REPORT FOR DECISION

Agenda Item	

MEETING:	**RESOURCE AND PERFORMANCE SCRUTINY PANEL** **THE EXECUTIVE** **COUNCIL**
DATE:	**13 February 2007** **14 February 2007** **28 February 2007**
SUBJECT:	**BUDGET 2007/08**
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 2007/08 (section A) and the latest estimate of the revenue outturn position for 2006/07 and the forecast Revenue Budget for 2007/08 (section B).

Section A sets out the draft Capital Programme for 2007/08 to 2009/10 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 five key policy areas.

Section B addresses the revenue budget for 2007/08 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 £7.274m, after making provision for a £1.900m contribution into the Priority Investment Reserve, 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 2007/08 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 **£2.356m** 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 2007/08 be noted;
5. That the forecast Collection Fund position as at 31st March 2007 be noted;
6. That the minimum level of balances to be retained is confirmed at ***£3,400,000***;
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 **58,959.36** as the Council Tax base for the year 2007/08 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 2006/07 be noted;
10. That the Golden Rules set in section 4.3 be reaffirmed;
11. That the draft Revenue Budget for 2007/08 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 2007/08;
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 2008/09 and 2009/10, as outlined in section 12 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 13 February 2007.

TRACKING/PROCESS **DIRECTOR:** Mike Owen

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
Both	Leader Executive Member –Quality Council		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 2007/08 together with the schemes that have been put forward by Directors. It also outlines the process adopted by the Asset Management Strategy Group (AMSG) for prioritising the bids for schemes and provides details of a recommended Programme.

2.0 REVISED CAPITAL PROGRAMME 2006/07

2.1 The original Capital Programme for 2006/07 was approved by full Council on 22nd February 2006 at **£43.714m**.

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

- Slippage requests amounting to £6.218million from 2005/2006 approved in August 2006
- £2.267million of schemes taking place over several year such as Pimhole regeneration, Townside Fields and part of the planned maintenance in the Housing Public Sector
- additional unsupported borrowing approved for the replacement/ new Corporate Systems of £3.762m (with borrowing costs funded from the ICT Reserve)
- £2.272m approved as an Invest to Save scheme for the Bradley Fold SME Units Development
- An additional amount to fund a shortfall of £0.333m on the Ramsbottom Co-location Library
- £0.372m of Learning Skills Council funding for the refurbishment of Whitefield Library
- Additional £0.200m was received since the approval of the Programme as a specified grant for Parrenthorn and Philips High Specialist Status for 2006/07
- Additional small amounts added to several schemes of £0.031million.
- Removal of the £0.900m for the Townside Fields Car Parking provision from the slippage amount carried forward from 2005/06 due to changes in the specification of this scheme
- £1.774m from the original approved will be shown below the monitoring line as this relates to Voluntary Aided Schools DfES devolved formula funding that is monitored by the schools directly.
- Removal of £240k included in the recycling initiative for replacement of refuse vehicles that are actually funded through leasing.

2.3 In addition to the changes that have occurred during quarter 3, a re-profiling exercise of the Capital Programme has occurred. This is as a result of the difficult financial position and the limited funding that can be made available to continue with a large capital programme over the next three years. Members of the Capital Programme Management Group (CPMG) have re-profiled current year projects to ensure that funds available are used most effectively.

2.4 The revised Capital Programme now stands at £55.053m and expenditure to 31st December 2006 reached a figure of £17.389m. 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 £41.305m, with the difference of £13.748m being accounted for by slippage of £2.230m and by programming changes within major longer-term schemes amounting to £11.518m. Details of the individual schemes that have slipped have been provided to Members as part of the Corporate Financial and Performance Monitoring report.

2.5 The original Programme assumed £3.991m of receipts in 2006/07 which included £1.5m receipt from the sale of Warthfield to support the care village but these costs will now not be incurred. At the end of December the Council had received £1.334m of usable capital receipts and the latest forecast suggests that further usable receipts totalling £1.157m will be completed before 31st March 2006, giving a total for the year of £2.491m. Further revisions from slipped schemes in 2005/06 and additions during the year have increased the total required to £5.084m, leaving a shortfall of £2.593m. It is envisaged that the projected shortfall will be covered from the capital reserve, earmarked receipts for specific schemes yet to be received and slippage into 2007/08.

2.6 Taking all known factors into account it is not expected that the changes that have taken place affecting the 2006/07 Programme will lead to an additional call on 2007/08 resources.

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

3.0 CAPITAL RESOURCES FOR 2007/08

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

3.5 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 2007/08 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 the receipt is certain to be received.

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

	£m
Borrowing	7.701
Borrowing – ALMO element	7.920
Usable Capital Receipts/Capital Reserve	2.809
Grants and External Contributions	17.845
Regional Housing Allocation	1.144
Major Repairs Allowance (Housing only)	4.750
TOTAL FUNDS	**42.169**

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. These are reflected in the Capital Programme shown in Appendix B and 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 **£15.517m** 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 2006/07. They involve total expenditure of **£20.085m** in 2007/08. Of this amount, £6.702m will be generated from external sources and the balance of **£13.383m** 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 **£6.045m,** with £4.264m 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 2007/08 is as follows:

	£m	**£m**
Available resources		42.169
100% funded schemes	15.517	
Contractually committed schemes	11.821	
Morally committed schemes	8.264	
On-going schemes	6.045	41.647
Available for discretionary schemes		**0.522**

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 2007/08 as a result of the high level of longer-term schemes and so the AMSG has previously recommended, and Council has accepted, that any funding which was available should be focussed on a small number of priority areas.

4.5 During 2006/07 and following an assessment of Council priorities against scheme bids Council agreed 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 During the year the Council has approved an up-dated Asset Management Plan (AMP) and within the Plan the level of backlog maintenance was identified and Executive recently recommended that a bid for capital resources of **£0.6m** should be supported to begin to address the backlog. If approved, the provision will be spent on schemes that rate as highest need following a recent maintenance survey.

4.7 The backlog maintenance list currently includes operational and non-operational assets. An alternative to funding Non-operational assets directly from the Capital Programme and including them in the overall prioritisation backlog maintenance is to use a percentage of the capital receipts arising from the sale of surplus Non-operational assets to directly fund Non-operational backlog maintenance. This principle is set out in the AMP.

4.8 The reason for separating out Non-operational is that by nature, they generate income into the Council and if backlog maintenance is not addressed then income levels could decline. The proposal therefore is that a proportion of receipts arising from the sale of surplus Non-operational assets would be reinvested in the portfolio to sustain returns.

4.9 However, it should be noted that this approach is contrary to the Council's stated policy of pooling capital receipts and also that the percentage of non-operational capital receipts used to fund Non operational backlog maintenance would reduce the overall level of capital receipts available to fund the Capital Programme.

4.10 **Radcliffe Riverside School** - the figures still remain provisional and show that a total of £3.033m of Bury MBC resources are required in 2007/08.

4.11 **The Care Village –** this scheme is currently being reassessed and is likely to proceed in isolation from the Radcliffe Riverside scheme. At this stage it appears unlikely that costs will be incurred within the coming year and so it is recommended that no provision be made in the 2007/08 Programme.

4.12 **Customer Contact –** part of the customer contact scheme includes a refurbishment of the Town Hall foyer refurbishment estimated at a cost of £0.590m. This scheme is linked to the options appraisal around the viability of a Strategic Partnership (see report to Executive on 21 February 2007) and so it is recommended that no funding be included within the Capital Programme for 2007/08.

4.13 In addition, the one-off options list for balancing the revenue budget assumes that £0.6m of maintenance will be capitalised and this will also have to be counted against capital resources in the coming year.

4.14 Finally, the Council currently funds disabled adaptations to its own houses from within the repairs and maintenance element of the Housing Revenue Account (HRA) and it is now apparent that this approach is open to question. It is therefore necessary to phase this expenditure out of the HRA and into the Capital Programme and an amount of £0.150m will need to be built into the 2007/08 Programme with a further £0.150m being provided for in 2008/09.

4.15 Taking into account the priorities and demands described above the funding situation is as shown in the following table:

	£m
Backlog maintenance	0.600
Public Sector adaptations	0.150
Capitalisation of maintenance	0.600
	1.350
Less available resources	(0.522)
Additional resources required	**0.828**

4.16 As far as future years are concerned, in view of the level of Programme commitment it is strongly recommended that the Capital Programme is fully reviewed from a zero base to confirm that spend is directed to the Council's priority areas. However in doing this strong support will be given to those schemes where Departments have re-profiled committed expenditure in 2006/07 to future years.

5.0 OPTIONS

5.1 Options available for balancing the Capital Programme 2007/08 are as follows:

Option 1:
Utilise additional borrowing. If a total of £0.828m was borrowed then additional full year revenue costs would be £0.070m pa. This would, however, be in breach of the Golden Rules (see Revenue Budget section of the report; paragraph 4.3).

Option 2:
Create additional resources by funding part of the Capital Programme by slippage as was done in previous years. Given that the capitalisation of maintenance is a 'one-off' option then it would be acceptable to fund this from slippage.

Option 3:
Reduce morally committed schemes. However the draft Programme makes a call of just £0.035m from council resources for such schemes.

Option 4:
Reduce the provision made for on-going schemes. The draft Programme makes provision for on-going schemes of £6.045m (of which £4.264m is funded from Council resources).

Option 5:
Any combination of the above

5.2 It is recommended that the position set out in paragraph 4.15 be addressed by slippage of £0.600m and by prudential borrowing of £0.228m on the basis that the backlog maintenance represents an 'invest to save' approach, in line with the Golden Rules. Given recent movements in interest rates it is anticipated that this level of borrowing can be met from within the cost of borrowing budget set out in the draft 2007/08 Revenue Budget.

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 2006/07 Programme. Capital receipts are graded by degree of risk and those included in the total shown in table in paragraph 3.6 are considered to be low. However 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 Management 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 This section of the report examines the position in respect of the Revenue budget for the current and future years, but in doing so it takes a holistic approach to the Council's finances and reflects the revenue implications of proposals made in respect of the Capital Programme. 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 Local Government Finance Settlement for 2007/08 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2006/07 and the draft Revenue Budget for 2007/08.

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 2007/08.

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 LOCAL GOVERNMENT FINANCE SETTLEMENT 2007/08

2.1 The provisional Local Government Finance Settlement (the Settlement) was published on 28 November 2006 and provided details of the authority's income from Formula Grant (previously Revenue Support Grant and National Non-Domestic Rates) and 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 later that day. This paper noted that Bury had received another disappointing Settlement compared to other authorities.

2.3 The Settlement was in fact unchanged in terms of the approach, formulae, data and Formula Grant figures from those that were issued in February 2006 as part of the new longer term approach to local government finance that was introduced in the 2006/07 Settlement. Details of the Settlement were set out in the Briefing Note but the main points to note were:

- Headline increase of **4.9%** in funding for all local government services including schools for 2007/08 (this is known as Aggregate External Finance or AEF). This compared with an increase of 4.5% in AEF in 2006/07.
- Total increase in Formula Grant (Revenue Support Grant and Business Rates), which funds all non-schools services, of **3.7%** compared with 3.0% in 2006/07. However the amount of Business Rates to be distributed has been increased by £1bn, meaning that Revenue Support Grant is £1bn less than in the provisional figures released in November 2005. This implies a switch between business tax and national taxation.
- No changes in the 'four-block' system of formula grant and no changes to the formulae.
- Floors (the minimum level of grant increase) are to be continued and set at:
    - Authorities such as Bury with education and social services responsibilities, 2.7% (but this figure excludes the increase in schools funding)
    - Police authorities, 3.6%
    - Fire and rescue authorities, 2.7%
    - Shire district authorities, 2.7%.

Therefore the 2007/08 floor for authorities such as Bury will be 2.7%. Bury's grant allocation falls above the floor in 2007/08 and as a result we lost £0.103m of grant in order to help bring up to the floor those authorities who would otherwise have grant increases of below 2.7%.

- The 2007/08 Dedicated Schools Grant allocations show an increase for Bury of **6.4%** in the amount of grant per pupil; this compares to an average increase for all of England of **6.7%.** The final cash allocation will depend on actual pupil numbers.
- A number of grants have been switched from cash into the RSG system, including some of preserved rights grant, social care inspection, and educational psychologists.
- The national non-domestic rates (NNDR) poundage will be **44.4p** compared to 43.3p in 2006/07. This is an increase of 2.5% and is less than the RPI increase reflecting changes to the small business supplement.
- The Local Government Minister in his statement said that the Government expects to see average council tax increases of less than 5% and has threaten to cap Councils which go beyond this.

2.4 To allow meaningful year-on-year comparisons 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 2006. The table below shows the change in Formula Grant between the current year and 2007/08, and a comparison of our Dedicated Schools Grant for 2007/08 against the baseline for the current year.

	2006/07 (adjusted) £m	**2007/08 £m**	**Difference £m**	**%**
Formula Grant	56.357	57.926	1.569	2.8
Dedicated Schools' Grant	99.393	104.443	5.050	5.1

2.5 Bury's Formula Grant figure provided in the Settlement is exactly the same as quoted in the two year Settlement that was released in February 2006 and is the same as the figure used in the budget forecast that was submitted to Executive in October 2006 as part of the Financial Strategy.

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

	Increase in Formula Grant 2006/07 to 2007/08
Bury	2.8%
Greater Manchester	4.0%
Met Districts	3.5%
Nearest Neighbours	3.8%
England	3.0%

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

2.7 Finally, no figures have been released in respect of 2008/09 and future years as these can only be determined once the 2007 Comprehensive Spending Review is complete. However initial indications are that future Settlements will be extremely tight and that efficiency targets will increase.

3.0 FORECAST OUTTURN 2006/07

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 Finance and performance is monitored in different ways at different stages of the year:

Monthly - reports are considered by service management teams and summaries made available to specific Executive Members. A monthly summary of the financial position is submitted to Management Board and to the Executive Member for Quality Council

Quarterly – detailed corporate monitoring reports based on the position at June, September, December and March are considered by Management Board, the Executive, Star Chambers and the Resource and Performance Scrutiny Panel. These set out a risk assessed summary of the financial position together with supporting performance information, explanations of the major variances, an assessment of the minimum level of balances, information on the forecast balances position and an assessment of performance against the objectives of the Financial Strategy (including the Golden Rules).

3.5 There have been three significant improvements to the budget monitoring process during the current year:

3.5.1 **Star Chambers**

The role of the Star Chambers has been strengthened considerably and they now consider detailed information covering:

- Financial performance including a detailed, risk based, assessment of budget hot-spots
- Human resource monitoring
- Performance monitoring
- Assessment of progress on Gerson efficiencies and budget savings
- Departmental Medium term financial planning/strategy
- Management of risk assessments (strategic departmental and budget risks)
- Value for Money

Feedback from the Star Chambers is reported to the Executive as part of the quarterly monitoring reports.

3.5.2 Risk management techniques

Risk management techniques have been applied to budget monitoring using two distinct, but inter-related approaches.

Firstly, for the purposes of reporting budget monitoring information to management teams, Star Chambers and the Executive a traffic light process is used to assess budgets in terms of forecast over and underspendings based on defined parameters (although areas of concern that fall outside of these definitions are also flagged up where it is felt appropriate).

Secondly, a more forward-looking approach has been used to identify **potential** budget ‘hot spots’ based on risk factors that are inherent in individual budget areas. Hot spots are identified based on the following factors:

- **Previous years’ spending –** where there have been significant overspends (with significant being a matter for local determination)
- **Size of budget –** i.e. very large budgets where even a small percentage variance would be significant even if no historic problems exist
- **Budget reductions/target savings –** where the current years’ budget has been reduced to meet savings targets or in anticipation of service reviews
- **Lack of direct ‘controllability –** where budgets are difficult to control directly due to demand pressures of an outside agency has significant input into spending decisions
- **New service areas** or projects
- **Complex budgets**
- **One-off budget proposals** i.e. new one-off revenue projects
- **‘Sensitive’ budgets**

Hot-spot budgets are ranked according to the likelihood and impact of budget difficulties (based on the authority’s existing risk assessment process). These budgets will be the subject of greater attention by Star Chambers and service management teams.

3.5.3 Links to performance information

Greater use is made of performance information to place financial monitoring in its rightful context. The proper place for detailed assessments of performance is the Star Chambers and detailed information on performance as it relates to red and amber budgets has been included in the information submitted to the Star Chambers.

The corporate monitoring report contains summarised performance information in the case of the budget areas shown as red.

3.5.4 Audit Committee

A summary of the financial and performance position is now taken to each meeting of the Audit Committee which sets out how the position in these key areas impacts on the authority’s overall risk and control framework. This is felt to be an important strengthening of the approach to finance and performance monitoring.

3.6 In 2006/07 a number of "hot spots" have been identified and these include:

- Leisure Services £0.252m overspent
- Learning Disability Partnerships £1.019m overspent
- Legal and Democratic Services £0.254m overspent
- Education £0.104m underspent
- Children's Services £1.523m underspent

3.7 The overspending areas identified are being tackled through Action Plans drawn up by Directors, and Star Chamber meetings pay particular attention to progress against the plans.

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 underspend by **£0.818m**. However it is important to note that £0.838m of underspends within the Children's Services and EDS budgets are earmarked to support the 2007/08 budget.

3.9 The implications for General Fund balances will depend on the final outturn for 2006/07 and the extent to which the cash ceiling rules are applied. It is suggested that Members can expect a contribution to available balances of **£0.818m,** less the underspends already earmarked for the 2007/08 budget. However, in the light of the Golden Rules set out in paragraph 4.3 it is not envisaged that the 2007/08 budget will place a call on any available balances above the minimum that is to be retained.

3.10 In considering this situation Members are reminded that the Council received a very disappointing RSG Settlement for 2006/07, with just a 2.0% increase in overall Formula Grant compared to a national average increase of 3.0%. However the projected outturn position also demonstrates the effectiveness of the Council's priority-led approach to budget setting, following the allocation of additional funds to address the demand pressures being experienced by Children's Services, and also the effectiveness of the remedial action that was started in the previous year in response to the identified overspending.

4.0 DRAFT REVENUE BUDGET 2007/08

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 2007/08 revenue budget
- The draft budget for 2007/08
- 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 that are faced by the Council in relation to it delivering on its priorities.

4.3 Golden Rules

4.3.1 The authority has set out the assumptions that underpin the budget setting process in the Financial Strategy 2007 - 2010 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' were adopted 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 £3m 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.

- 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 and savings will be assessed on a 3-year, rather than a one year basis

4.3.3 The Director of Finance and E-Government report on progress against the 'Golden Rules' as part of the quarterly Finance and performance Monitoring report.

4.3.4 It is clear that the Golden Rules have had a positive influence on the Council's financial standing and it is recommended that they be re-adopted for the 2007/08 budget setting process, in line with the Financial Strategy.

4.4 The Budget Strategy 2007/08

4.4.1 The draft Budget for 2007/08 has been prepared in line with the objectives, strategy and assumptions set out in the Financial Strategy 2007 - 2010 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 2007/08 Budget:

- 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 2007/08 Gershon targets and pay an equivalent sum into the Priority Investment Reserve;

- To link investment and savings decisions to the Council's polices, priorities and other strategies and to the need to maintain the direction of travel on service performance

- To reduce the reliance on one-off financing options in 2007/08 by at least £0.4m

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 2007/08 budget forecast was first produced the budget **initially** 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 Star Chambers.

4.4.6 However, the approach adopted in respect of the PIR means that positive steps can be made towards addressing pressures and priorities and more details are set out in paragraph 4.8 and section 8). In addition 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 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;
- Transferring the level of cashable Gershon savings into the Priority Investment Reserve (PIR) (see section 8)
- 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;
- Allocating funds from the PIR against bids, in line with Council priorities.

4.5.2 The initial budget for 2007/08 has been prepared in line with the 'Golden Rules', the Financial Strategy 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 Financial Strategy or from the latest information that is available:

- Inflation

Inflation	Pay	2.0%
	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	3.5%
Bury	5.0%

- Council Tax base **58,959.36** Band D properties

- Contribution from Collection Fund **£143,000**

4.5.4 Members attention is particularly drawn to towards:

- Staff pay level increase at 2.0%; this is an assumption as the pay award has yet to be settled and the inherent risk has been reflected in the minimum balances calculation
- Double figure energy inflation
- Demand led pressures in excess of nominal inflation
- Bury's high VFM rating
- Changes in the grant distribution formula and losses through damping
- A non-transparent methodology of distributing grant to local areas
- The ability to demonstrate clearly the reallocation of resources on a priority-led basis

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 9 and Members are asked to give particular attention and endorsement to the Director's comments.

4.6 The Draft Budget 2007/08

4.6.1 Budgets reflecting cost increases identified between 2006/07 and 2007/08 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 section 4.5 above, but excludes costs funded by the Dedicated Schools Grant.

4.6.2 The table below summarises the draft 'standstill' budget for 2007/08

	£000	£000
Base Budget 2006/07		**120,080**
Add back:		
One-off savings	1,400	1,400
Inflation		
Pay	1,842	
Prices	2,913	
Income	-2,092	
PTA (above 2%)	256	
GMWDA (above 2%)	432	3,351
Staffing costs		
1% increase in employers' pension contribution	712	
Increments	565	1,277
Revenue effects of Capital Programme		33
Grant Tapers		429
Cost of borrowing		1,629
Budget Pressures (at standstill)		
Energy costs	851	
Loss of car parking income (Town centre redevelopment)	210	
Rent loss due to non-housing property sales	35	
Manchester Airport dividend	331	
ALMO	150	1,577
Estimated Budget 2007/08		**129,776**
Formula Grant	-57,926	
Council Tax	-66,333	
Collection Fund	-143	-124,402
SHORTFALL		**5,374**
Cashable Gershon savings to the Priority Investment Reserve		1,900
TOTAL SAVINGS REQUIRED		**7,274**

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

4.7 Gershon Efficiency savings

4.7.1 The Council will be required to make **£3.727m** of additional on-going efficiency savings in 2007/08 of which at least 50% must release cash to support front-line services i.e. **£1.863m**.

4.7.2 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. In the 2007/08 budget situation this will be achieved by passing a sum equivalent to the cashable savings into the Priority Investment Reserve and then allocating the balance in the Reserve against bids submitted by Portfolio holders.

4.8 Service Developments/Pressures

4.8.1 The budget set out in the table in section 4.6 reflects a standstill, or continuation of service, budget. However it is recognised that there will be additional pressures on service budgets.

4.8.2 To make sense of these competing demands (and opportunities) whilst retaining our focus on corporate priorities, the council operates a policy framework to inform and monitor spending decisions. Based on the 'Golden Rules' and supported by rigorous monitoring by Member-led Star Chambers and scrutiny, our approach not only promotes priority-led budgeting but also:

- Encourages the financial implications (of new services, changes in service delivery or higher service targets) to be kept as low as possible
- Ensures that the Bury Plan and Departmental Plans reflect resource requirements
- Improves the links between revenue and capital budgets
- Provides for a Priority Investment Reserve that will receive contributions from both new and re-directed existing resources (efficiency savings) and be used to fund (in part or full) new priorities as set out in the Bury Plan

4.8.3 The Council recognises that meeting pressures and priorities can be done in a number of ways and it will therefore take a three stage approach:

- Reallocation of existing resources – this may include a change in service direction, a refocusing of management attention and/or a reallocation of revenue and capital budgets
- Utilising Local Area Agreement pump-priming grant
- Allocating resources from the Priority Investment Reserve/applying available discretionary capital resources

4.8.4 For those pressures which do not receive additional internal funding 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.

4.9 Equal pay/Job Evaluation

4.9.1 The authority recognises that it may face a potential liability from claims under equal pay legislation and potential sources of funding for any claims have been identified outside of the mainstream revenue budget. It may also be necessary to incur prudential borrowing and provision has been made within the 'cost of borrowing' budget to cover this possibility.

4.9.2 As far as job evaluation is concerned work is in hand to implement the national scheme and to determine overall 'pay to points' levels. It is intended that the scheme will be cost neutral in the longer-term and that any initial costs will be one-off in nature and will be funded accordingly.

4.10 Schools' Issues

4.10.1 The Dedicated Schools Grant (DSG) is ring-fenced and distributed to local authorities only to be spent on specified areas within the Schools Block and does not include Standards Fund and Schools Standards Grant monies.

Schools Block	£ millions	£ millions	Percentage Increase
Total DSG			
2006/07 Original Budget	98.990		
2007/08 Estimated Budget	104.443		
		5.453	5.5%
Schools Delegated Budgets			
2006/07 Original Budget	88.238		
2007/08 Estimated Budget	93.892		
		5.664	6.4%
Central Spend			
2006/07 Original Budget	10.511		
2007/08 Estimated Budget	10.921		
		0.410	4.0%

4.10.2 The 2006/07 Original Budget did not include the £403,000 of DSG that was received once the grant was finalised in June 2006. With the agreement of the Schools Forum this additional money was added to the Contingency Sum for distribution to schools in 2007/08.

4.10.3 The Estimated 2007/08 DSG published in November 2006 is based on the DfES' pupil numbers prediction. The Final DSG will be based on the January 2007 PLASC Return and the Early Years Census which is scheduled for early March 2007. Consequently the Final DSG will be available towards the end of May 2007 and it is anticipated that there will be additional grant monies of approximately £150,000 which has been included within the amount to be distributed to schools.

4.10.4 4.10.5 Throughout Authorities in England the baseline increase in Amount per Pupil is 5%, with further allocations being made to meet Ministerial "expectations", which in turn increases the DSG per pupil. Despite the predicted drop in pupil numbers the **£104.6m** is the largest ever annual revenue budget that Bury has had for its schools.

4.10.5 These additional resources are mainly allocated to authorities by using proxy components such as attainment levels and free school meals. As our schools achieve high attainment levels we tend to receive lower levels of funding. Overall the Indicative 2007/08 Amount per Pupil has been increased by 6.4%, one of the lowest increases amongst education authorities in England.

4.10.6 These figures do not include devolved Standards Fund grants or the Schools Standards Grant, which will increase by the Minimum Funding Guarantee of 3.7% to almost £9 million for these two grants. Consequently the total budget that will be available to be spent in schools is approximately £114 million.

4.10.7 For information, the Central Spend includes Pupil Referral Units, Out-of-borough Placements, Schools Catering (excl High Schools) and fee payments to PVI providers (under 5's). Supply cover for long-term absences, such as Maternity leave, are also included within the Central Spend.

4.10.8 Another amount included within the Central Spend is Premature Retirement Costs and the Schools Forum agreed to increase the £90,000 budget to £150,000 for 2007/08 (subject to review during the financial year).

Allocation of Resources to Schools' Delegated Budgets

4.10.9 The Schools Forum at their meeting on 6th February 2007 recommended the following amendments to the Schools Formula Funding mechanisms:

- Increase Age Weighted Pupil Unit (AWPU) by 4.2% which is above the per pupil Minimum Funding Guarantee (MFG) of 3.7%
- Increase the Statement component by the per pupil Minimum Funding Guarantee (MFG) of 3.7%
- Increase the Reception and Key Stage 1 weighting factors from 0.86 to 0.89 and increase the Key Stage 2 component from 0.86 to 0.90 (other weighting factors remain the same - 2+ & 3+ pupils are 1.03; Key Stage 3 are 1.00; Key Stage 4 are 1.20)
- Premises components such as Repairs & Maintenance and Caretakers & Cleaners will increase by 10%
- The Grounds component is weighted for "soft" and "hard" areas. The "Hard" areas component only refers to "all-weather pitches" and this is being categorised accordingly
- The 10% abatement on High school premises components is being removed
- Energy components will increase by 65% to meet the anticipated very large increases in gas and electricity prices
- All other components are being increased by 2% in line with recommended inflation levels
- The disparity between actual Statemented and CLAS costs that schools incur and the formula component amounts have been compared. These components will increase by 15% to address the disparity.
- The delegated (mainly High Schools) Catering component currently uses "take-up" of free school meals from the PLASC return. This component is being changed to "eligibility" to free school meals.

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 2007. 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 2007 and this is estimated to be **£0.164m** of which **£0.021m** will be paid to the preceptors and **£0.143m** can be used to reduce Bury's Council Tax for 2007/08 (as shown in the table in paragraph 4.6.2).

6.0 THE COUNCIL TAX 2007/08

6.1 Acting under delegated powers, the Director of Finance and E-Government has calculated the amount of **58,959.36** (Band D equivalent) as the Council Tax base for the year 2007/08 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 (2006/07) was set as follows:

	£	£
Bury MBC		1,071.49
GM Police Authority	110.67	
GM Fire and Civil Defence Authority	46.38	157.05
TOTAL		**1,228.54**

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 2007/08 the Band D precept rates have been set as shown in the table below:

	Increase %	**New Precept (Band D)**
GM Police Authority	4.99	£116.19
GM Fire and Civil Defence Authority	3.50	£48.00

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 **£53.57** to **£1,125.06** and the headline Council Tax at Band D would become **£1,289.25**, an increase of £60.71 or £1.17 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 **£632,000**.

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 In 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.

7.2 It is therefore suggested that the reliance on one-offs be set at a level of no more than £1.0m with this being a reduction of £0.4m on the amount utilized in 2006/07 to support on-going costs.

7.3 The policy direction towards the identification of savings options is set out in paragraph 4.4.3 above and in addition the Financial Strategy recognizes that having a priority-led approach to the budget implies the need to disinvest in non-priority areas. The list set out below provides an indication of where those areas are:

- ***Elderly Persons Residential Care provision*** – changing patterns of care (with more people being helped to live at home) coupled with surplus capacity in the market has allowed the council to remove 30% of its directly provided residential care home places. This is set to continue as the council works towards promoting independence
- ***Children's Residential Care Homes*** – we have ceased to provide these services in favour of appropriate provision through the use of not for profit sector capacity and management, along with the expansion of our fostering programme to secure stable family placements
- ***Home Care Support*** – we will stimulate the market to encourage basic services to be delivered by the independent sector allowing in-house services to focus on the provision of intensive home care
- ***Efficient Access to Services*** – we are withdrawing from extensive provision of reception points for face-to-face contact in favour of electronic and telephone transactions and a limited number of comprehensive customer contact centres.
- ***Asset Management*** – divesting ourselves of properties that are not fit for purpose without significant investment. An ALMO has been created to manage and maintain council housing and we are currently investigating alternative management of leisure facilities and residential care homes
- ***Management and Support Services*** – there will be no investment in back office functions unless value for money and transformational benefits are proven
- ***Economic Development*** – Securing/subsiding large industrial and manufacturing capacity within the Borough is no longer a priority. Our input to wealth creation will focus on building the knowledge economy, promotion of local businesses and retail growth. This is in keeping with our desire for sustainable communities and the need to reduce the environmental impact of out-commuting
- ***Education*** – continuing to promote the reduction of surplus capacity and buildings where there is no demonstrable need
- ***ICT*** – adherence to out-dated technology will no longer be tolerated in favour of a challenging transformation to 'best of breed' systems and improved communications networks
- ***Maintenance*** – remedial activity will no longer be prioritised in favour of preventative measures

Generally, we will move away from doing things ourselves when alternatives are more cost-efficient or services can be provided more effectively through partnership working, cross-border joint provision or outsourcing

7.4 It is proposed that the budget shortfall should be met as follows:

- One-off corporate savings options £1.000m
- On-going service savings and efficiencies £6.419m

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

	£m	Notes
Capitalisation of maintenance	0.600	1
No contribution to provisions in 2007/08	0.400	2
Total Corporate One-Off Items	**1.000**	

Notes

1. Highways maintenance schemes from the draft revenue maintenance programme will be packaged appropriately and charged against the Capital Programme.
2. Make no budget available in 2007/08 for Education Fire provision, Policy Development provision and Planning Enquiries provision

7.6 The target for on-going savings was initially allocated out to each of the main service areas on the basis of net budget; however in the latter part of the process a priority-led approach was utilised to finalise targets. The value of savings options identified is shown in the table below and details of individual options are provided at Appendix C:

	2007/08 On-going Options £m (a)	2007/08 One-off Options £m (b)	TOTAL 2007/08 Options £m (c)	Additional Full Year Effect £m (d)
Adult Care Services	1.970	0	1.970	0.500
Chief Executive's	0.591	0	0.591	0.011
Children's Services	1.665	0.510	2.175	0.375
EDS	1.593	0.569	2.162	0.090
GRAND TOTAL	**5.819**	**1.079**	**6.898**	**0.976**

7.7 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. Members attention is drawn to the fact that a number of options are not recommended for approval due to their impact on priorities and the financial impact of this is reflected in the allocation of the PIR set out in paragraph 8.6.

7.8 The budget strategy requires on-going savings only, otherwise the Golden Rules would be breached and the table above shows that £1.079m of one-off options have been put forward for consideration.

7.9 However it should be pointed out that the on-going options also show full-year effects that are £0.976m above the 2007/08 savings which means that the total value of on-going savings will be **£6.795m** in a full-year (column (a) plus column (d)). It is suggested that the timing difference is offset by utilising a corresponding level of one-off items in 2007/08 and this can be done without breaching the Golden Rules. This means there is an 'excess' of one-off options amounting to £0.103m and it is recommended that these options still be taken and that they be used to meet one-off service pressures.

7.10 The Council will continue to review the budget during 2007/08 as part of its structured approach to achieving Value for Money. As part of this, a Service Assessment Framework has been developed and is currently being rolled out across the Council's services directing attention to services that would benefit from in-depth review. In addition and Efficiency Strategy and Action Plan has been developed and 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 PRIORITY INVESTMENT RESERVE

8.1 As explained in paragraph 4.7, a total of £1.9m will be paid into the PIR, in line with the Financial Strategy and the table below shows the specific revenue pressures and priorities that will take precedence for funding from the Reserve during the life of the Financial Strategy:

Corporate Priority	Activity to be Funded
Cleaner, safer, greener	• Waste reduction / recycling (priority)
Promoting Healthier Living/Better Opportunities for Children and Young People	• High cost care packages (pressure)
Better Opportunities for Children and Young People	• Implications from the Green Paper on Children and Young People in Care (possible pressure/priority)
Improved Cultural and Sporting Opportunities	• Positive activities for older people (priority)
Putting customers first	• Customer relationship management (priority)
All	• Backlog maintenance (priority) • Equal pay / national job evaluation scheme (pressure)

8.2 However Members are reminded that the PIR is not the only financial expression of the authority's priority-led approach to resource allocation. In addition to the PIR and the long-standing priority-led approach to setting the Capital Programme, the Local Area Agreement will see a particular focus on the following priorities:

Corporate Priority	Activity to be Funded
Local Area Agreement	
Cleaner, Safer, Greener	• Building respect and social capital
Strengthened Communities	• Community engagement and capacity building
Improving Town Centres and Neighbourhoods	• Knowledge economy • Narrowing the gap between the most deprived SOAs
Promoting Healthier Living	• Improving health • Supporting carers
Improved Cultural and Sporting Opportunities	• Positive activities for older people
Better Opportunities for Children and Young People	• 'Every Child Matters' outcomes

8.3 The detailed implications of, and expected outcomes from, each pressure/priority have been worked up as part of the detailed budget preparation process and pro formas have been prepared that set out this information. Recommendations for funding from the PIR will be made to Council on 28 February 2007.

8.4 It should be pointed out that the activity relating to ‘Putting Customers First’ will be picked up as part of the investigations into the feasibility of forming a Strategic Partnership and also that the issue around backlog maintenance is recommended for funding via the Capital Programme. Details of the approach to equal pay and job evaluation are explained in paragraph 4.9.

8.5 A priority-led approach has also been taken towards the initial consideration of savings options and some options were ruled out as having a direct and detrimental effect on the achievement of the Council’s ambitions and priorities. The financial consequences of not acceding to these options have been a first call on the PIR.

8.6 The table below shows the amount available in the PIR net of these options:

	£m
Total On-going Savings (see paragraph 7.9)	**6.795**
Less: Savings target	-6.274
‘Surplus’ savings options	0.521
Add : Contribution into Priority Investment Reserve (PIR)	1.900
Total available in PIR	2.421
Less: EDS waste collection saving not recommended	-0.300
EDS - closure of Ramsbottom Civic Hall not recommended	-0.020
Adult Care Services savings not recommended	-0.390
PIR available for investment bids	**1.711**

8.7 The budget, as it is currently constructed, assumes that the contribution to the PIR will be made on an on-going basis, up-lifted for changes in the Gershon target.

9.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES

9.1 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.

9.2 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

9.3 Corporate risks

9.3.1 The Council has a robust risk management process that determines, assesses, manages, monitors and reviews risks that are both cross-cutting (corporate) and departmental in nature. For the purposes of corporate budget setting and management it is felt appropriate to utilise the corporate risks, given that there are explicit links between departmental and corporate risks. Departmental risk assessments are used in the management of individual Department’s budgets.

9.3.2 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 10.5):

Risk	Rank	Mitigation Action	Impact on Budget
Budget is unsustainable and inadequate to support the achievement of the Council's priorities and ambitions	M	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	M	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 future years from Job Evaluation scheme (see paragraph 4.9).
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)
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 were made available to the Service in the 2006/07 Budget and provision will be made in balances to meet unavoidable costs (see Unpredictable and Demand Led expenditure cushion). Budget monitoring has highlighted the effectiveness of the service towards managing demand
Inadequate budgetary provision exists to address the level of backlog maintenance identified in the 2006 – 2009 Asset Management Plan	H	Maintenance needs have been identified, assessed and prioritised and a bid for capital resources has been made. Other actions are being considered, including reallocating existing revenue resources and rationalising the current asset base.	A bid for £0.6m of on-going capital resources is included in section A of this report.
The existing provision for Travellers is inadequate	H	Alternative sites for the location of the Travellers' site are being sought	No provision required at this stage; discussions for external support are on-going.

9.3.3 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.

9.4 Risk implicit in specific areas of the budget

9.4.1 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.

9.4.2 In respect of RSG and NNDR, the income stream is known and guaranteed for the coming year although there is no indication of resources for 2008/09 and future years.

9.4.3 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.

9.4.4 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2007/08 has been retained at 98% which is realistic, based on past, current and projected performance. It also compares favourably with other metropolitan authorities.

9.4.5 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).

9.4.6 Fees and charges (excluding Council House rents) are budgeted to raise some £35m of income in 2007/08 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.

9.4.7 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%.

9.4.8 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.

9.4.9 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.

9.4.10 In terms of expenditure budgets the single largest area of expenditure is on staff pay. For 2007/08 pay awards have yet to be settled and so the budget contains an assumption that awards will be at 2%. There is a considerable risk in this assumption, although it reflects the Chancellor of the Exchequer's view on pay settlements and is in line with provisions made by other authorities. In view of this risk the minimum level of balances contains provision equivalent to 0.5% on top of the 2% already provided for.

9.4.11 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 local 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

9.4.12 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.

9.4.13 The approach taken towards national job evaluation and equal pay is set out in section 4.9 and it is felt that the strategy has minimised the potential impact on, and risk for, the Council's finances.

9.4.14 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)

9.4.15 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 has implemented a cash freeze on many of these budgets in the past and this has been a matter of concern although most of the areas covered are controllable and the controls have been managed in previous years. However, it has been decided not to recommend a repeat of this approach in 2007/08 although Departments have voluntarily adopted a freeze in certain areas, which is of less concern.

9.4.16 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. In view of the high rate of inflation within this area of the budget, and the resultant risk should the inflation provision be limited to the corporate rate of 2%, it has been deemed prudent to make full provision for energy at the market rate.

9.4.17 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.

9.4.18 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. The present upward trend in interest rates was anticipated and borrowing was locked-in long-term in advance of need at the bottom of the rate cycle; investments have been run short-term to allow advantage to be taken of rises in the base rate. As a result, risk has been minimised within this area of the budget.

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

9.4.20 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.

9.4.21 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.

9.4.22 The approach to managing the issues faced by the Children's Services and Adult Care Services budget has been changed during 2006/07 with the relevant Star Chambers focussing on the current budgetary position and strategy, with the Project Boards concentrating on future developments that are aimed at reducing costs, managing risks and restructuring services and care packages. Managers are continuing 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.

9.4.23 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.

9.5 Risks inherent in the budget strategy

9.5.1 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
- Assumptions may prove to be inaccurate

9.5.2 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 2007/08. However it is important that even this level of risk is mitigated and provision has therefore been made within balances to cover these items.

9.6 System of Internal Control

9.6.1 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 December 2006 by the Management Board and the Audit Committee and no major changes were required that impact on the budget strategy.

9.7 Conclusion

9.7.1 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 10 of this report). However uncertainty over the level of the pay award is of some concern, although suitable provision has been made within the minimum level of balances to cushion against the risk inherent in this assumption.

Close monitoring of the budget, together with responsive management action, will be necessary to ensure that income and expenditure remain within budget. However significant improvements have been seen in monitoring processes, particularly in terms of the speed and quality of information from the new Agresso system which went live on 1st April 2006. Further improvements are expected as the commitment accounting module is implemented during 2007/08.

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 that a number of budgets face considerable pressure, particularly Community Care, services for people with physical and learning Disabilities, out-of borough placements for children and leisure services. It is essential that Members support the work of the Project Boards and Star Chambers 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, the strength of the Council's Internal Control framework and the risk based provision made in the minimum level of General Fund balances, I (as the Director of Finance and E-Government) can state that **the budget for 2007/08 is robust.** This statement is in compliance with s25 of the Local Government Act 2003."

10.0 ADEQUACY OF RESERVES

10.1 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.

10.2 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.

10.3 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

10.4 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

10.5 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: Pay awards have not been set for 2007/08 and so there must be considerable uncertainty about the extent to which the budget provision will meet the actual costs. Therefore a significant provision must be made within reserves for a pay award cushion in 2007/08.	H	500
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.	M	150
Interest Cushion: Given the fact that the authority has implemented a prudent treasury management strategy and locked in borrowing and investments then this risk is felt to be minimal.	M	50
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	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.	M	1,700
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.	H	500
There are particular risks around the fact that no contribution has been made to provisions and so allowance must be made for unforeseen contingencies	M	100
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.	M	400
Contingency for smaller emergencies e.g. highway collapse.	M	400
TOTAL		**3,950**

The above table makes provision to address the corporate risks identified in section 9.3 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 to reflect risk as shown in the table below:

	Risk Level	**Likelihood**	**Provision £000**	**Max. Impact £000**
Pay inflation cushion	H	100%	500	500
Non-pay inflation cushion	M	80%	150	120
Interest cushion	M	80%	50	40
Uncertainty of income	H	100%	150	150
Demand led expenditure cushion	M	80%	1,700	1360
Budget strategy cushion – savings	H	100%	500	500
Budget strategy cushion – provisions	M	80%	100	80
Emergency expenditure cushion	M	80%	800	640
			3,950	**3,390**

10.6 This would set the minimum balance requirement for 2007/08 at **£3.390m.** The calculation made under the Golden Rules would lead to a minimum level of balances of **£3.110m** and it is recommended that Members agree to set the **minimum** level of balances at the higher level of **£3.400m** (rounded), an increase of £0.3m on the figure of £3.100m agreed for the 2006/07 budget.

10.7 The forecast position on the General Fund balance at 31st March 2007 is shown in the following table:

	£m
General Fund Balance 1 April 2006 Add : Expected contribution into balances in 2006/07 (reversal of charge made in 2005/06)	3.380 0.250
Re-forecast of available balances at 31 March 2006 Add : Forecast underspend 2006/07	3.630 0.818
Available balances at 31 March 2007 Less : Underspend committed as part of savings options	**4.448** -0.838
Net balances	**3.610**

10.8 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.

10.9 Of course Members are also reminded that there is an opportunity cost to maintaining balances. Whilst on the one hand the money retained will be available for investment (and at £3.5m, the balances will earn £175,000 in 2007/08 as part of the overall Treasury Management strategy), this is money tied up that could otherwise be invested into services or reducing the Council Tax (every £1m in balances equates 1.6% off the necessary increase in Council Tax). However, utilising balances in this way would be contrary to the Golden Rules.

10.10 Finally, in terms of the authority's financial standing it is worth remembering that the General Fund balance is not the only available reserve. The ICT Reserve, whilst rightly held for the purpose of modernizing the authority's ICT infrastructure, is available should circumstances dictate and all or any part of the uncommitted balance can be transferred into the General Fund by a resolution of Council.

11.0 CONSULTATION PROCESS

11.1 Once again a wide ranging budget consultation exercise has been held to seek the view of residents, staff, Headteachers, partners and employees. This involved a public Budget Consultation Conference which took place at the Town Hall on 8 February 2007, the use of a dedicated e-mail address for consultation responses and an on-line and paper questionnaire.

11.2 Responses received will be summarised and circulated to Members prior to the special Council meeting. In coming to decisions on the budget for 2007/08 Members are asked to give due consideration to the findings of the consultation exercise.

12.0 FUTURE YEARS

12.1 The strategy outlined in section 7 above requires the use of **£1.0m** of one-off savings options to cover the projected shortfall on the 2007/08 budget. This means that there will be an immediate need to find an equivalent amount from the 2008/09 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.

12.2 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.

12.3 A draft 3-year budget forecast is shown below setting out the likely budget position in 2008/09 and 2009/10. However due to the fact that the Government is undertaking a Comprehensive Spending Review there have been no indications given as to the likely level of Formula Grant for the coming years. However indications are that public finances will be tightened even further and that cashable efficiency targets will increase. Therefore the figures in the table must be treated with caution:

	2007/08 £m	**2008/09 £m**	**2009/10 £m**
Opening budget	120.1	124.4	129.3
Add:			
One-off options used	1.4	1.0	0.5
Pay Inflation	2.1	2.2	2.3
Prices	4.1	3.7	3.8
Income	-2.2	-2.2	-2.3
Pensions/increments	1.3	1.3	1.4
Cost of borrowing	1.7	1.5	1.5
Revenue Costs of Capital	0.1	0.1	0.1
Grant tapers	0.6	0.0	0.1
Other cost increases	0.7	0.0	0.0
Contribution to PIR	1.9	0.1	0.1
Savings	-7.4	0.0	0.0
	124.4	**132.1**	**136.8**
Funding available:			
Formula Grant	-57.9	-59.5	-61.2
Council Tax	-66.3	-69.6	-73.1
Collection Fund	-0.2	-0.2	-0.2
	124.4	**129.3**	**134.5**
Surplus/(Deficit)	**0**	**(2.8)**	**(2.3)**

The table assumes an annual increase in the Council Tax of 5% (as an initial assumption) and annual increases in Formula Grant of 2.8%, together with increases in pay inflation of 2.0% in 2008/09 and 2009/10; non-pay inflation of 2% in both years; and income rises of 3% in both years. It also assumes that the contribution to the PIR will remain and be up-lifted in line with Gershon targets.

12.4 The 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.

12.5 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.

12.6 At the same time, a Long-Term Financial Strategy will be developed in conjunction with our major public sector partners setting out options for delivering the Council's long-term ambitions.

12.7 It is intended that the results of all of this work will be presented to Members at the Forward Planning Event in July 2007.

12.8 Finally, budget monitoring processes will continue to be strengthened wherever possible through the development of commitment accounting facilities within the new Agresso system and by developing even stronger links between the reporting of financial and performance information. In addition the Risk Strategy will continue to have budgetary control as its primary concern.

12.9 However, whatever processes are put in place, it is clear that in the coming months and years Members are likely to be faced with difficult choices if the budget is to remain on a sound, priority-led and sustainable footing.

COUNCILLOR MIKE CONNOLLY
EXECUTIVE MEMBER FOR QUALITY COUNCIL (RESOURCE AND PERFORMANCE)

For further information on the contents of this report, please contact:
Mike Owen, Director of Finance and E-Government
Tel: 0161 253 5002
e-mail: M.A.Owen@bury.gov.uk

MO/pc3624;c:r-specexccommbudget200708doc

GLOSSARY OF TERMS

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.