
MEETING: RESOURCE AND PERFORMANCE SCRUTINY PANEL
THE EXECUTIVE
COUNCIL

DATE: 14 February 2006
15 February 2006
22 February 2006

SUBJECT: BUDGET 2006/07

REPORT FROM: Executive Member, Quality Council (Resource &
Performance)

CONTACT OFFICER: M Owen – Director of Finance and E-Government

TYPE OF DECISION: Key

REPORT STATUS: FOR PUBLICATION

PURPOSE/SUMMARY:

The report provides Members with details of the Capital Programme for 2006/07 (section A) and the latest estimate of the revenue outturn position for 2005/06 and the forecast Revenue Budget for 2006/07 (section B).

Section A sets out the draft Capital Programme for 2006/07 to 2008/09 and a forecast of the available resources. It recommends a continuation of the existing strategy of linking resources to Council priorities and, recognising that the level of resources available for discretionary schemes is extremely limited, suggests that the allocation of any available resources be limited to four key policy areas. The recommended Programme makes provision for slippage of £0.555m from 2006/07 into 2007/08.

Section B addresses the revenue budget for 2006/07 and it also outlines other important budget issues including the final Revenue Support Grant Settlement for the year, the forecast Collection Fund position and the Council Tax base. It examines the robustness of the assumptions behind the budget forecast and it contains an assessment of the adequacy of the Council's balances. In doing this it details the potential impact on balances and on the level of the Council Tax for the coming year. Assuming a rise in the Bury element of the Council Tax of 5% then the forecast budget shows a deficit of £9.7m and the report goes on to suggest options for balancing the budget.

OPTIONS AND RECOMMENDED OPTION (with reasons):

Section A – Capital Programme

1. That the Capital Programme for 2006/07 and future years, shown in Appendix B be approved, amended or rejected depending on the preferred option to address the shortfall identified;
2. That the proposed financing of the Capital Programme be approved, amended or rejected;
3. That the use of **£3.991m** of capital receipts to support the Programme be noted;

Section B – Revenue Budget

4. That the details of the final Revenue Support Grant Settlement for 2006/07 be noted;
5. That the forecast Collection Fund position as at 31st March 2006 be noted;
6. That the minimum level of balances to be retained is confirmed at **£3,100,000**;
7. That the level of repayment of principal on General Fund debt at the minimum of **4%** be approved;
8. That it be noted that under delegated powers the Director of Finance and E-Government calculated the amount of **58,958.98** as the Council Tax base for the year 2006/07 in accordance with the Local Government Act 2003 and with regulations made under section 33(5) of the Local Government Finance Act 1992;
9. That the forecast outturn position for 2005/06 be noted;
10. That the Golden Rules set in section 4.3 be adopted;
11. That the draft Revenue Budget for 2006/07 as shown in the report be approved or amended, together with the options for balancing the budget;
12. That the recommendations of the Schools' Forum around education funding issues be noted;
13. That the statements by the Director of Finance and E-Government on the robustness of budget assumptions and on the minimum level of balances be endorsed;
14. That consideration be given to the level of the Band D Council Tax for 2006/07;
15. That, in making the decisions asked, Council gives appropriate consideration to the results of the budget consultation process;
16. That consideration be given to the budget position for 2007/08 and 2008/09, as outlined in section 11 of the report.

IMPLICATIONS -

Financial Implications and Risk Considerations

The financial implications of the budget and the risks associated with the calculations and strategy are set out in the report.

Corporate Aims/Policy Framework:

Do the proposals accord with the Policy Framework? Yes

Are there any legal implications?

Yes

Considered by the Monitoring Officer?

Yes. The budget proposals fall within appropriate powers and duties.

Statement by Director of Finance and E-Government:

The financial implications of the budget and the risks associated with the calculations and strategy are set out in the report.

Staffing/ICT/Property:

There will be some staffing, ICT and property issues arising from this report depending on decisions taken in respect of the scale and detail of the Capital Programme and the Revenue Budget.

Wards Affected:

All

Scrutiny Interest:

Primarily Resource and Performance Scrutiny Panel. This report will be considered by the Panel on 14th February 2006.

TRACKING/PROCESS

DIRECTOR: Mike Owen

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
Both	Leader Executive Member -Quality Council	All Area Boards	LSP Headteachers
Scrutiny Panel	Executive	Committee	Council
		JCCs	

SECTION A

CAPITAL PROGRAMME

1.0 INTRODUCTION

- 1.1 The report provides Members with details of the capital resources available for 2006/07 together with the schemes that have been put forward by Directors. It also outlines the process adopted by the Capital Programme Strategy Group for prioritising the bids for schemes and provides details of a recommended Programme.

2.0 REVISED CAPITAL PROGRAMME 2005/06

- 2.1 The original Capital Programme for 2005/06 was approved by full Council on 23rd February 2005 at **£36.929m**.

- 2.2 This Programme has since been adjusted to reflect a number of changes including:

- Slippage of schemes from 2004/2005 amounting to £4.771million approved at Executive on 24 August 2005
- Slippage of funds available for schemes taking place over several years such as Pimhole regeneration, Townside Fields and Housing Public Sector, totalling £5.092m.
- the inclusion of fully funded schemes for Quality Bus Corridor
- additional funding received for Adult Services through the Primary Care Trust.
- “Expansion of Popular Schools” funding at £0.400m
- additional allocation received for Disabled Facilities Grant totaling £0.143m
- additional allocations of £1.611m for Adults Social Services.
- new financial and customer contact systems to a value of £2.000m
- refurbishment of the Registry Office at £0.030m

- 2.3 The revised Capital Programme now stands at £45.371m and expenditure to 31st December has reached a figure of £20.190m (see Appendix B). Members are reminded that a significant proportion of capital expenditure invariably takes place in the fourth quarter of the financial year as a result of either slower starts or the time necessary to approve details on design and planning processes at the beginning of the year. Taking this into account then the latest projection is for an outturn of £42.642m, with the difference of £2.729m slipping into 2006/07. Details of the individual schemes that have slipped have been provided to Members as part of the Corporate Financial and Performance Monitoring report.

- 2.4 The original Programme included a £2.120m allocation to the ALMO. This allocation can now be utilised due to the achievement of 2* Status by Six Town Housing and it is expected that these funds will be committed by the end of 2005/06.

- 2.5 The original Programme assumed £4.010m of receipts in 2005/06 and at the end of December the Council had received £1.580m of usable capital receipts. The latest forecast suggests that further usable receipts totalling £0.832m will be completed before 31st March 2006, giving a total for the year of £2.412m, a shortfall of £1.518m. It is envisaged that the projected shortfall will be covered from the Capital reserve and from slippage into 2006/07.

- 2.6 Taking all known factors into account it is expected that the changes that have taken place affecting the 2005/06 Programme will lead to an additional call on 2006/07 resources of £375,000.

- 2.7 The Resource and Performance Scrutiny Panel and the Executive will continue to receive quarterly reports regarding the performance of the Capital Programme.

3.0 CAPITAL RESOURCES FOR 2006/07

3.1 The Capital Programme is funded from four main sources:

- Borrowing
- Capital grants
- Capital receipts from the sale of assets
- Revenue contributions and reserves

3.2 Although the Prudential Code regime allows each Local Authority to decide on their borrowing levels for Capital Expenditure, only a specified amount is supported by Government through inclusion of the related financing costs in the Revenue Support Grant for the year. All Local Authorities received the final settlement figures for the Revenue Support Grant early in February.

3.3 The Government-supported borrowing figure is limited to the level of individual Government Departments' Annual Capital Guidelines (ACGs). The ACGs reflect the level of capital spending that Government departments feel is appropriate for various services within the Council.

3.4 The ACGs take the form of Supported Capital Expenditure (R) from the Single Capital Pot and Supported Capital Expenditure(C) from grants.

3.5 The Supported Capital Expenditure (R) can be further classified between discretionary expenditure which can be spent as per the authority's own plans and priorities and expenditure that is ringfenced according to Government priorities. The latter is described as Separate Element of Supported Capital Expenditure (R) and this can only be used towards the specified service. Supported Capital Expenditure (C) from Capital Grants is directed towards specific areas and can only be used for those purposes. There is no borrowing involved as expenditure is fully supported from grant income.

3.6 It should be noted that ACGs are advisory although some of the Departments, particularly Highways and Transport have indicated that expect to see the expenditure on these services set at the level of the ACG.

3.7 The other main funding source is capital receipts generated from the sale of the authority's land and property. The level of capital receipts expected to be available to fund the 2006/07 Programme is shown in the table below. In order to protect the authority's market position details of the amounts assumed from the individual receipts have not been shown but are available to Members on request. Members are asked to note that there is often a degree of uncertainty around the amount to be generated and the timing of individual asset sales. For that reason it is strongly recommended that the authority maintains its previous policy of committing to schemes funded from receipts only when there is certainty that the receipt will be generated.

3.8 The table below summarises the capital funding sources that are available:

	£m
Supported Borrowing	6.956
Supported Borrowing – ALMO element	6.520
Usable Capital Receipts	3.991
Grants and External Contributions	19.063
Regional Housing Allocation	1.259
Major Repairs Allowance (Housing only)	4.750
TOTAL FUNDS	42.539

4.0 CAPITAL BIDS

4.1 Preparation of the Capital Programme is undertaken in two stages. Firstly, scheme bids are placed into the following categories:

- 100% funded schemes
- Contractually/morally approved schemes
- On-going programmes (including Statutory/emergency schemes)
- Discretionary schemes

4.2 In line with the priority-led approach previously approved by the Executive it is assumed that Members will wish to support the inclusion of schemes that fall into the first three categories. Further details of these categories are given below:

4.2.1 **100% Funded schemes** – these are schemes that are fully funded, where funding is ring-fenced by the Government or another external agency. Such schemes total **£12.985m** and it has been assumed that these should be included in the Programme in order that the funding is utilised.

4.2.2 **Contractually / morally committed schemes** – these are schemes that are committed, generally from starts made in 2005/06. They involve total expenditure of **£23.141m** in 2006/07. Of this amount, £10.231m will be generated from external sources and the balance of **£12.910m** will be a call on the authority's own funding.

Members are reminded that they have flexibility to decide whether the morally committed schemes have to go forward.

4.2.3 **On-going schemes** – these relate primarily to programmes of expenditure which bring spending on various services up to the level indicated by the service ACGs shown below and previously Members have indicated that they would wish to bring funding in these areas up to levels that are no less than the ACGs. However this assumption can be challenged in whole or in part i.e. more or less can be allocated to these areas.

The draft Programme assumes total spend of **£6.008m**, with £5.411m coming from the authority's own resources.

4.3 The next stage is to assess the extent of any resources that are available to fund new schemes. On the assumption that Members would wish to include 100% funded, morally and contractually committed, on-going and statutory and emergency schemes in the Programme then the position for 2006/07 is as follows:

	£m	£m
Available resources		42.539
100% funded schemes	12.985	
Contractually committed schemes	15.898	
Morally committed schemes	7.243	
On-going schemes	6.008	42.134
Available for discretionary schemes		0.405

4.4 Reviewing the Capital Programme is an on-going process and it has been clear for some time that available resources would be low in 2006/07 and so the CSG has previously recommended that any funding which was available should be focussed on a small number of priority areas.

- 4.5 Following an assessment of Council priorities against scheme bids it was decided to recommend to Council that funding should only be considered for the following four priority areas:
- Disabled Facilities Grants
 - Radcliffe Riverside School
 - The Care Village
 - Customer Contact
- 4.6 Disabled Facilities Grant (DFG's) – a detailed estimate of funding required in 2006/07 of £1.2m was reported to the Director of Finance and E-Government in January 2006. As DFG's are currently held in the Capital Programme at £0.650m, an additional £0.550m is therefore required.
- 4.7 Radcliffe Riverside School - the figures still remain provisional and show that a total of £4.568m of Bury MBC resources are required in 2006/07 and 2007/08. In 2006/07 £1.535m is to be funded from general resources (£0.035m) and £1.500m from earmarked capital receipts from the sale of the Warthfield site. That said, the size of the capital receipt from the Warthfield site is provisional and given the reliance on several other factors such as the outcome of the planning application at Beechgrove (due in February 2006) it must be seen as a high risk. Discussions are still ongoing between Children's Services and the Borough property Services Officer regarding the final cost and funding of the scheme. In 2007/08 a further £3.033m is expected to be funded from local resources.
- 4.8 The Care Village – this is still at early stages of development but is linked to the Radcliffe Riverside scheme. Following the outcome of the Beechgrove planning application in February 2006, a further business case will be submitted to Board in the hope of securing part of the Radcliffe High School site thus allowing the receipt from the sale of Warthfield to contribute to the Radcliffe Riverside School as explained in paragraph 4.7. At present there are no further costs available.
- 4.9 Customer Contact – part of the customer contact scheme includes the Town Hall foyer refurbishment where initial set up costs are estimated to be £0.030mk in 2006/07. At present the estimated cost of the refurbishment in 2007/08 is £0.400m. A detailed Project Initiation Document should be available for the scheme by the end of January 2006.
- 4.10 In addition, the one-off options list for balancing the revenue budget assumes that £1.0m of maintenance will be capitalised and this will also have to be counted against capital resources in the coming year.
- 4.11 If the Town Hall foyer refurbishment and the required level of DFG funding are made available in 2006/07 then also taking on board the need to capitalise maintenance the situation is as shown in the following table:

	£m
DFG costs	0.550
Foyer refurbishment	0.030
Capitalisation of maintenance	1.000
	1.580
Less available resources	(0.405)
Additional resources required	1.175

5.0 OPTIONS

5.1 Options available for balancing the Capital Programme 2006/07 are as follows:

Option 1:

Utilise additional borrowing. If a total of £1.175m was borrowed then additional full year revenue costs would be £0.110m pa. Taking 2005/06 and 2006/07 together then this level of borrowing could be absorbed within supported borrowing limits.

Option 2:

Create additional resources by funding part of the Capital Programme by slippage as was done in 2005/06. So far, slippage of £0.555m has been assumed again. Any further slippage would reduce the need for additional borrowing.

Option 3:

Reduce morally committed schemes. The draft Programme makes provision of £7.243m for such schemes, of which £0.615m is funded from external sources, £6.520m from supported borrowing for the ALMO and £0.108m from council resources.

Option 4:

Reduce the provision made for on-going and/or new schemes. The draft Programme makes provision for on-going schemes of £6.008m (of which £5.411m is funded from Council resources) and for new schemes of £1.580m (all funded from Council resources).

Option 5:

Any combination of the above

6.0 RISK ASSESSMENT

6.1 There are three main risks inherent in the capital strategy recommended above:

- **Capital receipts are not realised to the level anticipated above.** This is a major risk and is one that has impacted on the 2005/06 Programme. Capital receipts are graded by degree of risk and those included in the total shown in table in paragraph 3.8 are considered to be low risk (with the exception of the Warthfield receipt referred to in paragraphs 4.7 and 4.8). It is strongly recommended that schemes which are reliant on capital receipts do not begin until there is a high degree of certainty that the relevant receipt will materialise.
- **Schemes slip from one year to the next.** This is a normal feature of capital schemes and can occur for a large number of reasons. The risk can be mitigated by slipping corresponding resources between years and is not felt to be high.
- **Scheme costs increase.** Again this is not unusual, but unlike slippage, increased costs are more than timing issues and this cannot be mitigated without an impact on other schemes within the Programme or an impact on future years' resources. The risk can be mitigated by the use of sound costing techniques, effective project management and monitoring schemes using a risk assessment approach.

The Capital Programme Monitoring Group meets regularly to monitor the Programme and monitoring reports are considered by Management Board, Executive and Scrutiny Panels on a quarterly basis. Should intervention action be required then it will be undertaken immediately and may include a moratorium on scheme starts, the realisation of further capital receipts or the use of additional borrowing (subject to revenue resources being available).

SECTION B

REVENUE BUDGET

1.0 INTRODUCTION

- 1.1 The report examines the position in respect of both Revenue and Capital budgets for the current and future years, and in doing so takes a holistic approach to the Council's finances. The position in respect of the ring-fenced Housing Revenue Account is the subject of a separate report.
- 1.2 The report begins by providing Members with details of the final Revenue Support Grant Settlement for 2006/07 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2005/06 and the draft Revenue Budget for 2006/07.
- 1.3 It then summarises the options identified for meeting the anticipated shortfall on the draft Budget and explains the position in respect of the Collection Fund. Finally on the revenue side, it examines Council Tax options for 2006/07.
- 1.4 Local Government finance is a complex subject and to assist Members a glossary of the main terms and acronyms is attached at Appendix A.

2.0 FINAL REVENUE SUPPORT GRANT SETTLEMENT 2006/07

- 2.1 The provisional Revenue Support Grant Settlement (the Settlement) was published on 5th December 2005 and provided details of the authority's income from Formula Grant (previously Revenue Support Grant and National Non-Domestic Rates) and, for the first time, Dedicated Schools Grant.
- 2.2 Details of the provisional Settlement, including key headlines and tables showing the relevant figures for Bury and other authorities, were set out in a briefing note circulated to all Members on 5th December 2005. This paper noted that Bury had received another disappointing Settlement compared to other authorities.
- 2.3 The Settlement was more complicated than ever, containing as it did a new method of funding schools, and a totally new approach to the distribution of grant for all other services. Details of the changes were set out in the Briefing Note but the main 'headlines' were:
 - Confirmation that local government would receive three-year Settlements in future. The 2006/07 Settlement also provided provisional grant figures for 2007/08.
 - Introduction of a new Dedicated Schools Grant, meaning that school funding would now be met from national taxation, with Councils simply distributing a ring-fenced cash grant.
 - The abolition of the Formula Spending Share system and introduction of a new distribution system for Formula Grant that does not involve the use of notional figures for spending or council tax yield. Instead grant will be distributed by formulae that are designed to reflect the relative needs and resources of individual authorities. The system comprises four main elements:
 - Relative needs
 - Relative resources
 - Central allocation block
 - Floor damping block

The actual amount of Grant which an authority receives is calculated using the four blocks detailed above.

- The Relative Needs Formulae themselves are split into seven blocks, covering the main service areas provided by local authorities (Children's Services; Adults' Personal Social Services; Police; Fire and Rescue; Highways Maintenance; Environmental, Protective and Cultural Services (EPCS); and Capital Financing).
- Floors have been continued and for authorities such as Bury with education and social services responsibilities they were set at 2.0% (but this figure excludes the increase in schools funding). Bury's grant allocation falls below the floor in 2006/07 and as a result we have received an additional £0.758m through this system.
- A number of grants have been switched from cash into the RSG system, including residential allowances and Safeguarding Children. In addition the costs of the new national Concessionary Fare scheme have also been built into the system.

2.4 To allow meaningful year-on-year comparisons in Formula Grant the Settlement provides adjusted figures for the current year, reflecting what our grant would have looked like had these technical changes been in place from April 2005. However, it is no longer possible to make year-on-year comparisons in FSS figures.

2.5 Members and officers met with the Local Government Minister on 20th December 2005 and provided a robust case for additional resources.

2.6 The final Settlement was announced on 31st January 2006. The net result was an decrease in Formula Grant of **£8,000**, due primarily to technical amendments to the formulae which in turn have affected the amount of grant needed to bring us up to the 'floor'

2.7 The table below shows the change in Formula Grant between the current year and 2006/07, and a comparison of our Dedicated Schools Grant for 2006/07 against the baseline for the current year.

	2005/06 (adjusted) £m	2006/07 £m	Difference	
			£m	%
Formula Grant	55.464	56.575	1.111	2.0
Dedicated Schools' Grant	94.031	98.990	4.959	5.3

2.8 The following table shows Bury's position compared to other authorities

	Increase in Formula Grant 2005/06 to 2006/07
Bury	2.0%
Greater Manchester	2.8%
Met Districts	2.5%
Nearest Neighbours	2.4%
London	2.5%
England	3.0%

The table shows that Bury's increase is below the average increase for Greater Manchester, Metropolitan Districts, Nearest Neighbours, London and England.

2.9 Finally, the position for 2007/08 does not show much of an improvement. Bury's Formula Grant is expected to rise by 2.8% compared to a national average increase of 3.8%.

3.0 FORECAST OUTTURN 2005/06

3.1 The Council operates a delegated cash ceiling scheme and in order to achieve sound financial management and effective budgetary control budgets are reviewed and revised on an on-going basis within individual services.

3.2 However, whilst it is not necessary to undertake a formal revision of the corporate budget it is essential that a forecast is made of the potential outturn position for the year. Not only is this a matter of good practice but of particular importance is the fact that it also allows a forecast to be made of the likely level of balances available to support future years' budgets.

3.3 Members should also note that with effect from 1st April 2004, under the provisions of the Local Government Act 2003, authorities are now required to monitor formally their financial position, and the adequacy of their minimum balances, on a regular basis and to take corrective action where this appears to be necessary.

3.4 In Bury budgets are monitored monthly throughout the year and Corporate Financial Monitoring Reports are brought to Members on a quarterly basis. In addition, formal Star Chamber meetings are held at least quarterly, at which leading Members and senior officers examine departmental budgets in detail, along with action plans to correct areas most at risk from overspendings. Other aspects considered at Star Chamber meetings include progress towards the achievement of efficiency targets, identification of budget pressures for future years and a review of departmental Medium Term Financial Strategies in the light of the budget position.

3.5 In 2005/06 a number of "hot spots" have been identified and these include:

• Leisure Services	£0.280m overspent
• Education	£0.412m overspent
• Children's Services	£2.234m overspent
• Learning Disability Partnerships	£0.561m overspent
• Legal and Democratic Services	£0.219m overspent
• Cost of borrowing	£0.895m overspent

3.6 The areas identified are being tackled through Action Plans drawn up by Directors. During the year work has once again been focussed on reducing the forecast overspend on the social care budgets, primarily in the area of Children's Services' agency payments. This budget is facing significant pressures resulting primarily from increased demand and from increased prices charged by care providers, a position mirrored throughout the Country.

3.7 In addition the Education budget is also under severe pressure and is expected to overspend by £0.412m, of which £0.295m relates to the non-delegated schools sector. Executive have agreed that this can be carried forward and funded in 2006/07 from the increase in the Schools' resources and the Schools' Forum have agreed to adopt this approach.

3.8 Taking into account forecast under and overspendings within other Departments and services it is currently anticipated that the Council's revenue budget will overspend by a maximum of **£2.5m**. However it is important to note that £0.545m of underspends within the Environment and Development Services Department, which net the total figure down, are earmarked to support the 2006/07 budget.

3.9 The implications for General Fund balances will depend on the final outturn for 2005/06 and the extent to which the cash ceiling rules are applied, particularly to the carry-forward of overspendings. Whilst the trend over the past three months has seen a reduction in the overall level of the overspending it is recommended that a prudent approach is adopted and so, being mindful also of the need to strengthen the balances position, it is recommended that Members plan for a call on balances of **£3.0m**.

3.10 In considering this situation Members are reminded that the Council received a very disappointing RSG Settlement for 2005/06, with just a 5% increase in overall Formula Grant compared to a national average increase of 5.6%. This poor Settlement reinforced the extremely low level of grant that Bury has historically received compared to other similar authorities - we have the 4th lowest allocation per head of all Metropolitan councils and our grant per head is some £80, or 9% below that of our CIPFA Nearest Neighbours. This has undoubtedly impacted on our ability to meet the demands placed on us by increased expectations and the need to meet additional statutory obligations.

4.0 DRAFT REVENUE BUDGET 2006/07

4.1 The section of the budget report will examine a number of issues pertinent to the budget preparation process:

- “Golden Rules” supporting the budget strategy
- The budget strategy itself
- Assumptions behind the draft 2006/07 revenue budget
- The draft budget for 2006/07
- Options for balancing the budget

4.2 The report then goes on to consider the robustness of the estimates behind the draft budget and this in turn leads to an assessment of the adequacy of the Council's minimum level of balances. This is linked to an evaluation of the financial implications of the corporate risks, and the associated strategy, that are faced by the Council in relation to it delivering on our priorities.

4.3 Golden Rules

4.3.1 The authority sets out the assumptions that underpin the budget setting process in the Medium Term Financial Strategy but by necessity the Strategy is fluid and moves to reflect such matters as the changing circumstances faced by the Council, up-dated priorities and ambitions, the latest financial situation, national Settlements and so on. It should therefore be considered to be dynamic, and integral to what we stand for, and are about. No longer are we resource or priority-led, rather we are moving to a seamless integration of our needs and capacity to deliver.

4.3.2 Whilst this is right and proper, it is also important that the Council enshrine certain values into its longer-term approach to its finances and so four ‘golden rules’ are recommended to Members, 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 £3m or 2.5% of the net budget (excluding schools). This formula needs to be debated and justified in relation to the risk strategy adopted each year.

- The level of one-off options used to support the on-going revenue budget will reduce in each successive year with an aspiration to move to a fully sustainable budget by 2010/11 after which on-going costs will be fully met from on-going resources
- Prudential borrowing will only be undertaken on an Invest to Save basis
- Pressures will be assessed on a 3-year, rather than a one year basis

4.3.3 The Director of Finance and E-Government will report on progress against the 'Golden Rules' on (at least) an annual basis as part of each budget setting process.

4.3.4 Members' attention is particularly drawn to this significant change in policy.

4.4 The Budget Strategy 2006/07

4.4.1 The draft Budget for 2006/07 has been prepared in line with the objectives and assumptions set out in the Medium Term Financial Strategy and with the Golden Rules identified above. However in coming to a view on the budget for the year a number of specific issues were identified that have also had a major influence on the approach adopted.

4.4.2 Strategy for the 2006/07 Budget:

- To make a one-off contribution into General Fund balances to bring them back to the minimum level required under the Golden Rules, compensating for the projected call on balances from budget pressures in 2005/06
- To make on-going provision in the initial 2006/07 revenue budget to meet unavoidable on-going pressures resulting from budget pressures in 2005/06. In order to achieve this a total of £1.5m of growth has been invested into the Children's Services budget in line with Council's priority 'to provide better opportunities for children and young people'.
- To prepare a budget that reflected the costs of inflation and other unavoidable cost increases, leading to a 'continuation of service' budget
- To set a Council Tax that avoids the threat of capping, based on the best information available on capping criteria and on the results of budget consultations (whilst questioning the assumptions behind capping and the Formula Grant system as it applies to Bury).
- To identify cashable efficiency savings in line with the 2006/07 Gershon targets
- To link investment and savings decisions to the Council's policies, priorities and other strategies and to the need to maintain the direction of travel on service performance (see 4.4.3 below)
- To reduce the reliance on one-off financing options in 2006/07 by at least £0.2m

4.4.3 Policy direction in terms of balancing the gap between income and expenditure has centered on:

- Prioritising those policy and service areas central to Bury's Community Strategy and Corporate Plan
- Negating the impact of reduced expenditure upon service recipients

- Maximising savings in 'back office' functions
- Maximising 'value for money' across service areas
- Reducing expenditure in areas of top quartile service delivery
- Maximising efficiency
- Outsourcing service provision where justified
- Providing an 'economy of scale' by cross agency delivery in Bury
- Exploring cross-boundary service delivery models
- Ceasing some areas of discretionary activity

4.4.4 Given the financial situation that was projected when the 2006/07 budget forecast was initially produced the budget being recommended to Members makes **no** provision for additional pressures faced by individual services.

4.4.5 As such, and because of the budgetary position of the Council, these pressures may be managed, but not eradicated. The risk strategy is designed to provide an interplay between these factors, bringing to the corporate agenda those pressures as they present themselves, whether anticipated or in exceptional circumstances. This is a new departure in the Council's strategy, designed to provide greater stability in budgetary control and it will be managed through regular meetings of the service Start Chambers.

4.4.6 Directors have also been asked to prepare Medium Term Financial Strategies within their own cash ceilings showing how spending needs will be matched to anticipated budget allocations over the coming three years. This is a significant departure from the year-on-year budget management that has been expected from Directors in the past.

4.5 Assumptions

4.5.1 The draft Budget for the coming year has been prepared by rolling forward and re-pricing the current year's budget in line with the Medium Term Financial Strategy. This process has a number of specific stages:

- Adding the effects of inflation and other allowable cost increases to the current year's budget;
- Determining the effects of switching cash grants into Formula Grant and applying accordingly when known;
- Assessing unavoidable pressures that must be met to maintain a standstill budget;
- Calculating the resources that will be available for a given level of Council Tax increase;
- In exceptional cases, building in to the process the revenue affects of Members' long-term decisions
- Determining options for addressing any budget deficit, balancing income with expenditure.

4.5.2 The initial budget for 2006/07 has been prepared in line with the 'Golden Rules', the Medium Term Financial Strategy (MTFS) and the strategy set out in section 4.4 above and has resulted from a considerable and energetic input from Members and officers. The task of achieving the strategy direction and policy aspirations whilst balancing the need to meet exceptional demands with extremely limited resources has been exceptional.

4.5.3 A number of assumptions have been used in calculating the figures, taken from the MTFs or from the latest information that is available:

- Inflation

Pay	2.95%
Prices	2.0%
Income	3.0%
Passenger Transport levy	Actual increase
Waste Disposal costs	Actual increase

- Headline Council Tax rise of 5.0% as follows (see section 6 below for more details)

Police	5.0%
Fire	3.7%
Bury	5.0%

- Council Tax base increased by 560 Band D properties to **58,958.98**

- Contribution from Collection Fund in line with 2005/06 i.e. **£250,000**

4.5.4 Members attention is particularly drawn to towards:

- Staff pay level increase at 2.95%
- Double figure energy inflation
- Demand led pressures in excess of nominal inflation
- Bury's high VFM rating
- Changes in the grant distribution formula
- A non-transparent methodology of distributing grant to local areas
- Our penalisation as a floor authority, notably in respect of borrowing costs

4.5.5 The Director of Finance and E-Government's assessment of the robustness of these, and other, assumptions is set out in section 8 and Members are asked to give particular attention and endorsement to the Director's comments.

4.6 The Draft Budget 2006/07

4.6.1 Budgets reflecting cost increases identified between 2005/06 and 2006/07 have been drawn up in consultation with the Heads of Finance and other staff within the Council's Departments. This budget reflects the assumptions set out in paragraph 4.5 above, but excludes costs funded by the Dedicated Schools Grant.

	£000	£000
Base Budget 2005/06		205,130
Less Schools baseline now in DSG	-92,314	-92,314
Add back:		
One-off savings	1,615	1,615
Inflation		
Pay	2,393	
Prices	3,097	
Income	-2,168	
PTA (above 2%)	1,905	
GMWDA (above 2%)	457	5,684
Staffing costs		
1% increase in employers' pension contribution	622	
Increments	608	1,230
Revenue effects of Capital Programme		106
Grant Tapers		1,288

Cost of borrowing			1,125
Budget Pressures (at standstill)			
Refuse collection additional properties	7		
Rent loss due to non-housing property sales	10		
ALMO	150		
Extension of recycling	29		
Other	-248		-59
Estimated Budget 2006/07			123,805
Formula Grant	-56,575		
Council Tax	-60,264		
Collection Fund	-250		-117,089
SHORTFALL			6,716

4.6.2 Options for balancing the budget are set out in section 7.

4.7 Service Developments/Pressures

4.7.1 The budget being recommended to Members makes no provision for additional pressures faced by individual services. Instead, following discussions with individual Directors and Executive Members it is anticipated that pressures can be either deferred or funded by reconfiguring existing budgets, utilising under-spending brought-forward, bidding for external funding or allocating internal earmarked reserves and provisions.

4.7.2 All Directors have also been asked to prepare Medium Term Financial Strategies within their own cash ceilings showing how spending needs will be matched to anticipated budget allocations over the coming three years, taking account of the Council's priorities.

4.8 Gershon Efficiency savings

4.8.1 The Council will be required to make around £3.2m of efficiency savings in 2006/07 of which at least 50% must release cash to support front-line services.

4.8.2 The Council's stated policy is to redirect cashable Gershon savings into services in line with an assessment of needs which are primarily driven by the Council's stated priorities. Given the 2006/07 budget situation this has been achieved by using Gershon savings to assist in meeting the budget shortfall so that the impact of the financial situation is minimised within those policy and service areas central to Bury's Community Strategy and Corporate Plan.

4.9 Education Issues

4.9.1 The Government has introduced the Dedicated Schools Grant that will support all schools spending in 2006/07 and in future years. This grant can only be spent on resources as specified as falling within the Schools Block.

4.9.2 The DfES calculated the Schools 2005/06 Baseline amount as £94.032 million or £3,322.86 per pupil. This has been increased to £98.990 million or £3,536.50 per pupil in 2006/07. This is further increased to £103.812 million or £3,763.34 per pupil in 2007/08.

- 4.9.3 It must be noted that these figures are affected by falling Numbers on Roll within schools which will result in a lower level of DSG of £1.1 million in 2006/07 and £2.67 million in 2007/08 when compared to the 2005/06 Baseline, which of course is a driver of the Strategic Review of Schools.
- 4.9.4 The Schools Forum at their meeting on 7th February 2006 recommended the following amendments to the Schools Formula Funding mechanisms:
- 3.4% increase to the Age Weighted Pupil Unit Formula
 - 25% increase in the Index of Multiple Deprivation component to raise this 'pot' to 3% of the total Individual Schools Budget. (NB. Approximately 5.% of the national funding formula applicable to Bury is allocated for social deprivation)
 - 15% increase to the energy component to cover increased fuel costs
 - 5% increase in Insurance Premiums
 - Other components increased by 2 to 3%
 - DSG developments such as Personalised Learning for Primary & Key Stage 3, Practical Learning for 14-16, Workforce Reform and Early Years Extension have been included in accordance with national formulae methodology
 - £300,000 for more complex places and Statemented support in Special schools
 - The establishment of another 8 places at the Arches Unit at Mersey Drive Primary School that will help to reduce the number of expensive out-borough placements
 - Changes in the number of Resource Provision places in Primary & Secondary schools
 - Increasing the Foundation stage, Key Stage 1 and 2 component factors from 0.82/0.84 to 0.86
- 4.9.5 All these measures ensure that the statutory Minimum Funding Guarantee per pupil of 4% for Nursery and Primary schools and 3.4% for Secondary and Special schools is achieved.
- 4.9.6 In addition, the Schools Forum resolved that the remaining 'Headroom Monies', i.e. the balance of funding unallocated to schools, should be made available to meet the costs of Premature Retirement Lump Sums to school staff. In 2006/07 this budget will be £90,000. The Schools Forum also resolved that the Authority should contribute an additional £60,000 to this budget being the difference of the previously offered £150,000 reduction from the Children's Services savings options.

5.0 THE COLLECTION FUND

- 5.1 Each year, in line with the Local Authorities (Funds) (England) Regulations 1992, the authority is required, based on information to hand on 17th January, to make a forecast of the Collection Fund balance as at the following 31st March, in this case 31st March 2006. A proportion of any forecast surplus or deficit **must** be paid over to our major preceptors, the Police and Fire Authorities, and the remainder **must** be used **in full** to reduce or increase Bury's Council Tax level.
- 5.2 An assessment has been made of the likely balance on the Fund at 31st March 2006 and this is estimated to be **£0.287m** of which **£0.037m** will be paid to the preceptors and **£0.250m** can be used to reduce Bury's Council Tax for 2006/07 (as shown in the table in paragraph 4.6.1).

6.0 THE COUNCIL TAX 2006/07

6.1 Acting under delegated powers, the Director of Finance and E-Government has calculated the amount of **58,958.98** (Band D equivalent) as the Council Tax base for the year 2006/07 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This represents a 98% in-year collection rate, in line with previous years.

6.2 The Band D Council Tax for the current year (2005/06) was set as follows:

	£	£
Bury MBC		1,022.13
GM Police Authority	105.41	
GM Fire and Civil Defence Authority	44.73	150.14
TOTAL		1,172.27

6.3 The initial budget strategy made the assumption that the Council Tax would rise by 5.0%, reflecting the seriousness of the budget situation following the poor Formula Grant Settlement and also noting comments made by the Local Government Minister around Council Tax capping.

6.4 In order to calculate the overall rise in the tax rate it is also necessary to factor in the potential increases in the Police and Fire precepts. For 2006/07 the Band D rates have been set as shown in the table below:

	Increase %	New Precept (Band D)
GM Police Authority	4.99	£110.67
GM Fire and Civil Defence Authority	3.70	£46.38

6.5 Taking these increases into account, this means that with a 5% increase in the headline rate then Bury's Band D element of the Council Tax (the only part that the Council can directly influence) would rise by **£51.75** to **£1,073.83** and the headline Council Tax at Band D would become **£1,230.88**, an increase of £58.61 or £1.13 per week.

6.6 Members are advised to consider carefully the increase in the headline tax rate in the light of the possible capping criteria. In his statement on the Settlement the Minister for Local and Regional Government referred to the Council Tax and said that "Local government should be under no illusions; if there are excessive increases, we will take capping action". Should the authority be capped then there are serious implications around cash flow losses, rebilling costs and timescales to achieve savings requirements.

6.7 **It is important to stress that the 5% rise in the Bury element has been used for illustrative purposes only.** Each 1% change in the Bury rate would change the level of income available to meet the budget by **£600,000**.

6.8 In considering the level of the Council Tax Members must be mindful of the fiduciary duty of the Council to the Council Tax payers of the borough and the need to consider the consequences to Council Tax payers of the level of expenditure set within the budget.

7.0 OPTIONS FOR BALANCING THE BUDGET

- 7.1 On the assumption that the authority will face a level of overspending in 2005/06 that leads to a call on balances of £3.0m and, recognising that balances are at the minimum acceptable level, then the first call on resources in 2006/07 will be an equivalent amount to “top up” balances. Adding this to the shortfall identified in paragraph 4.6.1 then the 2006/07 budget faces a total shortfall of **£12.7m**.
- 7.2 It determining a strategy for balancing the budget Members are reminded of the Golden Rules set out in section 4.3 above and they are reminded of the impact that utilising “one-off” options will have, notably that some contribution will be required for the following year’s budget.
- 7.3 It is therefore suggested that the reliance on one-offs be set at a level of no more than £4.4m (being £3m to address the repayment of balances, which is a one-off item of spend, and £1.4m to address the 2006/07 shortfall).
- 7.4 The Medium Term Financial Strategy makes a working assumption about the level of the rise in the Council Tax and based on the figures shown in section 6 above then it will be possible to earn an additional £3m from Council Tax income, reducing the savings required to **£9.7m**.
- 7.5 It is proposed that the budget shortfall should be met as follows:

	One-off pressures £m	On-going pressures £m	Total £m
Shortfall on standstill 2006/07	1.4	5.3	6.7
Overspend 2005/06	3.0		3.0
On-going overspend from 2005/06		3.0	3.0
TOTAL	4.4	8.3	12.7
Council Tax @ 5% rise		-3.0	-3.0
NET DEFICIT	4.4	5.3	9.7

- 7.6 The following table provides details of the one-off savings options that are recommended for approval:

	£m	Notes
Capitalisation of maintenance	1.000	1
Vacancy freeze	0.300	2
Use of reserves	0.500	3
Sale of asset	0.500	4
One-off savings from E&DS underspend in 2005/06	0.545	5
One-off savings from E&DS	0.455	6
No contribution to provisions in 2006/07	0.400	7
Windfall income	0.700	8
Total One-Off Items	4.400	

Notes

1. Highways maintenance schemes from the draft revenue maintenance programme will be packaged appropriately and charged against the Capital Programme.
2. Services will be required to hold posts vacant during the year.
3. Take sums from other minor reserves
4. Sell a painting that it not seen as being integral to the current collection policy
5. Utilise underspendings in E&DS budget earned in 2005/06
6. Various one-off savings options from E&DS (see Appendix C)

7. Make no budget available in 2006/07 for Education Fire provision, Policy Development provision and Planning Enquiries provision
8. Windfall income from BCCI dividend

7.7 The target for on-going savings was allocated out to each of the main service areas on the basis of net budget except for Children's Services where it was decided to look for savings at a level that would bring the budget in line with the 2005/06 FSS.

7.8 Details of the recommended on-going savings options are shown at Appendix C and summarised in the table below. Further information on each option will be supplied to Members separately.

	£m
Adult Care Services	1.700
Chief Executive's	0.485
Children's Services	1.470
Corporate savings	0.470
Environment and Development Services	1.191
Total One-Off Items	5.316

7.9 All options have been assessed against the Council's priorities and wherever possible savings have been structured so that they lead to efficiency savings rather than service reductions and so that the impact on priority areas is minimised.

7.10 The Council will continue to review the budget during 2006/07 as part of its structured approach to achieving Value for Money. As part of this, a Service Assessment Framework has been developed and will be implemented over the coming 12/18 months, directing attention to services that would benefit from in-depth review. In addition Star Chambers will continue to examine VFM profiles and benchmarking data to determine areas where further efficiency savings may be found.

7.11 Finally, the authority will continue to look for areas where partnerships with other agencies, and in particular the 3rd sector, may provide greater efficiency and/or service improvements and attention will be focussed in the areas of leisure management and homes for elderly persons.

8.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES

8.1 In line with the provisions of s25 of the Local Government Act 2003, the Director of Finance and E-Government is required to make a statement about the robustness of the estimates made for the purpose of setting the Council's budget.

8.2 In doing this, the Director must consider the risk that is inherent in the budget strategy and the extent to which these risks are mitigated or accommodated by the Council's planning and control mechanisms. This is done by examining four particular issues:

1. The degree to which the budget (and the Council's reserves) are linked to the risks facing the Council
2. The level of risk implicit in the individual elements of the Council's budget
3. Risks inherent in the budget strategy itself
4. The strength of the Council's internal control framework

8.3 Corporate risks

8.3.1 The table below sets out the main risks facing the Council, highlights the key actions that are in hand to mitigate the risks and assesses the impact on the budget and level of reserves (cross references are made to the table in paragraph 9.5):

Risk	Rank	Mitigation Action	Impact on Budget
Budget is unsustainable and inadequate to support the achievement of the Council's priorities and ambitions	H	Golden Rules to be adopted, priority-led budgeting process to be further developed through the Service Assessment Framework, budget monitoring processes to be strengthened by adopting risk based approach	Adequate provision must be made in balances to meet unforeseen expenditure, budget must reduce reliance on one-off options, budget must make provision for unavoidable pressures
ICT systems are inadequate to facilitate change agenda or to allow the achievement of efficiency targets	H	New business systems being implemented, business processes being re-engineered, ICT Strategy being refreshed	Provision has been made within the ICT Reserve and Capital Programme to meet capital and implementation costs
Arrangements for workforce development do not support the provision of a 'fit for purpose' workforce	H	Workforce Development Plan to be implemented	No specific provision made in budget for implementing plan but expected that most implications will be on time and management focus rather than cash costs. Likely to be major implications in 2007/08 from Job Evaluation scheme (see para 11.4).
Performance levels reduce as measured by CPA/JAR/PI monitoring	M	Performance has been prioritised in line with corporate priorities, key PIs, CPA Action Plan. Monitoring process aligned to financial monitoring. Corrective action to be taken as needs identified through monitoring	Resources may need to be redirected if corrective action is required in specific areas. No specific provision needs to be made in the budget given the current direction of travel
Development planning policies and performance are unable to provide the framework and/or infrastructure to meet the Community Strategy's aspirations for the Borough	M	Various planning policies are under review. Performance has significantly improved following e-enablement of planning process	Spatial strategy suggests that the Council Tax base will be buoyant in the coming years; affordable homes issue may impact on capital receipts
Uncontrollable demands for social care out-strip the available resources and capacity	M	Performance prioritised and closely monitored, structure being reviewed along with budget apportionments and methods of service provision. Partnership opportunities being identified and explored; access criteria being reviewed together with procurement strategies	Budget provision has been made to address on-going service pressures and further provision will be made within balances to cover unfunded demand (see Unpredictable and Demand Led expenditure cushion).

Disaster management policies, practices and manuals are ineffective	M	Emergency Plan and emergency planning arrangements are being reviewed. Business Continuity Plan being developed, tested and communicated	Provision will be made within balances to meet unforeseen event (see Emergency Expenditure cushion)
In-house team fails to secure the contract for the repair and maintenance of the Council's housing stock	M	Tendering arrangements reflecting the unavoidable costs of outsourcing the work	Need to make provision within balances for unavoidable costs
Absenteeism levels are unacceptably high and lead to increased costs and/or reductions in performance and/or unacceptable demands on other employees	M	Sickness absence being reduced through effective management action	No provision required at this stage due to improved performance
Partnerships fail to operate effectively and/or governance arrangements are inadequate	L	Partnership arrangements being reviewed, Code of Corporate Governance being reviewed. Partnerships being set clear, agreed outcomes, targets and priorities	No provision required at this stage due to low risk and action that is being taken
Structures and/or resources within Children's Services mean that the service is unable to meet existing and/or future demands within existing risk parameters	L	Service reviews are underway, a Project Board monitors service and budgets in detail, additional resources have been made available to the service.	Additional resources totalling some £1.5m have been made available to the Service in the draft Budget for 2006/07 and provision will be made in balances to meet unavoidable costs (see Unpredictable and Demand Led expenditure cushion).

8.3.2 A Member-level Corporate Risk management Group has been established to monitor the risks set out in the table and to assess the effectiveness of the mitigation action that has been identified. Provision has been made in the draft Budget to address the risks set out in the table, or allowance has been made within balances to cover possible events that are out with of the Council's control.

8.4 Risk implicit in specific areas of the budget

8.4.1 As far as income to the Council is concerned there are a number of key sources including RSG, NNDR, ring-fenced grants, Council tax and fees and charges.

8.4.2 In respect of RSG and NNDR, the income stream is known and guaranteed.

8.4.3 Ring-fenced and other grants are properly allocated and accounted for in accordance with the relevant Government department rules and subject to rigorous external audit checking.

8.4.4 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2006/7 has been retained at 98% which is realistic, based on past, current and projected performance. It also compares favourably with other metropolitan authorities.

- 8.4.5 One concern is that the Government has said it will cap authorities whose increase in Council Tax is greater than 5%. However Bury would not be capped on this criteria (assuming that the Council Tax rise is no more than the 5% assumed in the draft budget).
- 8.4.6 Fees and charges (excluding Council House rents) are budgeted to raise some £31m of income in 2006/07 from almost a thousand sources. Of all the income sources this is the area where there is greatest risk of under achievement. To assess the risk it is necessary to understand how relevant income budgets are constructed, fee levels determined, how the charges are made, income collected and recovery procedures applied.
- 8.4.7 Although the budget, through the operation of the cash ceiling scheme, makes a universal assumption that income generated from fees and charges will increase by 3% compared to the previous income budget, the increase in actual fee charging levels, is more responsive and policy-led. As a result, depending on the current income being achieved, market conditions and the particular activity, fees can be increased by more or less than 3%.
- 8.4.8 This means that individual service managers, who understand their part of the business best, are able to advise Members in respect of charging regimes and, once the fees and charges are agreed, are accountable for their efficient collection. Any under achievement of an income budget has to be managed by the service in question through the operation of the cash ceiling scheme. This may mean reducing spending in related areas or even in other unrelated areas. All overspends at the end of a financial year are a first call on the following year unless agreed otherwise by the Executive.
- 8.4.9 The budget strategy once again assumes a level of income from the Airport dividend. The level assumed as income to the General Fund is about 70% of the likely amount forecast to be received, with the remainder being utilised within the Capital Programme and, with the improved shareholder governance arrangements, it is reasonable to assume that this level of dividend will be received. If not then the shortfall will be a call on the General Fund reserve. The Airport has declared a medium term dividend policy and it is reasonable to expect that the authority will receive budgeted levels of income.
- 8.4.10 In terms of expenditure budgets the single largest area of expenditure is on staff pay. For 2006/07 pay awards have been notified and the appropriate amount has been provided for in the budget.
- 8.4.11 An allowance has been built into the budget to cover the cost of incremental drift but no provision has been made for the on-going cost of job evaluation re-gradings awarded post-April 2005. It is felt that the risk inherent in this element of the budget is low but services have adopted a number of strategies to ensure any unbudgeted cost is covered including:
- Filling vacated posts at a lower incremental point than the staff member who has left
 - Delaying filling vacancies
 - Identifying savings in other budget areas
- 8.4.12 In all but those areas which are the smallest cost centres, or have the lowest turnover, these approaches have proved successful, but there is no doubt that progressively services have found it more challenging to cover the cost.

8.4.13 Staff accounts for 48% of the Council's expenditure budget and the next significant areas of budget, in descending order of significance are:

- Supplies, services transport and contract payments
- Housing and Council Tax benefits
- Debt charges
- Levies (PTA/Waste/Environment Agency)

8.4.14 Supplies and services etc. account for 33% of the gross budget and the majority of this is subject to contractual provision. These contracts provide for food, oil, building and highway materials, IT equipment, stationery and external residential accommodation for children, the elderly and people with learning disabilities. The Council is proposing to impose a cash freeze on many of these budgets, and this repeats similar action made in the previous three years. This is a matter of concern although most of the areas covered are controllable and in fact the authority has successfully imposed tight controls on such budgets during 2005/06. However, it is not recommended that this should be repeated in future years.

8.4.15 Whilst many contracts are fixed price, the Council is most vulnerable to variable price contracts and the one of most concern is energy. Whilst to a certain extent, increased prices can be contained within budget by reducing consumption, there is an element of risk from any inability to absorb highly inflated price increases.

8.4.16 The Council pays out around £30m in Housing and Council Tax benefits and over recent years expenditure has been at a reasonably consistent and predictable level. The risk factor of spending over budget is only likely to occur at times when unemployment increases through a general decline in the economy. The economy is stable at the present time and forecasts for unemployment are that it will be maintained at the current level. It is therefore considered that this budget is adequate.

8.4.17 The Council exercises sound Treasury Management practices and has a reasonable volatility ratio. Interest rate predictions are up-dated regularly and action taken to mitigate any negative effects, wherever possible. This budget has been under pressure in 2005/06 and is currently being reviewed in detail.

8.4.18 For levies the budget has been set at the level recommended to the external bodies by AGMA or as notified.

8.4.19 In the paragraphs above 99% of total expenditure has been covered. Of the remainder the areas of greatest risk in the budget are those that are subject to demand fluctuations.

8.4.20 Although the Council's financial procedure rules require that no expenditure is incurred without the identification of a budget there are some budgets where variable demand and cost make it extremely difficult for Services to manage within the resources that have been voted. Such budgets include independent school fees, learning support service, home care and the external placement of children.

8.4.21 The Children's Services and Adult Care Services Project Boards have been re-established and continue to examine such areas very closely with a view to reducing costs and managing risks. Managers are seeking to ensure that proper contractual arrangements are in place and that there is a full understanding of causes and the trends. Systems are being reviewed and replaced and training has been provided to non-financial managers within both service areas.

8.4.22 In recognition of the problems associated with managing such budgets provision has been made within the minimum balances calculation that is shown in the next section of the report.

8.5 Risks inherent in the budget strategy

8.5.1 There are specific risks inherent in the budget strategy itself and these include:

- Savings targets may not be achieved
- Budgets may overspend during the year as a result of unforeseen pressures

8.5.2 Given the robust nature of the budget strategy, in allowing for on-going demand pressures, and the strength of the budget monitoring process these risks are felt to be at a medium level for 2006/07. However it is important that even this level of risk is mitigated and provision has therefore been made within balances to cover these items.

8.6 System of Internal Control

8.6.1 The Council has adopted a Statement of Internal Control (SIC) that concluded that there are no weaknesses in the authority's overall control framework and the Audit Commission have commented favourably on the SIC. The SIC has been reviewed in January 2006 by the Management Board and the Audit Committee and no major changes were required.

8.7 Conclusion

8.7.1 In light of the above the Director of Finance and E-Government has made the following comment on the robustness of the estimates:

"There can be no guarantee that expenditure will be contained within each and every budget. The nature of the Council's business means that varying demands will be faced during the year and under and over achievement will occur. However, the aim should be that the budget in total is sustainable and all indications are that this is the case. Estimates have been based on the best and latest information available and provision has been made within the minimum balances to meet unforeseen eventualities (see section 9 of this report). However imposition of a non-pay inflation freeze will place particular pressure on services' budgets.

Close monitoring of the budget, together with responsive management action, will be necessary to ensure that this is achieved. Improvements continue to be made in this process and these will be assisted by the procurement of a modern financial management system. This is planned to go live on 1st April 2006.

Service pressures have been identified by Directors and it will be necessary to evidence action that has been taken to mitigate any pressures that have not been funded. It will also be necessary to continue to embed the Council's Risk Management Policy and Strategy.

Finally, experience of past years has highlighted the social care budgets as a risk area particularly in terms of Community Care, learning Disabilities and out-of-borough placements for children. It is essential that Members support the work of the Project Boards that are referred to elsewhere in this report and that Members and management continue to implement the measures that have so far been identified. It is difficult to assess the financial effect these will have and therefore the risk of overspendings remain, despite the additional resources that have been earmarked in the budget process.

In the light of the risk assessment, the details of the budget as set out in this report and the strength of the Council's Internal Control framework, I (as the Director of Finance and E-Government) can state that **the budget for 2006/07 is robust**. This statement is in compliance with s25 of the Local Government Act 2003."

9.0 ADEQUACY OF RESERVES

9.1 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 Director of Finance and E-Government) is required to report on the adequacy of the authority's financial reserves. The Director 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.

9.2 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.

9.3 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

9.4 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

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

	£000
Pay inflation Cushion: Pay awards have been set for 2006/07 and full provision has been made within the draft revenue budget and so it is not necessary to make any specific provision within reserves for a pay award cushion in 2006/07.	0
Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been set, this contingency assumes a 0.5% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.	150
Interest Cushion: This is to allow for increases in the level of interest rates over that assumed when the budget was formulated. Given the authority's acceptable volatility position and the level of investments this risk is felt to be	100

minimal.	
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.	150
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. This contingency is based upon 2.5% of all "demand led" expenditure largely in the areas of Children's and Adult Care Services.	1,500
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.	500
There are particular risks around the fact that no contribution has been made to provisions budgets and also from the tendering of the R&M contract and this contingency makes provision for the possible financial effects of these two issues	300
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.	400
Contingency for smaller emergencies e.g. highway collapse.	500
TOTAL	3,600

The above table makes provision to address the corporate risks identified in section 8.3 and the other risks inherent in the budget strategy.

It is not expected that all of these possibilities would occur at one time and therefore the total can be reduced by, say, 15% to give a more realistic position. This would set the minimum balance requirement for 2006/07 at **£3.060m**. The calculation made under the Golden Rules would lead to a minimum level of balances of **£3.000m** and it is recommended that Members agree to set the **minimum** level of balances at the higher level of **£3.1m**.

- 9.6 Members are reminded that whilst reserves above the minimum level can be released to support expenditure or reduce taxation 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 and if they are, then Members are strongly advised to consider the implications for future years' budgets.

10.0 CONSULTATION PROCESS

- 10.1 Once again a wide ranging budget consultation exercise has been held to seek the view of residents, staff, Headteachers and others. This involved public meetings, the use of a dedicated e-mail address for consultation responses and an on-line and paper questionnaire.

- 10.2 Responses received will be summarised and circulated to Members prior to the special Council meeting. In coming to decisions on the budget for 2006/07 Members are asked to give due consideration to the findings of the consultation exercise.

11.0 FUTURE YEARS

- 11.1 The strategy outlined in section 7 above requires the use of **£1.4m** of one-off savings options to cover the projected shortfall on the 2006/07 budget. This means that there will be an immediate need to find **£1.4m** from the 2007/08 budget to replace these one-off items, before any account is taken of other cost pressures, service developments and the effects of the below average Formula Grant that has been notified for that year. However Members will note the strategy outlined in paragraph 4.3.2.
- 11.2 During this budget round it has been evermore difficult to find efficiency savings that could be made without an adverse impact on services, and it has also become clear that the demand pressures within services are unlikely to relent.
- 11.3 A draft 3-year budget forecast is shown below setting out the likely budget position in 2007/08 and 2008/09 (although the figures for 2008/09 have to be viewed with caution as there have been no indications given of the likely level of Formula Grant for that year).

	2006/07 £m	2007/08 £m	2008/09 £m
Opening budget	112.8	120.1	124.6
Add:			
One-off options used	1.6	1.4	0
Pay Inflation	2.4	2.2	2.3
Prices	5.5	3.6	3.7
Income	-2.2	-2.2	-2.3
Pensions/increments	1.2	1.3	1.4
Cost of borrowing	1.1	1.5	1.0
Revenue Costs of Capital	0.1	0.1	0.1
Grant tapers	1.3	0.1	0.1
One-off costs	3.0	0	0
On-going costs b/fwd	3.0	0	0
Savings	-9.7	0	0
	120.1	128.1	130.9
Funding available:			
Formula Grant	-56.6	-57.9	-59.5
Council Tax	-63.3	-66.5	-69.5
Collection Fund	-0.2	-0.2	-0.2
	120.1	124.6	129.2
Surplus/(Deficit)	0	(3.5)	(1.7)

The table assumes an annual increase in the Council Tax of 5% (as an initial assumption) and increases in pay inflation of 2.75% in 2007/08 and 2.5% in 2008/09; non-pay inflation of 2% in both years; and income rises of 3% in both years.

- 11.4 Members are reminded that 2007/08 will see the introduction of the new Job Evaluation scheme and this has the possibility to lead to major budgetary implications. At this stage the assumption is that the scheme will be self-financing; however should this not be the case then there may be serious implications for the budget and/or the Workforce Development Plan.

- 11.5 The Medium Term Financial Strategy, covering the coming 3 years, will continue to be refined, making more explicit links to other Council strategies and plans and making stronger links to the authority's risk management framework. The authority's priority-led approach to resource allocation will continue to be strengthened, involving a process for prioritising services and linking future resource allocation to community, corporate and service policies and priorities. This work will be heavily influenced by the authority's Service Assessment Framework.
- 11.6 Individual services will continue to develop their Medium-Term Financial Strategies and these will show clearly how savings are to be implemented and unfunded demand pressures addressed within existing resources.
- 11.7 At the same time, a Long-Term Financial Strategy will be developed setting out options for delivering the Council's long-term ambitions.
- 11.8 It is intended that the results of all of this work will be presented to Members at the Forward Planning Event in July 2006.
- 11.9 Finally, budget monitoring processes will continue to be strengthened by adopting a risk-based approach and by developing stronger links between the reporting of financial and performance information. In addition the Risk Strategy has budgetary control as its primary concern. Changes to budget monitoring have already begun and are reflected in the Quarter 3 Monitoring report that was considered by the Executive on 15th February 2006. The use of Star Chambers will continue, with Members looking at financial performance, progress on the implementation of Gershon and other savings, future service pressures, performance etc. on a scheduled basis.
- 11.10 However, whatever processes are put in place, it is clear that in the coming 9 months Members are likely to be faced with difficult choices if the budget is to be placed on a sound, priority-led and sustainable footing.

**COUNCILLOR MIKE CONNOLLY
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GLOSSARY OF TERMS

FORMULA SPENDING SHARE (FSS)

The amount that the Government assumes a Council should spend to provide a 'standard' level of service, increased by a formula known as resource equalisation, to reflect the level of actual Council budgets. If all Councils set their budgets at the level of their FSS then they should, in theory, all set the same level of Council Tax. The FSS is mainly used to distribute Revenue Support Grant (see later) and it does this by assessing deprivation within individual boroughs and taking this as a measure of the level of 'need to spend' within each Council. Basically, the higher the FSS, the larger the amount of RSG that a Council will get.

Figures are produced in five main blocks – Education, Social Services, Highways Maintenance, Environmental, Protective & Cultural Services and Capital Financing.

REVENUE SUPPORT GRANT (RSG)

The cash amount that the Government pays towards the general cost of Council services. The RSG is used to offset our general costs and this keeps down the level of the Council Tax.

Each year the Government decides how much RSG it is prepared to pay to local government as a whole and it then distributes this money to individual Councils using the SSA figures. As explained above, basically the higher a Council's SSA, the more grant it will get and the lower its Council Tax will be.

NATIONAL NON-DOMESTIC RATES (NNDR)

Non-domestic rates are the rates levied on business and commercial properties and for each property they are calculated as an amount payable per pound of rateable value. Rateable values are set by the District Valuation Service, not local Councils, and the amount paid per pound is set by the Chancellor of the Exchequer.

Councils collect the rates and then pay them over to the Government, into the National Non-Domestic Rates Pool. The Government then calculates how much the Pool will have in it each year and this is then shared out amongst individual Councils as an amount per head of population.

The NNDR is also used to pay for general Council services and to keep down the level of the Council Tax.

There was a major revaluation of non-domestic properties with effect from 1st April 2000.

COUNCIL TAX

This is the amount that the local residents pay towards the general cost of Council services.

Domestic properties are valued and placed into eight valuation bands, with band A being the lowest and band H being the highest. The higher the band, the higher the Council Tax that is charged on the property, although if people live on their own then they are entitled to a 25% reduction in their bill.

Publicly, Council Tax levels are usually quoted at the band D level, for comparison purposes and the amount charged to the other bands is calculated as a higher or lower proportion of the band D level.

A Council Tax benefit scheme exists to help people on low incomes to pay their Council Tax bills.

CAPITAL FINANCING COSTS

The cost of paying back loans and the interest charged on those loans.

PRECEPT

Certain authorities meet their costs from out of RSG, NNDR and the Council Tax but they cannot issue their own Council Tax bills. Instead they ask those authorities who can issue bills (billing authorities) to collect the money for them and they do this by issuing a precept on the billing authorities. The precept is shown as an amount per band D property and it is added to the band D Council Tax set by the billing authority.

In Bury's case the preceptors are the Police Authority and the Fire & Civil Defence Authority. Bury Council is the billing authority.

COLLECTION FUND

This is a separate Fund that billing authorities must set up. They then pay into it all the Council Tax and Non-Domestic rates that they collect each year.

Out of the Collection Fund they then pay the amount set by the preceptors and the amount that they need themselves to pay for their own services.

Any surplus at the end of the year has to be used to reduce the level of future years' Council Taxes.