of the cuts that Bury has been forced to make since the coalition Government came to power:

Year	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000
Savings	9,575	8,656	9,871	*7,432	**35,534**

Note:* This is the level of cuts identified in Plan for Change 2. They equate to £430 per household.

2.2 In the Chancellor's March budget there was reference to a further 1% reduction in the level of Government funding for local authorities for 2014/15; this has subsequently been confirmed and means that Bury needs to find and additional **£2.220m** of cuts.

2.3 This takes the 2014/15 cuts figure to **£9.652m** and the total cuts to **£37.754m**.

2.4 This equates to **28%** of the net budget (which stands at approximately £140m) and when compared to the 'controllable' budget (at £100m) the percentage rises to 38%.

2.5 The figures also exclude the fact that several £m of additional savings had to be made to both revenue and capital budgets as a result of cuts in specific grants that were imposed in the emergency Budget tabled immediately after the coalition came to power.

2015-17

2.6 Turning to the following two years, the headline figures set out in the CSR on 26 June 2013 indicated that Councils would face a further cut in funding of 10% for 2015/16. However what has now become clear from detailed consultation documents is that whilst the CSR headlines suggested a 10% real terms cut in overall funding for local government for 2015/16 the actual real term reduction in the basic allocation to local authorities is significantly higher than this and stands at around 14%.

2.7 There are several reasons for this including the fact that £1bn has been set aside from the settlement for allocation outside the main business rates retention system. This includes much of the 'new' money announced in the Spending Review and an increase in the amount of funding held back for the Business Rates Safety Net (because DCLG believe business rates performance nationally will be worse than originally anticipated) and for the New Homes Bonus (NHB).

2.8 These figures have been worked through the Council's budget model, taking account of basic pressures e.g. 1% pay award, increments, levies etc. and assuming that the Council Tax is frozen (qualifying us for a 1.1% grant).

2.9 The result is that for 2015/16 and 2016/17 we face a revised combined savings requirement of nearly **£31m**:

2015/16	£15.807m
2016/17	£15.554m

Further details behind these figures are provided within the MTFS itself.

2.10 It must be stressed that in line with the Council's cash ceiling rules these figures **exclude** any legislative / service pressures reported by Departments.

2.11 Finally Members are reminded that whilst the budget forecasts for 2014/15 and 2015/16 set out in this paper and the MTFS are based on the DCLG exemplifications these allocations remain 'draft' pending confirmation of final Settlements. In the case of 2016/17 the figures can be no more than 'best guesses' because Government spending levels and Departmental allocations will all be subject to future Spending Reviews which are unlikely to take place until after the next General Election.

3.0 STRATEGIC OVERVIEW

3.1 To date a significant majority of the cuts made have involved efficiency savings and the Council has striven, successfully, to protect front-line services. However this does not mean that the cuts have been without pain. Over 350 posts have been removed and of these around 100 posts were at senior manager grade, meaning that nearly 50% of such posts have been removed. It is clear that as time goes on the effect of these cuts and resource losses will become more and more apparent.

3.2 Whist it is always the case that incremental improvements can be made to efficiency and that some reductions can be made in areas that do not directly impact on services to the public it is also clear that as a low spending authority Bury is reaching the point where cuts can no longer be made from pure efficiency savings. Posts have been shed, buildings closed, staff pay and conditions restricted, energy bills cut, recycling rates increased and purchasing costs slashed. Those options that are more straightforward and have the least impact on service users have already been taken and there is very little scope to repeat or extend these cuts in the future.

3.3 This means that Council Members, residents, and service users now need to be aware that, given the budget reductions that have been made so far, a further reduction of £31m will have a much more profound and direct effect on front line services. The scale of the impact of these cuts cannot be over-estimated and there is little doubt that they will strike at the very heart of what the Council does and what the public have got used to the Council doing.

3.4 The proportion of cuts that will have to be made in 2015/16 and future years that will impact on front-line services and possibly even on vulnerable people will be far higher than those implemented as part of past budget rounds. Cuts will be more difficult to identify and more complex (and expensive) to deliver particularly because the cuts that have previously been made to budgets mean that the remaining resources and services fall within the more "statutory and regulatory" category meaning that the Council has far less scope to make cuts.

3.5 All of this means that the financial year starting in April 2015 will be one when residents begin to see considerable changes to the way the Council operates and this will undoubtedly begin to affect people's daily lives. In order to meet this level of budget cuts the Council will have to radically examine services and look for every available opportunity to transform service delivery and approach and as a result the Council will look and feel very different in the future.

3.6 There will also have to be a radical change in the relationship between the Council and the borough's residents and service users. People's expectations about the level of service they can expect from the Council will have to be managed downwards and in turn the Council will need to ask people to help us to reduce our costs by changing behaviour that drives up our costs (e.g. littering; dog fouling) or by helping us to deliver services.

3.7 Whilst at this stage it is not possible to predict in detail the impact on the Council's workforce it is inevitable that further budget reductions on the scale set out in the report will result in a further significant reduction in the number of jobs within the organisation.

3.8 Over the next few months the Council needs to work through both a high level strategic response to these issues and begin to construct a set of practical organisational and service proposals to meet the financial challenge. The urgent priority is to develop proposals that will see reductions implemented by 1st April 2015 but that these need to be developed as part of a medium term financial plan that places these detailed budget options within a two-three year timeframe.

3.9 This is especially important because making widespread changes to services is both complicated and time consuming and based on past experiences we know that change takes time and also that it is often beneficial to make one larger change rather than a series of smaller changes.

Post 2015 Challenges

3.10 It is also essential that this work takes place within a clearly defined policy context and it is inevitable that part of this work will involve identifying those services and outcomes that are not seen as affordable or priorities for delivery by the Council going forward. It is worth highlighting at a strategic level what some of the policy considerations might be in the future. These changes are likely to include the following:

Changing the expectations about what the Council can deliver – In the future, the Council will not be able to meet all the public's needs/expectations or be able to deliver services at the quantity/quality/standard that we currently provide. The Council will need to be up-front about the need to cut services, spell out why levels of service are reducing, develop more targeting or in some circumstances stop delivering services altogether.

Working more closely with individuals and communities to deliver services – The Council will not be organisationally or financially able to meet all service needs in the future and therefore will need to work with individuals and communities to encourage them where possible to undertake more for themselves. This is an approach that we will need to consider across all the Council's services where we do not have an individual statutory requirement. For example, the Council may provide facilities or equipment but community/voluntary groups/individuals may have to organise events, maintenance, support etc. themselves. This approach builds on the very long standing and successful 'self management' partnerships operating for bowling greens, football pitches and play areas and, more recently, with the Park Rangers' service. More of this approach is needed and involves engaging and encouraging a greater partnership between the Council and voluntary community groups in providing services in their area.

A stronger focus on demand reduction - Part of the principles behind Public Service Reform is to manage the demand for services, reduce this demand where possible and to identify more cost effective ways of meeting the demands that remain. It is important that we adopt the same approach to the delivery of the Council's mainstream services. We have had some success in this through the change in the refuse collection facilities in that we have changed people's attitude to recycling and thereby reduced the amount of expensive residual waste disposal. All Departments will need to consider how they can influence demand for their services in the future and how demand reduction can play a role in delivering savings over the medium term.

An examination of alternative ways of delivering remaining Council services – In order to maintain the level of services delivered to the public, in some areas it may be more cost effective to deliver these services through an alternative mechanism to direct provision. This approach would need to be coupled with excellent commissioning and a robust quality assurance regime to ensure the maintenance of good services to the public while reducing the cost of the service to the Council. These alternative mechanisms can include setting up a Trust, a wholly owned company, a social enterprise, using the voluntary sector or the private sector etc. or shared services with other Councils. The Council of already has some services delivered in this way but given the financial challenge going forward it will be necessary to test out our current delivery arrangements against the alternatives that are available to determine what options exist to both ensure quality and deliver savings. Although it is difficult to be precise on the extent to which commissioning will increase and in what form, given that much of what the Council does is statutory in nature, in many cases the most realistic option for delivering savings will be to provide the services in a more cost effective way rather than cutting the provision further.

Changing the way Residents access services - Bury Council has been trying to widen access options in addition to providing very traditional ways residents and service users access services and secure information about services. Whilst there have been developments with the Council's web site to move to become a 24/7 Council access is still primarily through face to face contact and telephone.

The challenge for us is that we need to offer a wider range of 'self service' remote options similar to the high street experience so familiar to many of our residents, such as booking holidays, on-line shopping, and banking. In a post 2015 environment the Council will have to look to becoming a 'virtual' council where the 'high street' experience of 'self service' using smart technology becomes mainstream, whilst still offering the traditional options, but these, because of affordability, will have to steadily reduce over time.

4.0 PROPOSED TIMETABLE

4.1 In order to deal with this scale of reduced funding the Council will need to start developing its approach to the 2015-17 budget over the next few months. This is important because of the following factors:

- Developing budget options takes time, especially given the scale of the challenge that the Council is facing and the need to explore potential new approaches in many areas

- There will be a need to engage and consult the public, stakeholders, partners, trade unions and staff both strategically and on the detail of the options

- Following the approval of budget options post consultation there will be a period of implementation that typically takes between 3-6 months before the totality of the savings can be made.

4.2 In broad terms this implies the development of a strategic and operational response along the following timetable:

Now – Summer 2014 – The development of an overall budget strategy for the coming two years including detailed budget options for 2015/16 and 2016/17 if achievable

Summer 2014 – Autumn 2014 – formal consultation on the detail of the strategic budget and budget options

Autumn 2014 – Spring 2015 – Implementation of sufficient budget options to achieve the reductions required for 1st April 2015

Spring 2015 onwards – the further delivery of budget options to ensure that the overall budget reduction targets for the period are met

5.0 CONCLUSIONS

5.1 The Government cuts that we are now facing mean that the Council is moving into uncharted waters, and the MTFs indicates that we may face cuts of a further £31m in 2015/16 and 2016/17 on top of the £38 million already cut in the last three years.

5.2 There is no doubt that there will be very serious consequences as a result of these cuts for our borough and the many services the Council provides. All this is happening at a time when great pressure is being placed on important services such as roads, libraries; leisure, parks; and children's centres. Many of these services are in fact making pressing cases for further investment.

5.3 The scale of the cuts and pressures cannot be over-estimated and it is clear that we will no longer be able to rely on efficiency savings alone to balance the books.

5.4 We now have to strike a balance between providing services that we must provide by law, and those that we do not. The report provides a timetable for preparing budget options for 2015/16 onwards and the Council remains committed to consulting widely on any proposals as soon as this is possible.

5.5 However it is clear that services may have to be closed, restricted or changed in some way and whilst the Council is determined to do everything possible to reduce the impact of these changes on our most vulnerable residents, and try to offer alternative arrangements where we can it is not possible to make any guarantees at this stage.

5.6 This report is intended as an initial analysis of the scale of change facing the Council. At this stage Members are simply asked to approve the MTFS itself and there are no formal decisions to be made about the detail of how the Council will meet the challenges it faces. However it is critically important that everyone understands the context and the scale of the decisions so that effective long-term planning can commence and that the appropriate organisational, political and managerial leadership is applied to the issue.

COUNCILLOR JOHN SMITH
DEPUTY LEADER/CABINET MEMBER FOR FINANCE AND CORPORATE AFFAIRS

List of Background Papers:-

None

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DRAFT – Cabinet December 2013

Bury Council

Medium Term Financial Strategy

2013/14 to 2016/17

December 2013
Version 2.0

CONTENTS

1. Introduction from Councillor John Smith; Deputy Leader of the Council and Executive Member for Finance.

1.1 Finance is central to all activities of the Council; virtually everything the Council does has a financial implication; whether it involves incurring costs, or generating income. Also the way we spend money influences the way services are delivered, the extent of the services we can deliver, the quality of our services and also how effectively we are able to fulfil the Council's vision and meet the wishes of our residents.

1.2 Local Government is experiencing an unprecedented financial challenge; in Bury reductions in our Government grant have required the following cuts;

Year	£ million
2011/12	9.575
2012/13	8.656
2013/14	9.871
	28.102

Following the Spending Review of Summer 2013, and subsequent release of draft settlement figures, the Council estimates that further cuts will be required as follows;

Year	£ million
2014/15	9.652
2015/16	15.807
	25.459

This gives a total cuts figure of nearly **£54 million** over 5 years.

Information beyond this point is not yet available, however messages from Government suggest that reductions will continue *"at the same rate"*, this being the case, and factoring in the Council's own estimates for inflation etc, then a likely cuts requirement for 2016/17 would be;

Year	£ million
2016/17	15.554
	15.554

It is stressed that this is a very provisional estimate at this stage, given the lack of information currently available.

1.3 Of course the Council must act responsibly and we are legally bound to set a balanced budget, where spending is fully met from sustainable sources of income. Not only is this a legal requirement but it is also enshrined within the Golden Rules that underpin our whole approach to setting our budget.

1.4 These savings equate to approximately **50%** of that element of our budget where we can realistically make reductions, and come against a backdrop of Bury being a Council that is already recognised as providing services at very low cost. The times ahead will be difficult, and some very difficult choices will need to be made, not the least in reconciling the need to make savings with the need to meet our legal duties, and to satisfy as far as possible the wishes of our residents.

1.5 However we intend to tackle these challenges head on and to recognise that they also present an opportunity to pro-actively review the services we deliver, how we deliver them, and search even harder for ways to secure maximum value for money. We aim to do this through our "Plan for Change".

1.6 Savings requirements of this magnitude will have a significant impact on residents, and the Leader of the Council has made a pledge that the budget strategy will entail the widest ever **public consultation** exercise undertaken by the Council.

1.7 This Strategy sets out the background to the funding position, the assumptions made in preparing the budget forecast, and the way that the Council intends to go about setting a sustainable, balanced, priority-led budget going forward.

Councillor John Smith
Deputy Leader of the Council and Executive Member for Finance

2. Purpose of the Medium Term Financial Strategy

2.1 The purpose of the Medium Term Financial Strategy (MTFS) is:

- To set out a vision for the way in which the Council will manage it's finances

- To demonstrate the links between finance and the Council's other corporate Strategies.

- To promote the preparation of a balanced and sustainable budget that is, as far as possible, representative of the Council's and the public's priorities.

- To act as a guide for Councillors when they come to set and manage the budget by setting out ground rules and assumptions on which budget forecasts will be made.

- To examine the potential impact on the budget of factors such as demographic changes, increased demand for services, changing ways of providing services, new powers and duties, potential changes to the system of financing Local Government and so on.

- To highlight the sensitivity of budget calculations to these factors and to economic factors such as inflation.

- To outline the Council's proposed approach to the achievement of any savings required to balance the budget.

- To model scenarios around the potential future level of Council Tax

- To document the Council's financial management and monitoring arrangements.

2.2 The MTFS will address the three main "funds" maintained by the Council – namely the General Fund (Revenue), the Capital Programme, and the Housing Revenue Account. Whist it initially covers a 3 year period, the MTFS will be updated annually on a rolling basis.

2.3 The MTFS is aimed at a wider audience than just Council Members and so other interested readers are expected to include:

- Bury residents
- Members of Parliament
- Auditors
- Partners
- Government departments
- Funding agencies
- Suppliers

3. Vision for Council Finance

3.3 The world of local government and local government finance is rapidly changing. However, to underpin this Strategy a three year vision has been developed that sets out the Council's view of it's financial situation and the way in which it intends to respond to the situation:

3.2 Over the coming years we foresee that:

- Central Government grant support for local authorities will reduce by at least the levels set out in the 2010 and 2013 Comprehensive Spending Reviews. Should the world economic situation not improve then pressures on public finances may worsen and grant reductions could be worse than forecast.

- Reductions in public spending will continue beyond the life of the current Parliament (and beyond the period covered by the current Strategy).

- Limitations on the Council's ability to raise Council Tax will continue through the operation of local referenda and the point at which referenda are triggered will be as set out in the Strategy.

- All Council services, but particularly those provided by Adult Care Services and Children's Services, will see on-going and increasing pressures resulting from demographic factors (e.g. an aging population), legislative requirements, changes in attitudes towards safeguarding risk levels, changes in user expectations and from the impact of the country's economic situation. (e.g. increasing unemployment).

- There will be considerable pressure on income targets as a result of the economic downturn, particularly in the area of property and leisure related income.

- There will be greater localism of issues affecting local government, and finance in particular, such as business rate retention, localisation of Council Tax benefit, housing finance reform. These issues will bring significant challenges and risks as well as opportunities.

- There will be major and on-going changes in the pattern of service provision resulting from matters such as the transfer of Public Health into local government, the abolition of Primary Care Trusts, the development of the Manchester city region and Combined Authority, the widening of the use of Personalised budgets, the introduction of Academy schools into the national education arena and so on.

- The economic situation will lead to broadly static interest rates and slight reductions in inflation but increasing pressure on staffing budgets and increased demand for services across the whole of the Council

3.3 The Council's response to this vision will be as follows:

- To set a balanced and sustainable budget each year, underpinned by the Golden Rules set out in section 7 of this Strategy
- To take a longer-term (at least 3 year) view of costs, income and savings options
- To allocate resources (as far as possible) in line with the Council's priorities as determined through effective public consultation. However it is recognised that given we expect all budgets to be shrinking for the foreseeable future this means that large scale switches of funding between service areas will be difficult to achieve whilst also continuing to meet legislative demands
- To continue to operate a system of resource management that recognises that the most effective financial management flows from the delegation of budgets and responsibility to those parts of the organisation that commit and incur costs
- To continue to give services a very high level of financial freedom by minimising central spending constraints
- To expect services to consume their own demand and demographic pressures whilst public finances are reducing
- To make the most effective use of the opportunities provided by the unringfencing of specific grants
- To continue to ensure that reserves and balances reflect the risks inherent in the budget strategy and forecasts
- To consult widely on the budget strategy and the options for making savings with staff, the public and all other stakeholders
- To review all Council services in line with the Plan for Change toolkit (see www.bury.gov.uk) so that savings can be achieved at the same time that service delivery models are optimised

3.4 As far as capital funding is concerned, the vision will be to have a Capital Programme that is solely funded from fully supported borrowing, external grants, capital receipts and revenue. There will be no reliance on borrowing unless such borrowing meets the definitional of prudential borrowing and is supported by a sound business case. Capital receipts will only be committed towards capital schemes once the receipts have been fully realised.

3.5 The vision for the way in which the Council manages its finances is such that:

- There will be a strengthening of the relationship between the corporate and departmental finance functions, and the statutory finance officer (known as the section 151 officer)

- Departmental finance teams and budget holders will be further empowered through the operation of the scheme of delegation – ensuring sound and timely financial advice is available to front –line

- Best use will be made of technology in order to deliver efficiency savings by building on the Council's investment in IT systems. This will allow finance staff to focus more on strategic advice giving and less on book-keeping

- There will be further developments in promoting clear reporting lines and lines of accountability,

- A strong corporate finance function will be maintained, setting standards, ensuring consistency of approach, compliance with legislation, effective stewardship, and provision of sound financial advice to Members.

4. Economic Outlook

4.1 There are two principal economic factors that impact upon Council finances;

- The rate of Inflation
- Interest Rates

4.2 Clearly other economic factors e.g. levels of unemployment have a direct impact on the wellbeing of residents, which in turn may influence demand for Council services. Other **cost drivers** are explored at section 6.6.8

4.3 Inflation

4.3.1 The Council's gross spend approaches **£0.5 billion** per annum. Clearly on this scale, even relatively small changes to the rate of inflation can have a significant "cash" impact.

4.3.2 The Council assesses inflation in three categories;

- Pay (i.e. staff costs)
- Prices (i.e. goods & services)
- Income (i.e. fees & charges)

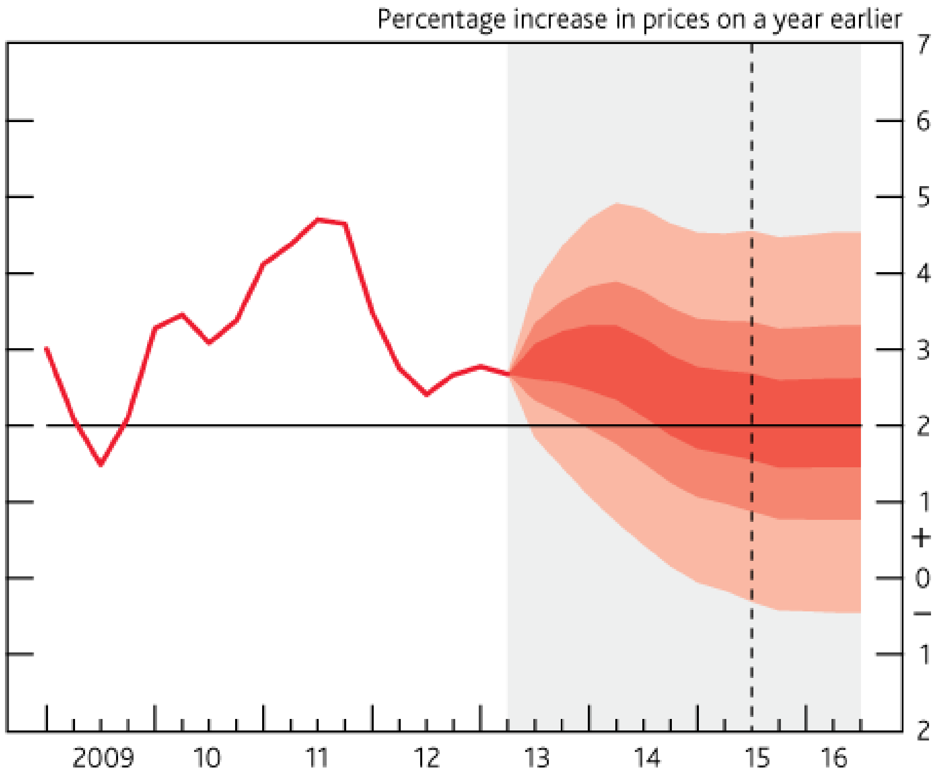
4.3.3 Forecasting inflation levels is notoriously difficult as the economy responds to a range of events including; employment levels, confidence in the housing market, fluctuating energy prices, price of imported goods, and other global economic considerations.

4.3.4 The Bank of England produces a quarterly inflation report; the latest available being August 2013. The Monetary Policy Committee's assessment is summarised below;Key points are summarised below;

In the Committee's view, a sustained recovery in both demand and supply appears likely. The outlook for growth is stronger than in May, mainly reflecting a marked improvement in business and consumer sentiment. This stronger demand is assumed to be largely matched by an increase in effective supply capacity, such that the outlook for inflation is similar to May, with inflation expected to fall back to around the 2% target over the forecast period.

4.4 <u>Prospects for Inflation</u>

4.4.1 The Bank has produced the chart below, forecasting the potential level of inflation going forward; the darker colour representing greatest certainty.



4.4.2 It is clear that the range of the forecast is broad, and the Bank concludes itself that;

"The timing and extent of the likely decline in inflation are highly uncertain"

4.5 The Council’s Inflation Assumptions

In order to prepare a forecast of future spending levels, the Council needs to estimate the level of inflation going forward;

4.5.1 **Pay Inflation**

Local Government staff have received no “cost of living” pay inflation for the last three years.

There is continuing pressure from Central Government to control the level of Public Sector pay; on this basis the Council has assumed 1% pay inflation for the duration of this Strategy.

Sensitivity: In the event that Local Government staff do receive a pay award, every 1.0% awarded equates to an additional £0.9 million cost for the Council. The Council’s minimum level of reserves currently provide for 1.0% pay inflation (one-off).

4.5.2 **Price Inflation**

Similarly, the Council is not granting an inflation uplift in respect of non-pay budgets.

Whilst this may appear at odds with current inflation forecasts, the alternative is to grant inflationary increases, thereby resulting in an increased savings requirement.

The award of 0% non-pay inflation serves as an in-built efficiency target for budget holders and should be addressed through improved procurement practices, and greater care in the deployment of resources.

It is recognised that there are certain costs where the Council is “locked in” to unavoidable / contractual inflationary increases, notably;

- Energy Prices / Cost of Carbon Allowances
- Community Care Contracts

The Council has set aside a provision in its financial strategy to address these pressures.

Sensitivity: Every 1.0% of non-pay inflation equates to a further £350k pressure on the Council’s budget.

4.5.3 **Income**

The Council generates a significant amount of income through fees & charges.

The Medium Term Financial Strategy has assumed that these charges will be subject to inflationary increases of 1.0% to keep pace with charges of competitors and other Local Authorities.

This does not mean that all fees and charges will increase by 1.0%, rather it is a guideline for Service Managers and Directors.

Assessments will have to be undertaken to assess the extent to which prices can be increased, and the potential impact upon demand / usage (elasticity of demand).

In light of these assessments, it could be that prices are raised by more, or less than 1.0% depending upon individual circumstances.

Directors also have the option of making no inflationary increase, instead fulfilling the income requirement by identifying expenditure savings elsewhere.

Sensitivity: Every additional 1.0% increase in fees and charges generates an extra £200k for the Council.

4.6 Interest Rates

4.6.1 Interest rates impact upon the Council in two ways;

- Daily “cash flow”
- Treasury Management (ie investments & borrowing)

4.6.2 As an organisation with an annual turnover of **£0.5 billion**, clearly a significant number of transactions take place on a daily basis. Some days the Council will have surplus cash available for investment, whereas others there will be a requirement to temporarily borrow. Daily cash flow is managed to extremely fine tolerances to optimise the Council’s position.

4.6.3 Similarly, the Council has a number of longer term investments, and loans to finance historic capital spend; these too are managed to achieve the best possible return for the Council and the tax payer at minimal risk.

4.6.4 In 2012/13, the Council managed investments averaging **£35 million** with an average rate of return of **1.67%** (compared to a national average of **0.90%**)

4.6.5 The Council uses a specialist firm of advisors (Sector) to assist with its Treasury Management activity.

4.6.6 Sector have collated the following interest rate forecast using data from a range of sources, this suggests a gradual rise in interest rates over the next 2 – 3 years;

Sep13	Dec13	Mar14	Jun14	Sep14	Dec14	Mar15	Jun15	Sep15	Dec15	Mar16
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

4.6.7 Increased interest rates mean increased borrowing costs; the Authority is mitigating this risk with its approach to Treasury Management and the Capital Programme (Section 7).

4.6.8 The primary objective of the Council's Treasury Management function will continue to be the minimisation of financing costs whilst ensuring the stability of the authority's long term financial position by borrowing at the lowest rates of interest and by investing surplus cash to earn maximum interest, all at an acceptable level of risk.

4.6.9 Where new borrowing is required, or where existing loans mature, the strategy is to fund these internally by running down the level of cash / investments and if necessary enter into short term borrowing, rather than more expensive longer term loans.

4.6.10 Increased interest rates also present an opportunity in respect of the Council's investment portfolio. Given the uncertainty of interest rate forecasts, for the purpose of the MTFS, the Council is taking a prudent approach and assuming no additional income in respect of its investment activity.

4.6.11 Further details of the Council's approach to Treasury Management are included in the Treasury Management Strategy

4.7 Continuous Review

4.7.1 The world and UK economies will be changeable over the lifetime of this Strategy.

4.7.2 It is important that developments are closely monitored, and that the Strategy is updated / refreshed where appropriate.

5. Business Rates

5.1 Business rates are collected by local authorities from businesses in their areas like shops, offices, warehouses and factories, historically they were paid into a central pool and redistributed as part of formula grant.

5.2 In April 2013, a new regime for Business Rates was introduced; with Councils retaining 50% of rates collected; in theory making councils more financially independent from central government and giving them a strong incentive to promote local business growth.

5.4 No changes were made to the way businesses pay tax or the way the tax is set. Rate setting powers will remain under the control of central government. Nor will there be any changes to the existing reliefs available to eligible business ratepayers including, charities, rural businesses, sports clubs and the voluntary sector. Small Business Rate Relief is currently offered at 100%, however is set to return to 50% in April 2014.

5.5 Local authorities with large amounts of business property in their area and may stand to gain disproportionate amounts. Where this happens, the Government is proposing to take back a share of their growth (via a Levy) to support those authorities who experience significant drops in business rates (via a Safety Net), for example caused by the closure or relocation of a major business.

5.6 The new regime presents the Council with a number of significant risks, not least the volatility of the NNDR system; yields can fluctuate significantly in-year and, even more importantly, between years for reasons which are often outside of an authority's control including granting of reliefs, revaluations, business failures etc. There is a significant risk in relation to the volume and outcome of Business Rate Appeals; the Council now bears 50% of the cost of appeals, which can be backdated as far as 2010. This risk was recognised in setting the 2013/14 budget, and a provision (£600k) was made to cover the backdating of future appeals. Similarly, within the Council's Business Rate estimate (NNDR1) a 5% provision was made for the ongoing impact of future appeals.

6. Revenue Budget

6.1 The General Fund is the main source of funding for the majority of Council services, and is funded by the Council Tax, local fees & charges, business rates and Central Government Grant.

6.2 Pressures on Public Sector funding are well documented, and it is not the purpose of this Strategy to examine how or why this has occurred.

6.3 The fact remains that the Council is legally obliged to set a balanced budget, and reconcile this with the demands / wishes of residents.

6.4 The savings requirement for Bury Council over the current and next three years is;

	£ million
2013/14	9.871
2014/15	9.652
2015/16	15.807
2016/17	15.544
Total	**50.874**

6.5 These savings have to be made from a controllable annual budget of approximately **£100 million.**

6.6 Assessing the Savings Requirement

6.6.1 In order to quantify the level of savings required, the Council first has to make assumptions about future demands upon the budget.

6.6.2 For the duration of this Strategy, the Council has assumed the following;

	Assumption	**Sensitivity (+/- 1%)**
Inflation • Pay • Prices • Income	 1.0% 0.0% 1.0%	 +/- £0.900 million +/- £0.350 million +/- £0.200 million
Employers Pension Contribution	1.0%	+/- £0.900 million
GM Waste Levy	Cash figure based upon estimates from levying bodies	+/- £0.132 million
Transport Levy	Cash figure based upon estimates from levying bodies	+/- £0.137 million
Council Tax Level	+3.5% (2013/14) +0% (2014/15 / 2015/16)	+/- £0.668 million

6.6.3 Inflation

- Pay, Prices & Income inflation have been addressed at Section 4.5.

6.6.4 Employers Pension Contributions

- Most staff are members of the Local Government Pension Scheme, administered by Tameside MBC.
- Staff make a personal contribution to the scheme – typically 6% of salary.
- Similarly, the Council makes a contribution to the scheme of around 16%; this is projected to rise by an average of 1.0% per annum based upon information supplied by the Fund.

6.6.5 Greater Manchester Waste Levy

- This relates to the disposal of waste, and is based upon information received from the Lead Authority.
- It should be noted that the estimated charge is based upon assumed levels of recycling, and that costs vary depending upon whether these targets are achieved, and the relative performance of other GM Councils.

6.6.6 Transport for Greater Manchester Levy

This levy funds three distinct elements;

- Regional Transport Infrastructure
- Concessionary Fares
- Transport for Greater Manchester operating costs

This strategy assumes an annual cash increase in the base levy, based upon guidance from Transport for Greater Manchester.

6.6.7 Council Tax / Council Tax Base

- This budget strategy is calculated on the basis of an annual Council Tax rise of **3.5%** for 2013/14 and **0%** for 2014/15 to 2016/17.
- The 3.5% increase for 2013/14 equated to a **0.16% increase for Bury Council services** once charges from levying bodies were excluded – hence placing the Council below the 2% referendum threshold.
- Clearly the actual level of Council Tax will be determined through the local political process (or by local referenda), however this Strategy draws attention to the fact that every 1% increase in Council Tax generates on average an additional £668,000 of income.
- The Council Tax Base relates to the number of Band D equivalent properties in the Borough, for the purpose of calculating the Council Tax. Essentially, the higher the number, the lower the tax.

- The Council Tax Base calculation has been complicated by the localisation of Council Tax Support – which is now paid as a "discount"; rather than a "benefit". Localisation saw the Council experience a 10% cut in Council Tax Benefit Subsidy (£1.4 million); this was off-set by introducing charges for second homes, empty properties, and by ceasing the local over 65's discount. Localisation presents significant risks as the Council will have to stand any increase in claimant numbers, or resistance to charges for second homes / empty properties. Prudent assumptions have been made in these areas, and this Strategy assumes no increase in the Council Tax base.

6.6.8 The Government continues to ask Councils to freeze the Council Tax and have offered to pay those Councils that do a grant equivalent to a Tax rise of 1%.

The actual grant payable to Bury would be £0.755m (as calculated on historic Council Tax base levels); it is unclear at this stage whether this funding is available on an ongoing basis.

6.6.9 <u>Departmental Spending Pressures / Growth</u>

In previous years, the Council has considered "growth bids" from departments to address service pressures, or new service requirements.

For example:

- **Demographic Pressures** – Bury's population is currently 182,600, but it is forecast to increase to 193,000 by 2022. Bury is forecast to have 10,000 more people aged over 65 by 2025, with other large increases in the 0-14 population (circa 2,000) and 25-35 year olds (circa 4,000).

- **Increased Demand for Services** – increasingly the Council faces costs for services which are unforeseen but are a statutory duty. For example, the budget for child protection and looked after children is under significant pressure, as the number of children subject to child protection plans or taken into care has increased greatly, due to the unpredictable nature of this work.

- **Growing Expectations** – the expectations of what Local authorities can and should do on behalf of communities and individuals has increased exponentially over recent years. Future demand will need to be managed within a reducing level of resources.

- **Structural Changes** – Public Services are being transformed significantly; key developments presenting both risks and opportunities to Bury include;

    - The transfer of the **Public Health** function from the PCT to the Council wef April 2013.

    - The abolition of the PCT in April 2013 and the creation of **GP Consortia**

- The potential for schools to pursue **Academy** status
- **Welfare Reforms** / Universal Credit

- **Technological Changes** – the ability to conduct business electronically, and residents expectations to perform transactions "24/7".
- **Legislative Changes** – e.g. the Localism Act, and the increased potential for local referenda
- **Sub Regional Activity** – development of the Association of Greater Manchester Authorities (AGMA) and the Combined Authority (CA); ensuring Bury has influence in the decision making process, and secures "fair shares" of regional funding.

Typically, Growth bids were funded from the "Priority Investment Reserve". Given the scale of the financial challenge ahead, this strategy is written on the basis that there will be no "new money" to contribute towards these pressures; instead departments will be required to absorb spending pressures in addition to fulfilling savings targets, and absorbing inflationary pressures.

This corporate MTFS outlines the assumptions and parameters underpinning the Council's budget setting process. Each department produces a departmental level Medium Term Financial Strategy; this provides more detailed costing of the pressures identified above, and outlines each department's proposed response.

6.6.10 Government Funding

Following the introduction of Business Rates retention, there have been significant changes to the way Local Authorities are funded.

Historically Councils received a "settlement" comprising Revenue Support Grant (RSG) and redistributed business rates.

This has now been replaced with a "Settlement Funding Assessment" (SFA) comprising;

- Revenue Support Grant
- Business Rates Baseline
- Business Rates Top Up / Tariff

Bury receives a "Top Up" as it previously gained under the redistribution of Business Rates.

This arrangement took effect in April 2013.

SFA figures relating to the duration of this strategy are compared below (along with a rebased figure for 2012/13).

	SFA £m	Reduction on previous year
2012/13 (rebased)	82.941	
2013/14	**78.741**	-5.06%
2014/15	**70.951**	-9.89%
2015/16	**61.046**	-13.96%
2016/17	***52.524***	*-13.96%*

The scale of cut experienced by Bury Council is considerably larger than national averages outlined below (Comparing 2014/15 and 2015/16 SFA);

Bury	**-14.0%**
England average	-12.4%
Metropolitan average	-13.8%
London average	-10.7%

This is nothing new, as Bury has always fared badly under the formula approach adopted by the Department of Communities & Local Government.

Poverty and deprivation are key determinants in the formula, and Bury is "perceived" to have limited problems in this respect. Although it should be noted that within the Borough, there are "pockets" where deprivation / poverty are a serious issue.

Likewise population is a key driver of the formula, and whilst the Borough's population is rising, the rate is slower than other urban areas.

It is also important to consider funding per head; in Bury's case, we are starting from a very low base; our funding (SFA) per head will be £327.85 in 2015/16.

This compares to others as follows;

Bury	**£327.85**
England average	£386.84
Metropolitan average	£474.42
Shires average	£481.20
London average	£589.73

If Bury was funded at the Metropolitan average, this would generate an additional £27 million. Funding at the England average would generate an additional £11 million.

6.6.11 Closing the Gap

- Traditionally, the budget has been addressed on an annual basis and has revolved around pro-rata distribution of savings targets – production of lists A & B etc…

- Some prioritisation has taken place through the Priority Investment Reserve.

- This process has served the Authority well; the Council is widely acknowledged as being low cost, and having a healthy balance sheet.

- However, the ability of this approach to fulfil such challenging savings targets over the next 3 years is limited.

- This led to the creation of the Council's "Plan for Change"; starting on 2012/13.

6.6.12 Plan for Change

Key Principles

- A managed approach assessing savings options over a 3 year period.

- Staff are our greatest asset, and our biggest cost. The 3 year approach will, for the first time, invite applications from staff for Voluntary Redundancy / Early Retirement over a 3 year timescale.

- A detailed review of core Council services, assessing how and why they are delivered; identifying more efficient working practices – STAR reviews.

- Greater engagement with the Community and volunteers – the Council acknowledges that a challenge of this magnitude cannot be tackled alone.

- Enhanced Partnership working – financial pressures apply to all our Public Sector partners, and it is recognised that there are benefits by responding to the challenge collectively.

- Openness and Transparency – The Council is committed to ensuring that residents and other stakeholders are involved early in the process, and have an opportunity to contribute to the future shape of the Council

6.6.13 Departmental Savings Targets

In the first instance, Departments have been set savings targets based upon pro-rata allocations of their perceived **"controllable budget".**

The controllable budget is calculated by taking the current net budget for each department, then adjusting for the following "non cash" items;

- FRS17 (Pensions Costs)
- Capital Charges
- Internal Recharges

It is accepted that within the resulting "controllable budget", some items are easier to control than others, or controllable over different periods of time.

Department	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**
Chief Executives	0.793	0.725	To be determined
Childrens Services	2.012	2.427	
Env & Dev Services	2.927	2.966	
Adult Care	3.536	3.534	
Corporate Options	603	0	
Total	**9.871**	**9.652**	**15.807**

Departments have developed savings options to contribute toward these targets (currently for 2013/14 and 2014/15); these are now subject to public consultation under the "Plan for Change".

It is acknowledged that the challenge for 2015/16 and 2016/17 is significant, and compounded by cuts that have already taken place.

The Council has therefore adopted a twin track approach;

- Using existing pro-rata methodology for 2014/15
- Considering alternative approaches for 2015/16 &2016/17

It is expected that the 2015/16 methodology will be determined by the end of 2013, allowing budget options to be developed early 2014, for consultation mid 2014.

6.6.14 Consultation Process

The Council is committed to undertaking extensive public consultation, and a number of exercises have already taken place;

Stage 1 - "Choices Consultation"

In a time of limited resources, it is acknowledged that difficult choices need to be made – the Council cannot continue to deliver all of the services it presently does, in the way it does now.

Residents have been asked to rank the relative priority of the following;

- Support Vulnerable People
- Keep Bury Clean and Green
- Promoting Healthier Lives
- A Strong Local Economy
- Getting People Moving
- Encourage Vibrant and Strong Communities
- Leisure and Culture Opportunities
- Decent Place to Live
- Maintain Opportunities for High Quality Education and Training
- Better Informed and Engaged Community

The outcome of this exercise has been used by the Council in formulating its draft savings options.

Stage 2 – "Savings Options"

A 3 year package of draft savings has been developed using options put forward by Departments and the intelligence gathered at Stage 1 - Choices Consultation.

A second phase of consultation has taken place whereby residents and stakeholders were consulted on the draft package of savings (for 2013/14 and 2014/15).

Stage 3 – "Preparation of Budget"

The draft savings package will be finalised in the light of feedback received at Stage 2.

This will then go forward to form the basis of the Council's budget.

6.6.15 Timescales (2014/15)

The following timetable will apply;

Approval of initial 2014/15 savings (post consultation)	February 2013
Chancellor's Budget	March 2013
Spending Review / DCLG Indicative Allocations	July 2013

Departmental Savings Targets	August 2013
Develop Savings Options	September / October 2013
Launch "Plan for Change" – commencing formal consultation Council)	11th November 2013
Conclude Consultation	December 2013
Finalise Budget Options (in light of above)	January 2013
Formal Budget Setting process – Scrutiny, Council etc.	February 2013

7. Financial Standing / Resilience

7.1 Golden Rules

7.1.1 The Council has built a number of basic principles into the longer-term approach to its finances by the adoption of four 'Golden Rules'. These were incorporated into the Council's financial policies by Members in February 2007 to underpin the budget setting and management process:

- The level of General Fund balances retained by the Council to meet unexpected changes in the budget or to fund events that cannot be foreseen will be based on an assessment of the risks faced by the Council but they will not be allowed to fall below the higher of £4.3 million or 2.5% of the net budget (excluding schools). This formula needs to debated and justified in relation to the risk strategy adopted each year.
- No reliance on one-off options to fund ongoing budget pressures.
- Prudential borrowing will only be undertaken on an Invest to Save basis
- Pressures and savings will be assessed on a 3-year, rather than a 1 year basis

7.1.2 The Golden Rules are now embedded in the Council's financial policies and it is clear that they have had a positive influence on the Council's financial standing. Compliance with the Golden Rules is monitored regularly throughout the financial year.

7.2 Minimum Level of Balances

7.2.1 Under the terms of Part 2 of the Local Government Act 2003, when setting the Council Tax the authority's s151 officer – in Bury's case the Assistant Director of Resources (Finance & Efficiency) is required to report on the adequacy of the authority's financial reserves. The s151 Officer must determine a minimum level reserves and then report on the likely balance on that reserve at the end of the year for which the Council Tax is being set and at the end of the preceding financial year.

7.2.2 Reserves can be described as amounts that are set aside to meet unexpected changes in the budget and to finance occurrences that cannot be predicted. They usually result from events that have allowed sums to be set aside, surpluses to be made, windfall gains or decisions that have caused anticipated expenditure to be postponed. Reserves of this nature can either be spent or earmarked at the discretion of the Council.

7.2.3 A minimum level of reserves is required to mitigate the effects of such things as:

- Disasters
- Fluctuations in demand
- Changes in inflation
- Unforeseen movements in interest rates

7.2.4 There is no statutory definition of a minimum level of reserves and it is for this reason that the matter is left to the judgement of the s151 officer. In coming to a judgement on this matter the s151 officer needs to take into account matters such as:

- Risks inherent in the budget strategy
- Risk management policies and strategies
- Past financial performance i.e. does the authority have a history of containing spending within budget?
- Current budget projections
- The robustness of estimates contained within the budget
- The adequacy of financial controls and budget monitoring procedures

7.2.5 The table below gives an assessment of the major issues which should be taken into account in determining the minimum level of balances:

	Risk	£000
Pay inflation Cushion: The 0% assumption made in the MTFS is felt to be prudent, however in order to mitigate risk in this area an allowance equivalent to 0.5% should be retained in balances.	H	900
Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been set, this contingency assumes a 3.0% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.	M	900
Interest Cushion: Given the fact that the cost of borrowing budget reflects a baseline position in	M	100

respect of interest rates, that borrowing has been locked in and that the Capital Programme requires no new borrowing then risk in this area is felt to be on the up-side especially with short-term investment rates at an historic low.		
Uncertainty of Income Cushion: Adequate provisions are made for bad debts, however, in the past some income budgets have not been achieved and therefore it is prudent to provide a contingency for all non grant income.	H	400
Unpredictable and Demand Led Expenditure Cushion: The Council's budgets have had to be kept to a minimum level for a number of years. As a result, the flexibility to compensate for overspends, by reducing spending in other areas is limited. Conversely, significant investment has been made into 'high risk' budgets and this has helped to mitigate this risk. This contingency is now based upon 2.0% of all "demand led" expenditure largely in the areas of Children's and Adult Care Services.	H	1,200
Budget Strategy Risk Cushion: There is always likely to be a level of uncertainty around the authority's ability to achieve savings options and this contingency is based around 10% of the on-going savings options.	M	750
Emergency Expenditure Cushion: Provision must be made for the cost of emergencies that by their very nature cannot be predicted and for any uninsured losses. The Government's "Bellwin Scheme" partially protects authorities from catastrophic costs of some emergencies, but costs up to the threshold of the Bellwin Scheme will still need to be covered by reserves:		
The Government will pay 85% of any disaster costs above the threshold. This contingency provides for the Council's contribution, assuming a major disaster costing £3.0m.	L	400
Contingency for smaller emergencies e.g. highway collapse.	L	400
TOTAL		**5,050**

7.2.6 It is not expected that all of these possibilities would occur at one time and therefore the total can be reduced to reflect risk as shown in the table overleaf:

	Risk Level	Likelihood	Provision £000	Max. Impact £000
Pay inflation cushion	H	100%	900	900
Non-pay inflation cushion	M	80%	900	720
Interest cushion	M	80%	100	80
Uncertainty of income	H	100%	400	400
Demand led expenditure cushion	H	100%	1,200	1,200
Budget strategy cushion – savings	M	80%	750	600
Emergency expenditure cushion	L	60%	800	480
			5,050	**4,380**

7.2.7 This sets the minimum balance requirement for 2013/14 at **£4.380 million.** (rounded to £4.4 million).

7.2.8 This compares to current balances (excluding schools) as follows;

	£m
General Fund Balance 31 March 2013 per Accounts	**10.730**
Less : Minimum balances to be retained in 2013/14	-4.400
Less : Contribution towards cost of Equal Pay	-1.500
Difference	**4.830**

7.2.9 Whilst reserves above the minimum level can be released to support expenditure or reduce taxation, it is critical to note that they can only be used once. Reserves are most effective when used to support one-off items of expenditure; they should not be used to support on-going expenditure levels.

7.2.10 The minimum level of balances will be kept under constant review in light of economic conditions and other emerging pressures.

8. Capital Programme

8.1 Capital expenditure is defined as;

"that related to the acquisition, creation, or enhancement of tangible assets which yield benefit to the Council for more that one year."

8.2 Capital receipts are generated when such assets are sold.

8.3 Capital Expenditure has traditionally been funded from the following sources;

8.3.1 Prudential Borrowing

- Prudential Borrowing provides Council's with the power / discretion to take out loans to finance capital expenditure; provided loans can be proven to be prudent, sustainable, and affordable.
- The Council approves a series of Prudential Indicators each year to assist with this control mechanism; these are regularly monitored and reported upon.
- Whilst Prudential Borrowing provides a mechanism to fund capital expenditure, it can create a revenue burden for current and future generations.
- Interest is payable over the life of the loan, and Principle (Minimum Revenue Provision) is repayable over the life of the asset.
- For example, a £1.0m scheme funded over 10 years at a rate of 5% per annum would cost the following;

Minimum Revenue Provision (£1.0m / 10)	=	£100,000
Interest (£1.0m x 5%)	=	£50,000

Revenue Costs		£150,000 per annum
Lifetime Cost (£150,000 x 10 years)	=	£1,500,000
(It is not unusual for loans to extend to 40 years).		

Note: This calculation highlights the Revenue Cost of funding the scheme. In addition, there will be running costs relating to the asset, e.g. staffing, insurance, maintenance etc.

8.3.2 Capital Grants

- Capital Grants are made available from Government Departments and other funding agencies to finance capital schemes.
- Typically, there is a "match funding" requirement, which may mean the Council still has to undertake a degree of borrowing.
- Likewise, whilst the grant may fund the capital cost of a project, it is likely there will be on-going revenue costs arising from the scheme, e.g. staffing, maintenance etc. This in turn places more pressure on the Council's revenue position.

- The availability of capital grants is significantly reduced in the current climate.

8.3.3 Capital Receipts

- Relates to income from the sale of assets.

- Whilst assets are regular coming available for disposal, e.g. through service redesign, the prices obtained are currently depressed, given the current property market conditions.

- It is important that the Council carefully selects which assets to dispose of, e.g. those which no longer fulfil Council priorities, or those that are underperforming, e.g. high running costs / low usage.

- The Council's Capital Strategy assumes no reliance on Capital Receipts.

- In the event that receipts are generated, these will be used to reduce existing borrowing, or be reinvested on an "invest to save" basis.

8.3.4 Revenue Contribution

- Revenue funds can be utilised to fund Capital Expenditure (but not vice versa); whilst this offers another funding option, clearly there is a direct impact on the Council's revenue position.

8.3.5 Invest to Save

- Some capital expenditure is capable of producing on-going revenue savings, e.g. energy conservation works should lead to reduced energy bills.

- Where the revenue savings generated are sufficient to fund the prudential borrowing costs, and generate a surplus, these schemes will be permitted to go ahead – subject to production of an evidence based business case. Business cases must also consider all costs associated with running the asset over its lifetime.

8.4 The way forward

In 2010/11, the Council adopted a policy whereby it would not undertake any new capital schemes, unless they were;

- fully funded (ie 100% external grant, capital receipts, revenue) and/or
- undertaken on an "Invest to Save Basis"

It is proposed that this policy is maintained for the duration of this Strategy.

9. Housing Revenue Account

9.1 The Housing Revenue Account (HRA) is primarily a 'landlord account', recording revenue expenditure and income relating to the authority's own housing stock. The main items of expenditure included in the HRA are loan charges and management and maintenance costs with the main areas of income being rents from tenants and Housing Subsidy.

9.2 The HRA is a ring-fenced account i.e. the authority does not have any general discretion to transfer sums out of the HRA, or to support the HRA with contributions from the General Fund, (there are certain circumstances where transfers are permitted or prescribed but these are exceptions).

9.3 The HRA has an average stock of 8,280 dwellings. Properties can be removed from the HRA as tenants exercise their "right to buy", however in recent years this has been minimal due to economic conditions. No significant level of "right to buy" applications is anticipated going forward.

Arms Length Management Organisation

9.4 In April 2005 Six Town Housing was established as an Arms Length Management Organisation (ALMO) to manage and maintain the authority's housing stock and related assets. A Management Agreement was signed between Six Town Housing and Bury Council which details the responsibilities that are delegated to the ALMO.

9.5 Bury Council agrees the level of Management Fee payable from the Housing Revenue Account to Six Town Housing for the provision of the delegated responsibilities; currently **£13 million**.

Rent Restructuring

9.6 In December 2000 the government issued a policy statement entitled 'The Way Forward for Housing' which proposed that rent setting in social housing should be brought onto a common system based upon relative property values and local earnings levels. The aim is that rents on similar properties in the same area should be the same – no matter who is the landlord.

9.7 In order to achieve the objectives set out in the policy statement there is now a common formula for both Local Authority (LA) rents and those of Registered Social Landlords (RSL). Restructuring and convergence of LA and RSL rents was originally intended to be completed over 10 years i.e. from April 2002 to March 2012.

HRA Reform

9.8 In October 2010 the Government announced that the present Subsidy system would be replaced by a system whereby council housing became self-financing at a local level; this came into effect in April 2013.

9.9 The Council had to make a one-off payment to the Government of £78 million in order to exit the subsidy system; this was funded by loan.

9.10 The self-financing system sees authorities keeping all their rental income and using this to pay for management, maintenance and major works for their housing stock, and financing the loan undertaken.

9.11 Essentially, the Council is required to produce a 30 year HRA business plan outlining;

- Rental income
- Management Costs
- Maintenance Costs
- Finance costs re: Council's share of reallocated debt

9.12 Other factors will include any potential changes to rent policy (nationally or locally), and the impact of welfare reforms.

9.13 Any headroom within the Business Plan will be considered alongside the Council's Housing Strategy, and be subject to Tenant consultation.

HRA Minimum Level of Balances

9.17 As a result of the HRA being a ringfenced account, any surplus or deficit on the HRA is carried forward into the next financial year and is called the working balance.

9.18 Just like the General Fund, the HRA needs to have a certain level of balances in order to fund occurrences that cannot be predicted.

9.19 There is no statutory definition of the minimum level however as part of a longer-term approach to HRA finances the Council have assumed established a Golden Rule regarding the minimum level of HRA balances that they should not be allowed to fall below £100 per property. However the actual minimum level of balances to be retained is still reviewed each year based on a risk assessment of the major issues that could affect the financial position of the HRA.

9.20 Applying the above rule would require the minimum HRA working balance to be **£815,900** in 2013/14.

10. Roles & Responsibilities

10.1 The Council sets it's budget annually in February, for the following April to March.

10.2 Similarly, this Strategy has been developed to cover the three year period 2013/14 to 2015/16.

10.3 Clearly circumstances change over time – new demands / pressures present themselves, and equally new opportunities arise. It is essential that monitoring takes place scrupulously throughout the organisation to maintain control over changing situations.

10.4 Monitoring covers three key areas;

- Finance
- Performance
- Risk

10.5 Likewise, it is important that the outcome of monitoring is reported to the appropriate level within the organisation, to ensure that there is ownership of issues, and that appropriate plans for remedial action are put in place, and themselves monitored.

10.6 The table below highlights the respective roles of key participants in the monitoring process;

	Finance	**Performance**	**Risk**
The Executive	Quarterly Monitoring Report (linked to Performance)	Quarterly Monitoring Report (linked to Finance)	Annual Risk Management Report
Internal Scrutiny Committee	Quarterly Monitoring Report (linked to Performance)	Quarterly Monitoring Report (linked to Finance)	Annual Risk Management Report
Audit Committee	Quarterly Monitoring Report (linked to Performance)	Quarterly Monitoring Report (linked to Finance)	Quarterly Governance Statement / Strategic Risk Register
Star Chambers	Quarterly Financial Monitoring	Quarterly - presentation of	Quarterly - presentation of risk

		performance issues relevant to financial position	issues relevant to financial position
Executive Portfolio Holders	Monthly briefing outlining latest budget forecasts	Performance issues as appropriate	Risk issues as appropriate
Strategic Leadership Team	Monthly report to consider latest budget forecasts. Quarterly monitoring report	Quarterly monitoring report	Quarterly review of risk registers. Ongoing consideration of specific risk areas
Chief Officers	Monthly report outlining latest budget forecasts. Responsible for initiating and overseeing remedial action where required	Performance issues as appropriate	Risk issues as appropriate
Operational Risk Management Group (Officers)	Financial issues relevant to identified risks	Performance issues relevant to identified risks	Ongoing review of operational risks. Produce quarterly summary of live risks & proposed controls
Strategic Risk Management Group (Members)	Financial issues relevant to identified risks	Performance issues relevant to identified risks	Receive, challenge and input to quarterly risk registers
Assistant Director of Resources (Finance & Efficiency) –	Statutory finance officer – overall responsibility for council finances	Close liaison with Head of Policy & Improvement e.g. production of	Member of both operational & strategic risk management

section 151 officer	and provision of an effective finance function	quarterly monitoring report	Groups
Budget Holders	Day to day responsibility for budgets as outlined in Finance Procedure rules. Responsible for delivery of remedial action when required	Maintaining performance standards, monitored through operational performance indicators	Identification and control of operational risks

11. Links to other Strategies

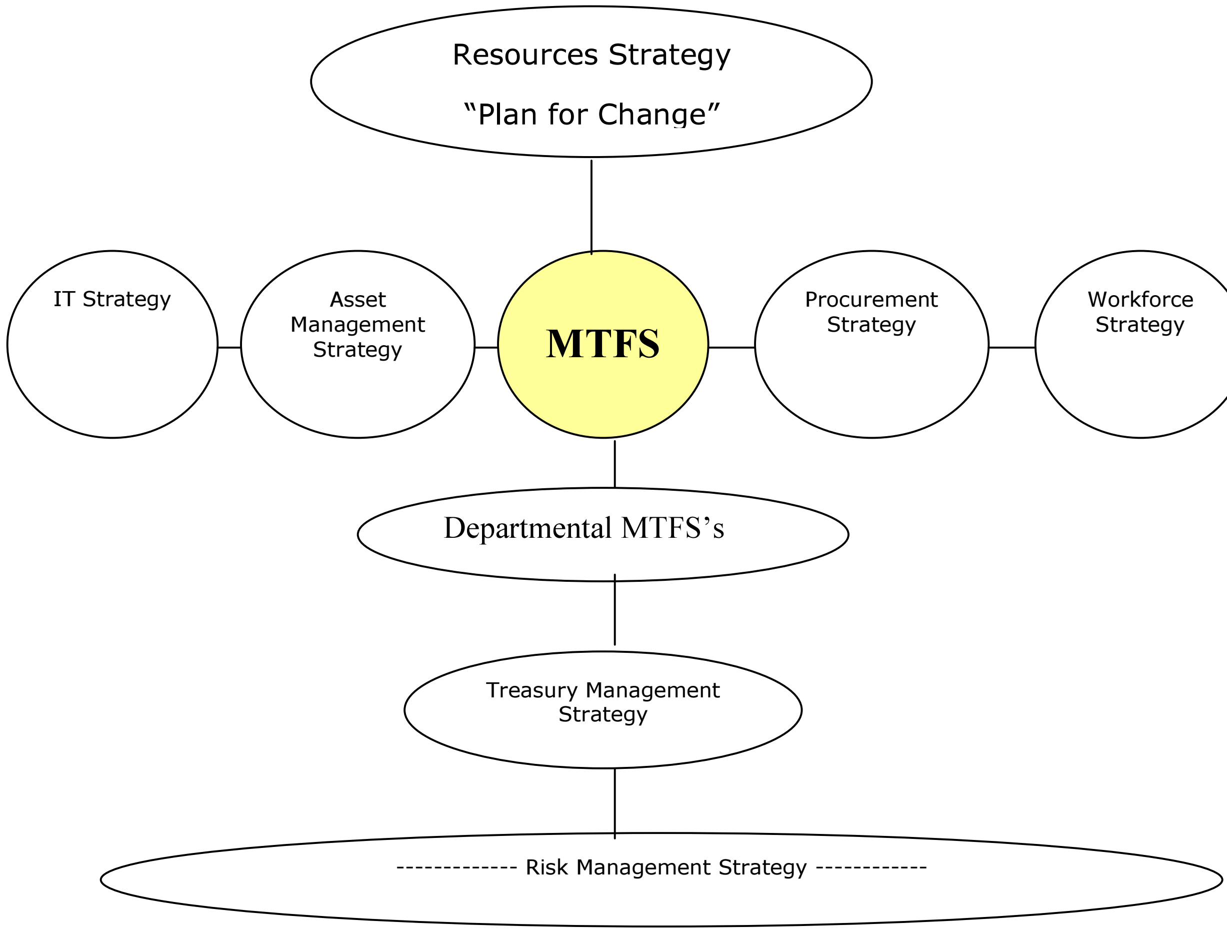
11.1 This **Corporate MTFS** outlines the overall approach to setting the Council budget; assumptions made, pressures identified and the process going forward.

11.2 This strategy is underpinned by **Departmental MTFS's** which provide more detail of pressures identified at departmental level, and action plans to address these.

11.3 Both these strategies are driven by (and drive) the **Resources Strategy** and the **Plan for Change**

11.4 Whilst finance is central to the activities of the Council, a range of other strategies are required to ensure the effective use of resources, achievement of objectives, and the delivery of Value for Money.

11.5 The diagram below illustrates the interaction between these strategies;



IT Strategy: Embracing "best of breed" technology to ensure efficient and resilient service delivery. Opening up access channels to residents e.g. the Web.

Asset Management Strategy: Making the best use of the Council's extensive asset base. Developing strategies where assets are under-performing, e.g. high cost, low usage – for example disposal / change of use.

Procurement Strategy: Ensuring that we purchase the right goods & services, at the best possible price

Workforce Strategy: Making best use of the Council's dedicated workforce, and ensuring that we have the "right people in the right place at the right time".

Treasury Management Strategy: Outlining the Council's borrowing and investment strategy. Supports the Medium Term Financial Strategy.

Risk Management Strategy: Cuts across all activity, ensures all relevant risks are identified, appropriate responsibility is allocated, and there are adequate plans to mitigate risks.

For further information about the content of this Strategy, please contact;

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Related Documents:

- Revenue Budget Report 2013/14
- Capital Programme Report 2013/14
- HRA Budget Report 2013/14
- HRA 30 year Business Plan
- "Plan for Change"
- Resources Strategy (Jan 2012)
- Departmental MTFS's