BURY METRO

REPORT FOR DECISION

Agenda Item	

MEETING:	**RESOURCE AND PERFORMANCE SCRUTINY COMMISSION** **THE EXECUTIVE** **COUNCIL**
DATE:	**10 February 2009** **18 February 2009** **25 February 2009**
SUBJECT:	**BUDGET 2009/10 TO 2011/12**
REPORT FROM:	**Executive Member for Resource**
CONTACT OFFICER:	**M Owen – Director of Finance and E-Government**

TYPE OF DECISION:	**Council**
REPORT STATUS:	**FOR PUBLICATION**

PURPOSE/SUMMARY:

The report provides Members with details of the Capital Programme for 2009/10 to 2011/12 (section A) and the latest estimate of the revenue outturn position for 2008/09 and the forecast Revenue Budget for 2009/10 to 2011/12 (section B).

Section A sets out the draft Capital Programme and a forecast of the available resources. It recommends a continuation of the existing strategy of linking resources to Council priorities and, recognising that there is little or no room for manoeuvre, suggests that the Programme be limited to on-going schemes and new schemes that were approved during 2008/09.

Section B addresses the revenue budget for 2009/10 to 2011/12 and it also outlines other important budget issues including the final Formula Grant Settlement for the year, the forecast outturn for 2008/09, the initial budget strategy, budget assumptions 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. Assuming a rise in the Bury element of the Council Tax of 4.49% then the forecast budget shows a deficit of **£4.5m** for 2009/10, 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 2009/10 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 **£0.353m** of general capital receipts to support the Programme be noted;

Section B – Revenue Budget

4. That the details of the final Formula Grant Settlement for 2009/10 be noted;
5. That proposals around the use of the Area Based Grant set out in paragraph 2.9 be approved;
6. That the level of repayment of principal on General Fund debt at the minimum of ***4%*** be approved pending a further report to the Council on the implementation of the new Minimum Revenue Provision guidance for 2008/09 and future years;
7. That it be noted that under delegated powers the Director of Finance and E-Government calculated the amount of **59823.96** as the Council Tax base for the year 2009/10 in accordance with the Local Government Act 2003 and with regulations made under section 33(5) of the Local Government Finance Act 1992;
8. That the forecast outturn position for 2008/09 be noted;
9. That the Golden Rules set in section 4.3 be reaffirmed subject to the amendment set out in paragraph 4.3.4 increasing within the formula the amount below which the balances cannot fall to **£3.4m**;
10. That the actual minimum level of balances for 2009/10 be increased to **£3,700,000**;
11. That the draft Revenue Budget for 2009/10 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 approved;
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 2009/10;
15. That consideration be given to the budget position for 2010/11 and 2011/12, as outlined in section 10 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 Commission. This report will be considered by the Commission on 10 February 2009 and builds on the Commission's initial consideration of the Executive's proposals on 6 January 2009, in line with the requirements of the Constitution.

TRACKING/PROCESS **DIRECTOR:** Mike Owen

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
Both	Leader Executive Member (Resource)		
Scrutiny Commission	**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 2009/10 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 PROGRESS AGAINST THE 2008/09 PROGRAMME

2.1 Details of spend against the 2008/09 Programme are set out in the Corporate Finance and Performance Monitoring Report 2008/09 (month 9) that is attached elsewhere on the agendas for the meetings.

3.0 CAPITAL RESOURCES FOR 2009/10

3.1 The Capital Programme is funded from four main sources:

- Borrowing
- Capital grants and contributions from external agencies
- 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 Formula Grant in late January 2009.

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 2009/10 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.

3.6 It is apparent from the latest figures and the current economic climate that the original estimate for the usable capital receipts from the sales of Council houses under the Right to Buy scheme, which stood at £0.800m a year is no longer attainable and to ensure a prudent estimation of Council resources the current and future years forecasts have now been reduced to £0.180m and £nil respectively. This is a severe reduction in the level of resources available to support the Programme

3.7 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.

3.8 The table below summarises the capital funding sources that are available in 2009/10:

	£m
Borrowing	8.981
Borrowing – ALMO element	2.530
General Capital Receipts	0.353
JV Co receipt	0.700
Capital Reserve	0.440
Grants and External Contributions	14.759
Regional Housing Allocation	0.800
Major Repairs Allowance (Housing only)	4.916
TOTAL FUNDS	**33.479**

4.0 CAPITAL PROGRAMME

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/new approvals

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 draft 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 **£18.941m** 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 2008/09. They involve total expenditure of **£5.520m** in 2009/10. Of this amount, **£0.085m** will be generated from external sources and the balance of **£5.435m** will be a call on the authority's own funding. Within this area of the Programme is provision for phase 2 of the Pimhole redevelopment.

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 **£5.548m,** with **£3.884m** 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 2009/10 is as follows:

	£m	£m
Available resources		33.479
100% funded schemes	18.941	
Contractually/morally committed schemes	5.520	
On-going schemes	5.548	30.009
Available for new schemes		**3.470**
New schemes approved during 2008/09:		
Whitefield Centre refurbishment	0.900	
Humphrey House fit out (net of external	0.500	
income)	1.970	
Townside relocation	0.200	3.570
St Luke's school hall		
Shortfall		**0.100**

4.4 It is recommended that the shortfall be funded by slippage.

4.5 It is clear from the table that no provision is available for further capital developments without extending the use of unsupported borrowing. Nor is there room for making any significant reductions in the Programme given the level of committed schemes.

4.6 A table showing the individual schemes that comprise the draft Programme for 2009/10 is attached at Appendix B.

4.7 The proposal for a new Radcliffe Riverside school building is an integral part of the Building Schools for the Future (BSF) bid submitted to the Department for Children, Schools & Families (DCSF) which contains a proposal to close Radcliffe Riverside School and to relocate the Derby High School into a new build on the site of the former East Lancashire Paper Mill to serve children of Radcliffe and parts of Bury East. This would require the Derby High School to have an increased capacity, commensurate with the current intake demand for both it and Radcliffe Riverside.

However this proposal is the subject of a 'call in' and the eventual approach will be determined following consideration under the call-in procedures.

5.0 RISK ASSESSMENT

5.1 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 already impacted on the 2008/09 Programme.

  Capital receipts are graded by degree of risk and those included in the total shown in table in paragraph 3.8 are considered to be low. 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 Commission 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).

  Furthermore, the Council's auditors, KPMG, have made provision within the current audit plan to work with the authority's officers to examine processes for setting and monitoring the Capital Programme and it is expected that this work will help improve on the already high standards of control that is exercised over the Programme.

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 2009/10 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2008/09 and the draft Revenue Budget for 2009/10 to 2011/12.

1.3 It then summarises the options identified for meeting the anticipated shortfall on the draft 2009/10 Budget and examines Council Tax options for 2009/10.

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 2009/10

2.1 The provisional Local Government Finance Settlement for 2009/10 (the Settlement) was published on 26 November 2008 and provided details of the authority's income from Formula Grant (previously Revenue Support Grant and National Non-Domestic Rates), Area Based Grant (see below) and the Dedicated Schools Grant. The figures were unchanged from those set out in the three-year Settlement that was announced in December 2007.

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 At a national level, the provisional Settlement reflected the headline figures announced as part of the 2007 Comprehensive Review and contained in the original three-year Settlement announcement.

2.4 At the time of the initial announcement of the three-year Settlement a robust response was sent to the Local Government Minister, highlighting the following issues:

- The increase in Bury's Formula Grant in each of the coming three years is below the average for England, and for metropolitan authorities (see below);
- The actual increase in 2009/10 and 2010/11 is below the deflator assumed within the Settlement meaning that in these years we will see a real terms cut in Grant (see below)
- The overall Settlement indicates that the amount of funding provided to local government as a whole from national taxation has reduced by £4.1bn with the shortfall being met from business rates
- Concern that the Government's expectations for rises in the Council Tax are unrealistic in the light of the Settlement and the pressures facing local government
- The need for the welcome ending of 'double damping' to be confirmed in the final Settlement
- Concern that the Government's good intentions in reducing grant restrictions through the introduction of the Area Based Grant may be hampered by the actions of individual Departments

2.5 The final Settlement was announced on 21 January 2009 and this confirmed the details of the provisional Settlement.

2.6 Details of the Settlement at a **national** level can be summarised as follows (Members are asked to remember that CSR2007 and the three-year Settlement only provide figures up to and including 2010/11):

- Headline increases in total cash funding for all local government services including schools (known as Aggregate External Finance or AEF) of:

	Increase in AEF
2009/10	4.2%
2010/11	4.4%

This compares with an increase of 4.0% in AEF in 2008/09.

- Total increases in Formula Grant (Revenue Support Grant and Business Rates), which funds all non-schools services, of:

	Increase in Grant
2009/10	2.8%
2010/11	2.6%

- Floors (the minimum level of grant increase) have been continued and set at:

	2009/10	**2010/11**
Authorities with Education and Social Services responsibilities (e.g. Bury)	1.75%	1.5%
Police Authorities	2.5%	2.5%
Fire and Rescue Authorities	0.5%	0.5%
Shire districts	0.5%	0.5%

The cost of the 'floor' mechanism is self-financing within the national system which means that authorities who receive a grant increase above the 'floor' level have to contribute towards the cost of bringing the remaining authorities up to the 'floor', and they do this by losing grant. Bury's grant allocation falls above the floor in all three years and as a result we have lost a total of **£4.195m** during the period of the three-year Settlement to support 'floor' authorities.

2.7 Bury's grant for the remaining two years of the three-year Settlement is set out in the following table (NB to allow for meaningful year-on-year comparisons the Settlement provides adjusted figures for each year to compensate for technical changes. This means that the % increases shown reflect changes in adjusted figures for the previous year, not changes between actual cash figures).

	Bury's Cash Grant £m	Increase in Grant (on previous year)
2009/10	64.688	2.6%
2010/11	66.139	2.3%

- The table below shows Bury's increases compared to other classes of authority:

	2009/10	2010/11
Bury	**2.6%**	**2.3%**
Greater Manchester	3.1%	2.5%
Met districts	2.9%	2.5%
London boroughs	2.0%	1.8%
Shire districts	1.4%	1.3%
England	2.8%	2.6%

Comparatively speaking, Bury's increases are below the average increase for Greater Manchester authorities, for Metropolitan Districts, and for England

2.8 It is also worth pointing out that the reality of the situation is worse than shown in the table. The Settlement assumes that Bury's Council Tax base will rise by 459 Band D properties whereas the reality is that it will rise by just 302 properties and so we will be able to collect **£0.183m** less in Council Tax than assumed by the Settlement.

2.9 The increased freedom resulting from the introduction of the Area Based Grant (ABG) is to be welcomed. However Members are reminded that the grants wrapped up into the new ABG provide funding for a number of key functions and many of these involve the employment of staff members. Despite this, it is recommended that the Council should take advantage of the long sought freedom and so it is proposed that the ABG will be top-sliced by 1.5% with the money being paid into the Priority Investment Reserve and available for distribution in line with the Council's priorities. This equates to a contribution into the PIR of £0.228m.

3.0 FORECAST OUTTURN 2008/09

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 .

Quarterly – detailed corporate monitoring reports based on the position at June, September, December and March are considered by Management Board, the Executive, the Audit Committee, Star Chambers and the Resource and Performance Scrutiny Commission. These reports 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 The table below shows a summary of the forecast outturn based on information available at 31 December 2008 (i.e. month 9):

	£m
Adult Care Services	2.505
Chief Executive's	0.194
Children's Services	(0.040)
E&DS	0.388
Non Service Specific	(2.464)
TOTAL PROJECTED OVERSPENDING	**0.583**

3.6 The overspending areas identified are being tackled in a number of ways including Best Value reviews and service specific Action Plans. Star Chamber meetings pay particular attention to budgets with the highest risk.

3.7 Despite the month 9 position showing a forecast overspend of £0.583m trends in recent months point to a constant improvement in the position and it is possible that the remedial action currently being taken will bring the budget into balance by 31st March 2009. A planned refund from the Waste Disposal Authority will go a considerable way to help achieve this although prudence dictates that the refund cannot be reported until it is confirmed. Prudence also dictates that financial plans should be based on the more pessimistic position and a sum equivalent to the forecast overspending will be earmarked within the General Fund balances.

4.0 DRAFT REVENUE BUDGET 2009/10 TO 2011/12

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 2009/10 to 2011/12 revenue budget
- The draft budget for 2009/10
- Options for balancing the 2009/10 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 2009 - 2012 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 reports 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 2009/10 budget setting process, in line with the Financial Strategy. However due to the year-on-year rises in the base budget since the Golden Rules were first adopted it is recommended that the rule relating to the minimum level of balances be amended to say that balances will not fall below the higher of **£3.4m** or 2.5% of the net budget (excluding schools).

4.4 The Budget Strategy 2009/10

4.4.1 The draft Budget for 2009/10 has been prepared in line with the objectives, strategy and assumptions set out in the Financial Strategy 2009 - 2012 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 2009/10 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 2009/10 efficiency targets and pay 50% of these into the Priority Investment Reserve (PIR). The remainder will be available to services to meet specific priorities in line with Departmental Medium Term Financial Strategies;

- 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 2009/10

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 2009/10 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 inter-play 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 7). In addition Directors now 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 50% of the level of cashable Gershon savings into the Priority Investment Reserve (PIR) (see section 7)
- 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 2009/10 to 2011/12 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 The Forecast is based around a standstill budget, one which reflects the current level of service up-rated for inflation and other unavoidable pressures. New demands and developments are then considered for funding on a priority-led basis as set out in section 7.

4.5.4 Forecasting inflation, both pay driven and general price increases, is extremely difficult in the prevailing economic circumstances as evidenced by comments made by the Governor of the Bank of England in the November 2008 Inflation Report. The Governor goes on to say:

The Committee's latest projection for CPI inflation is based on the assumption that Bank Rate follows the path implied by market yields prevailing prior to the Committee's November decision. Inflation falls sharply from its current level of 5.2% as domestic energy and food price inflation declines, driven by the large falls in commodity prices. The precise speed with which overall inflation declines also depends on the extent to which the lower level of sterling is passed through into higher prices. But in the central projection, inflation reaches the 2% target in the second half of 2009 and then moves materially below the target. The weakness in inflation further out in the forecast period reflects weak demand which, despite a material slowing in the growth rate of potential supply, opens up a margin of spare capacity and pulls down on price and wage increases.

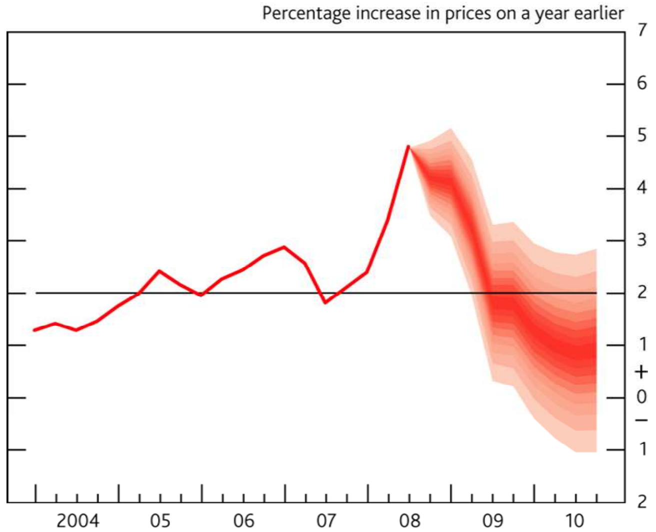
There are very few historical parallels to the present set of circumstances. So the uncertainty surrounding the projections in today's Report is unusually large.

4.5.5 The Inflation Report sets out a 'fan chart' showing the range of inflation forecasts for the period ahead and this is shown on the following page. The difficulty of using the charts to predict inflation is also spelt out by the Governor:

The risks shown in Chart 2 are broadly balanced. On this occasion, the fan charts need to be interpreted with particular caution for two reasons. First, as always the projections shown are based on a number of conditioning assumptions. Notably, they assume, as I described earlier, that interest rates will follow the path consistent with market expectations prior to the MPC's decision last week. They also make no allowance for any fiscal relaxation relative to currently published tax and spending plans. As a result, the fan charts exaggerate the extent to which the Committee believes output will decline and inflation will fall below target in the medium term.

More than ever, therefore, I urge you to focus your attention on the broad shapes of the fan charts rather than on the precise calibrations of the projections and balance of risks.

Chart 5.5 CPI inflation projection based on constant nominal interest rates at 3%



See footnote to **Charts 5.3** and **5.4**.

4.5.6 It is also important to remember that budgets and Council Tax rises are set based around prevailing circumstances. The Bury element of the Council Tax for 2008/09 represented an increase of 3.4%, or 0.7% below the rate of inflation at the time. Since the tax rise was agreed the CPI rose to almost 5.2%, costs which the Council has had to meet without a corresponding increase in resource levels.

4.5.7 In determining the assumptions to be used to underpin the 2009/10 budget the following considerations have been taken into account:

Pay – 2.5%. This provision reflects the offer being considered in the current year. However the situation is unusually difficulty to forecast. The latest inflation forecast shown above suggests that inflation will reduce significantly during 2009 and may even become negative. It is not unreasonable to expect that this will be reflected in pay settlements and so it may be safe to assume that settlements will be less than 2.5%.

Prices – 2.0%. Again it is extremely difficult to forecast inflation for the coming year. The Bank of England's inflation forecast is discussed in detail above and the fan charts used by the Bank show a wide degree of fluctuation between individual inflation assumptions.

The situation is further complicated by the make up of the authority's consumption of good and services. For now it is felt prudent to make a provision for non-pay inflation and Directors will consider their specific circumstances and decide whether to offer back this provision as a saving option in view of service priorities.

Income – 3.0%. This is a further general assumption and Directors are free to decide how to meet the requirement depending on their individual circumstances.

Other major cost centres – energy (see below), pension costs (10.0%), Waste Disposal (5.6%), Passenger Transport (4.3%) – provision has been made to reflect the actual increases being imposed on the authority.

Energy costs – it is clear that energy costs have increased significantly across the sector and the forecast shown below makes provision for an increase of **£1.175m** in the cost of gas, electricity and vehicle fuel. However these will be the subject of further refinement, in particular the gas and vehicle fuel element in view of recent falls in the price of gas and oil.

4.5.8 Allowance has been made for the cost of job evaluations (and protection) resulting from the application of the local scheme.

4.5.9 The revenue implications of approved capital schemes have been built into the relevant budgets

4.5.10 Provision has been made for the cost of adding back any one-off initiatives used to fund the previous years' budget

4.5.11 Borrowing costs/investment income budgets will be up-rated in line with the Annual Treasury Management Strategy and with the borrowing assumptions contained in the calculation of Government support for such costs. However Members attention is drawn to the fact that the recent reductions in interest rates, coupled with the uncertainties in the financial markets means that the authority's ability to generate investment returns has been weakened considerably. Income is expected to be some **£2.5m** less in 2009/10 than that earned in 2008/09 due to the fact that it was imprudent to hedge against reducing investment rates by investing long term in uncertain markets. However historical borrowing is 'locked in' and is therefore not affected by reducing rates.

4.5.12 The Bury element of the Council Tax is assumed to rise by 4.49% and the Council Tax base has been set at 59823.96 Band D properties

4.5.13 Members attention is particularly drawn to towards:

- 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

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

4.6 The Draft Budget 2009/10

4.6.1 Budgets reflecting cost increases identified between 2008/09 and 2009/10 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 2009/10

	£000	£000
Base Budget 2008/09		**132,461**
Add back:		
One-off savings	270	270
Inflation		
Pay @2.5%	2,340	
Overhang of 2008/09 pay award	527	
Prices @2.0%	3,196	
Energy costs	1,175	
Income @3.0%	-2,035	
Passenger Transport Authority (4.3%)	468	
Waste Disposal Authority (5.6%)	144	5,815
Staffing costs		
1% increase in employers' pension contribution	611	
Contribution to pay and grading	500	1,111
Revenue effects of Capital Programme		24
Grant Tapers		214
Cost of borrowing		90
Estimated Budget 2009/10		**139,985**
Formula Grant	-64,688	
Council Tax (assumes 4.49% rise in headline rate)	-72,684	-137,372
SHORTFALL		**2,613**
Cashable efficiency savings to the Priority Investment Reserve		1,900
TOTAL SAVINGS REQUIRED		**4,513**

4.6.3 Options for balancing the budget are set out in section 6.

4.7 Efficiency savings

4.7.1 From 2008/9 the Council will be required to make annual cashable efficiency savings amounting to 3% of the non-schools budget (as adjusted for various items). No specific target has been identified by the Government but an in-house assessment puts the cashable target at £3.9m. However it is worth pointing out that the Council has already exceeded the previous target set for the period 2004 to 2007 by some considerable way and these savings have since been reinvested into front-line services via the Priority Investment Reserve or to mitigate against the possibility of cuts in front-line services.

4.7.2 It is therefore proposed that the current stated policy of redirecting cashable efficiency savings into services in line with priorities is continued at similar levels previously identified i.e. £1.9m in 2009/10 and that the remainder of savings are left within services to be allocated as part of their Medium Term Financial Strategies.

4.7.3 For the first time, 2009/10 Council Tax bills will show information on efficiency savings. The Council provided a return to DCLG based on making 3% efficiency savings in line with national targets. However the DCLG have since changed their calculation of the baseline against which savings are measured so that it now also includes capital spending. This means that the bills will show Bury's savings as being 2.1%. Many other Councils have fallen foul of this late change and representations have been made to DCLG. However they claim to be unable to allow savings to be re-calculated.

4.7.4 Members can be assured that the authority's Efficiency Strategy commits us to meeting efficiency targets in the areas of both capital and revenue spending.

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. Details of the recommended approach to identifying, and addressing, priorities and other developments are set out in section 7 of this report.

4.8.2 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 key impact of the People Strategy on the Financial Strategy will be the financial consequences of equal pay and job evaluation. It is not possible to quantify accurately the costs of meeting equal pay claims at this stage although it is planned to use prudential borrowing to meet the majority of any liability. Provision has been made within the budget and the Treasury Management Strategy to provide for this approach.

4.9.2 The final pay line relating to the pay and grading review was approved by the Executive in December 2008 and provision has been made in the budget forecast to cover the costs of protection and on-going payroll costs. Of the provision made, £0.3m has been achieved by re-investing savings from 'Part 3' terms and conditions.

4.10 2008/09 Hot Spots

4.10.1 The Council has adopted a modern and progressive approach to resource allocation and management, known as the 'cash ceiling' scheme. This provides a high degree of delegation and financial autonomy to individual service Directors. As part of this arrangement those services are expected to carry forward, and eliminate, overspendings. However, in recent years it has been agreed that the difficulties that have been experienced in the social care arena (in respect of services for both children and adults) have been of such an extent that carrying forward overspendings would have placed an unreasonable level of financial pressure on the services.

4.10.2 It is clear that Adult Care Services are currently facing severe pressures arising from increasing demands and that short-term savings options (over and above those required to assist with the corporate position) are unlikely to be available to the extent that they will meet all the demands faced by the service. More details of the pressures and their financial implications are set out in the Month 9 Corporate Finance and Performance Monitoring report.

4.10.3 It is therefore strongly recommended that Members make a substantial contribution from the PIR towards the overspending being faced by the service in addition to the action recommended in the following paragraph.

4.10.4 The situation has been the subject of discussions with the Council's external auditors, KPMG, and we have asked them to undertake an independent review of the Adult Care Services Department's financial position and financial management. The review will also consider options used in other Authorities to reduce the costs and pressures social care departments face. The draft Terms of Reference for the review show that it will specifically consider:

- The reasons for the current overspends and accuracy of the projected financial position, including transition arrangements with Children's Services;
- The arrangements around the savings plan including the project management arrangements to oversee planned implementation of savings plans;
- The timeliness and appropriateness of actions taken by the Department and Council in controlling the overspending, therefore allowing the Council to form an opinion of whether all appropriate steps have been taken; and
- The degree to which measures introduced to improve the quality of care and optimise resource use in other parts of the country at other authorities may be appropriate solutions to the financial pressures being faced in Bury. These will include:
  - Root cause analysis;
  - Care pathway re-design;
  - Horizontal integration of designated services with the Primary Care Trust

4.11 Schools' Issues

4.11.1 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			
2008/09 Final Budget	108.362		
2009/10 Estimated Budget	112.319		
		3.957	3.7%
Schools Delegated Budgets			
2008/09 Original Budget	97.692		
2009/10 Estimated Budget	100.822		
		3.130	3.2%
Central Spend			
2008/09 Original Budget	11.075		
2009/10 Estimated Budget	11.909		
		0.802	7.2%

4.11.2 The Estimated 2009/10 DSG published in November 2008 is based on the Department for Children, Schools and Families estimates of pupil numbers. The Final DSG will be based on the January 2009 Pupil Level Annual School Census Return and the Early Years Census which is scheduled for March 2009. Consequently the Final DSG will be available during summer 2009.

4.11.3 Throughout Authorities in England the baseline increase in Amount per Pupil is 3.7%, including further allocations being made for Personalised Learning and Special Educational Needs. Despite the predicted drop in pupil numbers the **£112.319m** is the largest ever annual revenue budget that Bury has had for its schools.

4.11.4 These figures do not include devolved Standards Fund grants or the Schools Standards Grant, which will increase by the Minimum Funding Guarantee of 2.1% to nearly £15 million for these two grants. Consequently the total budget that will be available to be spent by schools is approximately **£127m**.

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

4.11.6 The Schools Forum at its meeting on 26th January 2009 agreed to recommend to Council the following changes to the schools funding formula and various services within the Central Spend:

- Teaching and Learning Responsibility payments to staff within central support services and the Pupil Referral Units to be funded by the DSG - £42,000;
- Funding the additional cost of pupils with Special Educational Needs attending special schools outside of Bury - £296,000;
- Increasing the amount allocated to Behaviour Support Services to assist High Schools - £66,000;
- Meeting the increasing costs of School Catering (excluding High Schools) - £189,000;
- Funding the provision of free music tuition lessons to eligible claimants - £40,000;
- Funding the cost of Learning Mentors from the DSG rather than the Authority's resources (Savings Option) - £80,000;
- Increasing all the other components in line with the requirements of the per pupil Minimum Funding Guarantee – 2.1%.

4.11.7 These increases in the "Central Spend" mean that the total budget will increase at a faster rate in 2009/10 than the increase in schools' delegated budgets. This 'breaches' the Central Expenditure Limit calculation and requires the sanction of the Schools Forum. This was formally agreed at their meeting on 26th January 2009.

4.11.8 With regard to the Schools Funding Formula, the Schools Forum has agreed to recommend the following changes:

- Increasing the Nursery, Foundation, Key Stage 1 and Key Stage 2 component factors from 0.91 to 0.92 to assist schools with the effects of the Pay and Grading Review;
- Increasing the Key Stage 4 component factor from 1.20 to 1.21 to recognise the large increases in public examination fees;
- Increasing the energy components to recognise the additional costs of public buildings energy certificates and increasing energy costs;
- Restoration of the formula component for Performance Management & Threshold Payments as well as Safeguarding Payments;
- Changing the cushioning arrangements to ensure that the maximum amount a school receives is 10% of the school's delegated budget excluding statements;
- Any remaining "Headroom Monies" to fund pupil number changes and then to be distributed through the Age Weighted Pupil Unit Formula

5.0 THE COUNCIL TAX 2009/10

5.1 Acting under delegated powers, the Director of Finance and E-Government has calculated the amount of **59823.96** (Band D equivalent) as the Council Tax base for the year 2009/10 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.

5.2 The Band D Council Tax for the current year, 2008/09, was set as follows:

	£	**£**	**% change on 2007/08**
Bury MBC		1,162.75	+3.4
GM Police Authority	124.90		+7.5
GM Fire and Civil Defence Authority	49.68	174.58	+3.5
TOTAL		**1,337.33**	**+3.8**

5.3 Members are reminded that the Council decided to reduce the rise in the Council Tax by **3.4%** in the case in households where the Council Tax payer was aged 65 or over and not in receipt of benefit. For these households the Band D tax was **£1,299.10**. Throughout the budget strategy it has been assumed that this level of discount will continue, funded via the on-going provision made from the Priority Investment Reserve allocation.

5.4 The initial budget strategy for 2009/10 made the assumption that the Bury element of the Council Tax would rise by 4.49%, 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. Members' attention is also directed to the comments in paragraph 2.8 relating to the loss of income resulting from an optimistic assumption by the Government of the increase in the Council Tax base.

5.5 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 2009/10 the Band D precept rates have been assumed to be as shown in the table below although these have yet to be ratified by the respective authorities and may change:

	Increase %	**New Precept (Band D)**
GM Police Authority	7.50	£134.27
GM Fire and Civil Defence Authority	3.40	£51.37

5.6 A 4.49% increase in the Bury element of the tax would take the Bury Band D element of the Council Tax (the only part that the Council can directly influence) to **£1,214.96** a rise of **£52.21** or **£1.00** per week**.**

5.7 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 the Government expects to see an average Council Tax increase in England in 2009/10 of "substantially below 5%". The Minister also said that the Government "would not hesitate to use capping powers" although he declined to elaborate on the potential criteria for capping budgets.

5.8 **It is important to stress that the 4.49% 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 **£696,000**.

5.9 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.

6.0 OPTIONS FOR BALANCING THE BUDGET

6.1 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.

6.2 The policy direction towards the identification of savings options is set out in paragraph 4.4.3 above and in addition the Financial Strategy recognises 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, subject to the outcome of consultations
- ***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 systematically withdrawing from extensive provision of reception points for face-to-face contact in favour of electronic and telephone transactions and an expansion of Information Points in Libraries.
- ***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. We will then seek to change working practices to drive out efficiency savings from the investment in modern systems
- ***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.

6.3 In line with the Golden Rules it is proposed that the budget shortfall should be met as follows:

- One-off corporate savings options £0.413m
- On-going service savings and efficiencies £4.100m

6.4 In anticipation of the budget position Departments were set savings targets totaling **£4.1m** as shown in the following table. These were 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.

	Savings Target £m
Adult Care Services	1.380
Chief Executive's	0.350
Children's Services	1.050
Environmental & Development Services	1.320
TOTAL	**4.100**

6.5 The value of savings options identified is shown in the table below and details of individual options are provided at Appendix C which is a composite of lists A and B:

	2009/10 List A £m (i)	**2009/10 List B £m (ii)**	**TOTAL 2009/10 Options £m (iii)**
Adult Care Services	0.787	0.593	1.380
Chief Executive's	0.350	0	0.350
Children's Services	0.650	0.400	1.050
EDS	0.975	0.345	1.320
GRAND TOTAL	**2.762**	**1.338**	**4.100**

6.6 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.

6.7 The Council will continue to review the budget during 2009/10 as part of its structured approach to achieving Value for Money. As part of this, the Service Assessment Framework has been refreshed and Stage 2 is currently being rolled out across the Council's services directing attention to areas that would benefit from Best Value reviews. In addition an Efficiency Strategy and Action Plan have been developed and Star Chambers will continue to examine VFM profiles and benchmarking data to determine areas where further efficiency savings may be found.

6.8 Finally, the authority will continue to develop a structured Team Bury Financial Strategy which will pay particular attention to areas where partnership working may provide opportunities for greater efficiency and/or service improvements.

7.0 PRIORITY-LED APPROACH TO RESOURCE ALLOCATION

7.1 The Council, working within the Team Bury framework, continuously assesses and reviews its priorities. Priorities are identified through a number of sources:

Local intelligence

The Local Intelligence System has a number of components that help identify priorities and emerging issues including Community Voice (the local citizens' panel), the Strategic Needs Assessment and the Area Issues Management System operated by BurySafe.

Partnership Working

The Council is committed to partnership working and interacts with key partners through the Local Strategic Partnership, the Public Services Board, the Local Area Partnerships and many other service specific partnerships (Crime and Disorder, Learning Disabilities, Children's' Trust etc.).

From this work, and using the intelligence system, has emerged nine ambitions for Bury as a borough, and the way in which the ambitions are to be delivered is set out in the Team Bury Community Strategy.

The Council and its partners also meet annually to review progress against the ambitions and to identify specific medium-term priorities for the coming period. This is known as the Keswick event.

7.2 Of course the Council recognises that it must also operate within a national framework and that it will be influenced by national events. A number of factors will have an impact on the revenue budget over the coming three years including:

- Uncertainties around the shape of the 2010 Comprehensive Spending Review
- The direct impact of the economic downturn
- Lower public spending in 2009 onwards as a result of action taken nationally to mitigate the effects of the economic downturn
- Changing circumstances not being reflected in the current 3-Year Formula Grant Settlement
- Uncertainty surrounding the first year of the forthcoming 3-Year Formula Grant and Area Based Grant Settlement
- Changes in energy costs
- Increased focus on child care resulting from the Baby P case
- Legislative demands
- Other ongoing risks identified as part of the risk assessment process

7.3 Other factors arise from demographic issues or local actions:

- The potential impact of the economic downturn including increased demand for services (benefits, homelessness), reduced income levels (planning fees, parking), lower levels of capital receipts, a less than expected increase in the Council Tax base, lower investment returns etc.
- The impact of equal pay claims and the national job evaluation scheme
- Committed costs resulting from the extension of the recycling scheme
- Potentially increased accommodation costs with the ending of leases on Craig House and Lester House
- Falling population levels and in particular falling school rolls creating surplus places in schools

- An ageing population increasing demand in health and social care
- High cost packages/demand for services to support people with learning and physical disabilities
- Maintenance backlog implications
- Reducing income levels from increased external competition (particularly from use of leisure facilities and falling Local Land Charges applications)
- Options for the management of leisure facilities and Civic Halls which are being considered to increase investment in facilities and/or reduce deficits
- Pump priming money and reward grants arising from the Local Area Agreement (LAA) and Local Public Service Agreement(LPSA)
- The outcome of Service Reviews
- The need to contribute to the Priority Investment Reserve to fund developments in areas defined as council priorities

7.4 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

7.5 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 LAA pump-priming grant to support LAA/Team Bury reward element priorities and
- Allocating resources from the Priority Investment Reserve/applying available discretionary capital resources

7.6 The Council has identified a number of priorities that it intends to tackle during the life of this Financial Strategy. These have come to the fore through partnership working with other members of Team Bury around the preparation of the Local Area Agreement (LAA) and also through the annual joint Strategic Planning Process.

7.7 The table below shows the items which will be addressed through the LAA process:

Ambition	Activity to be Funded
The Place to Live in Gtr Manchester	• Improve community cohesion and engagement and developing local communities. • Reduce social exclusion. • Manage environmental assets, enhance environmental quality and address

	climate change. • Improve housing. • Improve the outcomes for looked after children and care leavers.
An Area Where People Feel Safe and Secure	• Reduce crime. • Reduce the fear of crime. • Reduce harm caused by illegal drugs. • Build respect in communities and reduce anti-social behaviour. • Improve domestic fire safety and reducing arson.
The Healthiest Borough in the N West	• Reduce teenage pregnancies and improve access to sexual health services. • Reduce alcohol misuse and improve sensible drinking. • Reduce health inequalities. • Support people with mental health problems. • Support people with disabilities. • Enhance children and young people's emotional wellbeing. • Safeguard children and young people through improved assessment, intervention and focus on prevention. • Improve safeguarding adults coverage and use of policy.
A Popular Visitor Destination	• Increase and improve the range of cultural opportunities in the borough.
The Premier Retail Town in the North of Gtr Manchester	• Increase the number of visitors to Bury town centre.
A Centre of Excellence for Education and Training in the North West	• Improve early years education in all settings. • Continue the transformation of secondary education in order to impact on outcomes for young people and reduce the number of young people who are not in education, employment or training. • Develop a skilled community that meets the needs of expanding work sectors in Bury.
A Place Where each Township Thrives	• Reducing the number of children and households living in poverty.
An Area With First Class Services	• Locality differentiation of service access/delivery.
Quality Jobs for Bury People	• Reduce worklessness throughout the borough, targeting priority neighbourhoods and groups. • Develop knowledge intensive businesses.

7.8 In addition to the above ambitions our LAA addresses our agreed cross cutting themes of Community Engagement and Development and Reducing Inequalities.

7.9 The 2008 Strategic Planning process identified the following items as being specific Council priorities for 2009:

- Reducing Inequalities – with a particular focus on:
  - Addressing the needs of vulnerable adults including people with physical and learning disabilities and the ageing population
  - Addressing family/child poverty
  - Worklessness and,
  - Health Inequalities
- Community Engagement, leadership and further development of the Local Area Partnerships
- Promoting Bury's Place in the World
- Meeting the wider vulnerable adults agenda
- Developing and maintaining a long term 'fit for purpose' housing strategy framework to meet lifetime needs and,
- Developing and implementing a business process re-engineering (BPR)/ business transformation programme with the aim of achieving increased efficiency across the Council.

7.10 Not all of these issues will require specific financial investment but those that do, and for which other resources cannot be identified or diverted, will form the focus for consideration of the Priority Investment Reserve allocations.

7.11 A number of bids for funding from the PIR have been prepared in order to take forward the above issues. 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 25 February 2009.

7.12 A priority-led approach has also been taken towards the initial consideration of savings options and some options were ruled out prior to the publication of the A and B lists due to their potentially adverse implications for the achievement of the Council's ambitions and priorities.

8.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES

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

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

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

8.3 Corporate risks

8.3.1 The 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.

8.3.2 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 9.5):

Risk	Rank	Mitigation Action	Impact on Budget
Budget is unsustainable and inadequate to support the achievement of the Council's priorities and ambitions	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
Working practices not revised to take advantage of efficiencies offered by new modernised ICT systems	L	New business systems being implemented, business processes being re-engineered, ICT Strategy been refreshed. Alternative Service Delivery Model being rolled out.	Provision has been made within the Transformation 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	M	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.
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
Uncontrollable demands for social care out-strip the available resources and capacity, particularly in the area of Adult Care Services	H	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). PIR allocation has been recommended.

		KPMG have been asked to review budget and operational arrangements.	
Disaster management policies, practices and manuals are ineffective	L	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). Action taken to date has proved effective
Inadequate budgetary provision exists to address the level of backlog maintenance identified in the 2008 – 2011 Asset Management Plan	M	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.	An annual provision of £0.6m has been included within the Capital Programme shown at Appendix B to this report.
The existing provision for Travellers is inadequate	M	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.
The financial and HR implications of the Single Status agreement have an adverse impact on the Council's budget and performance	H	A thorough job evaluation and pay-to-points project has been undertaken. A pay-line has been recommended and consultations are on-going.	PIR allocation made in 2008/09. Expected costs arising from one-off and on-going costs have been built into the budget, partly funded from savings on other terms and conditions
The deteriorating financial climate will impact adversely on the	L	A team has been established to lead the	Services have begun to make savings in non-

Council's financial well-being and will lead to increased demand for key services		Council's response to the recession. Service managers are monitoring demands and performance. Investment returns clearly reduced.	priority areas to help off-set financial implications from increased demand and reduced income. A contribution from the PIR may be required.

8.3.3 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.

8.4 Risk implicit in specific areas of the budget

8.4.1 As far as income to the Council is concerned there are a number of key sources including Formula Grant, Area Based Grant, ring-fenced grants, Council tax and fees and charges. In respect of Formula Grant, the income stream is known and guaranteed for the coming year although there is no indication of resources for 2011/12 and future years.

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

8.4.3 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2008/09 has been retained at 98% which is realistic, based on past, current and projected performance. It also compares favourably with other metropolitan authorities.

8.4.4 One concern is that the Government has said it will cap authorities whose increase in Council Tax is greater than 5%. However it is unlikely that Bury would be capped on this criteria (assuming that the Council Tax rise is no more than 5%).

8.4.5 Fees and charges (excluding Council House rents) are budgeted to raise some £35m of income in 2009/10 from almost a thousand sources. Of all the income sources this is the area where there is greatest risk of under achievement. To assess the risk it is necessary to understand how relevant income budgets are constructed, fee levels determined, how the charges are made, income collected and recovery procedures applied.

8.4.6 Although the budget, through the operation of the cash ceiling scheme, makes a universal assumption that income generated from fees and charges will increase by 3% compared to the previous income budget, the increase in actual fee charging levels, is more responsive and policy-led. As a result, depending on the current income being achieved, market conditions and the particular activity, fees can be increased by more or less than 3%.

8.4.7 This means that individual service managers, who understand their part of the business best, are able to advise Members in respect of charging regimes and, once the fees and charges are agreed, are accountable for their efficient collection. Any under achievement of an income budget has to be managed by the service in question through the operation of the cash ceiling scheme. This may mean reducing spending in related areas or even in other unrelated areas. All overspends at the end of a financial year are a first call on the following year unless agreed otherwise by the Executive.

8.4.8 The budget strategy once again assumes a level of income from the Airport dividend. The level assumed as income to the General Fund is about 70% of the likely amount forecast to be received, with the remainder being utilised within the Capital Programme and, with the improved shareholder governance arrangements, it is reasonable to assume that this level of dividend will be received. If not then the shortfall will be a call on the General Fund reserve. The Airport has declared a medium term dividend policy and it is reasonable to expect that the authority will receive budgeted levels of income.

8.4.9 In terms of expenditure budgets the single largest area of expenditure is on staff pay. Neither the 2008/09 nor the 2009/10 pay awards have yet to be settled and so there is considerable uncertainty in this area. The budget contains an assumption that awards will be at 2.5% although given the sharp downward trend in inflation, and in light of the Chancellor of the Exchequer's view on pay settlements, it may be safe to assume that pay will rise by less than this amount; certainly this is a view expressed by neighbouring authorities. In view of the risk levels in this area the minimum level of balances contains provision equivalent to a 0.5% rise in pay above the 2.5% already provided for.

8.4.10 An allowance has been built into the budget to cover the one-off and on-going cost of the pay and grading review based on considerable modelling of the results. In view of this it is felt that the risk inherent in this element of the budget is low but services will still be expected to be prepared to adopt a number of strategies to ensure any unbudgeted cost is covered including:

- Filling vacated posts at a lower incremental point than the staff member who has left
- Delaying filling vacancies
- Identifying savings in other budget areas

8.4.11 Implementation of the new pay line has been delayed whilst the authority engages in further consultation with trades unions and no provision has been made for any costs that may result from this. However the level of balances is felt to be adequate to absorb any such costs (as a last resort).

8.4.12 The approach taken towards 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.

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

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

8.4.14 Supplies and services etc. account for 33% of the gross budget and the majority of this is subject to contractual provision. These contracts provide for food, oil, building and highway materials, IT equipment, stationery and external residential accommodation for children, the elderly and people with learning disabilities. The Council 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 2009/10 although Departments are free to pass back non-pay inflation if they feel that this is prudent within their specific service areas.

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

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

8.4.17 The Council exercises sound Treasury Management practices and has a reasonable volatility ratio. Interest rate predictions are up-dated regularly and action taken to mitigate any negative effects, wherever possible. The present downward trend in interest rates was anticipated and both investments and borrowing have been locked-in long-term (as far as prudence allows) at optimal market rates, so minimising risk.

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

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

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

8.4.21 The approach to managing the issues faced by the Children's Services and Adult Care Services budget has been changed in recent years 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.

8.4.22 However it is clear that pressures are continuing to build within the Adult Care Services' budget due to increasing demands arising from an aging population, from increasing client expectations and from transitional cases from Children's Services. A Project Board is examining the budget and the options available to maintain spend within available resources. 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. **However in view of the extent of the demands on the budgets for services for people with Learning and Physical Disabilities it is strongly recommended that additional provision be made via the Priority Investment Reserve.**

8.5 Risks inherent in the budget strategy

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

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

8.5.2 Given the robust nature of the budget strategy, in allowing for on-going demand pressures, and the strength of the budget monitoring process these risks are felt to be at a medium level for 2009/10. However it is important that even this level of risk is mitigated and provision has therefore been made within balances to cover these items.

8.6 System of Internal Control

8.6.1 The Council has adopted a Governance Statement that concluded that there are no weaknesses in the authority's overall control framework and the Audit Commission has commented favourably on the framework. The Governance Statement and the control framework have been regularly reviewed, most recently by the Audit Committee on 9 December 2008, and no major changes have been identified.

8.7 Conclusion

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

"There can be no guarantee that expenditure will be contained within each and every budget. The nature of the Council's business means that varying demands will be faced during the year and under and over achievement will occur. However, the aim should be that the budget in total is sustainable and, subject to an appropriate PIR allocation being made to support the Adult Care Services' budget then 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 continues to be rolled-out during 2009/10.

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 with the sound approach to risk management that the Council has adopted.

Finally, experience of past years has highlighted that a number of budgets face considerable pressure, particularly services for people with physical and learning Disabilities, out-of borough placements for children, leisure services, adult education and Land Charges income. 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 also essential that Members' recognise specifically the overspendings within the Adult Care Services' budget. Whilst the proposal to engage KPMG to undertake an independent review of the situation, and of options for addressing the overspendings, is welcomed it is essential that additional resources be made available from the PIR to support this budget area.

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, and on the assumption that additional support is provided to the Adult Care Services' budget then I (as the Director of Finance and E-Government) can state that **the budget for 2009/10 is robust.** This statement is in compliance with s25 of the Local Government Act 2003."

9.0 ADEQUACY OF RESERVES

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

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

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

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

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

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

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

	Risk	£000
Pay inflation Cushion: Pay awards have not been set for 2008/09 and so there must be some uncertainty about the extent to which the budget provision will meet the actual costs. The assumption made in respect of the 2009/10 award is felt to be sufficiently prudent.	H	600
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 cost of borrowing budget reflects a baseline position in respect of interest rates and that borrowing will be locked in then risk in this area is felt to be minimal. However in view of the prevailing economic uncertainties then a contingency is felt to be prudent, although it appears that interest rates are unlikely to fall any further.	M	200
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	250
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.	H	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.	M	400
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.	L	400
Contingency for smaller emergencies e.g. highway collapse.	L	400
TOTAL		**4,200**

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

	Risk Level	Likelihood	Provision £000	Max. Impact £000
Pay inflation cushion	H	100%	600	600
Non-pay inflation cushion	M	80%	150	120
Interest cushion	M	80%	200	160
Uncertainty of income	H	100%	250	250
Demand led expenditure cushion	H	100%	1,700	1,700
Budget strategy cushion – savings	M	80%	400	320
Budget strategy cushion – provisions	M	80%	100	80
Emergency expenditure cushion	L	60%	800	480
			4,200	**3,710**

9.7 This would set the minimum balance requirement for 2009/10 at **£3.710m.** The calculation made under the Golden Rules would lead to a minimum level of balances of **£3.437m** and it is recommended that Members agree to set the **minimum** level of balances at the higher level of **£3.700m** (rounded), this being an increase of £0.1m on the level agreed for the 2008/09 budget

9.8 The forecast position on the General Fund balance at 31st March 2009 is shown in the following table:

	£m
General Fund Balance 1 April 2008	6.797
Less: Amount used to fund 2008/09 pay award	-0.527
Less: Forecast overspend 2008/09	-0.583
Forecast level of General Fund balance 31 March 2009	**5.687**
Less: Minimum to be retained	3.700
Available balances at 1st April 2009	**1.987**

9.9 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.

9.10 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 £3.7m, the balances will earn £92,500 in 2009/10 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 to 1.4% off the necessary increase in Council Tax, on a one-off basis). However, utilising balances in this way would be contrary to the Golden Rules.

9.11 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 Transformation 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. The balance on the Reserve at 31st March 2008 was **£4.120m**.

10.0 FUTURE YEARS

10.1 A draft 3-year budget forecast is shown below setting out the likely budget position in 2010/11 and 2011/12 reflecting the final two years of the three year Settlement:

	2009/10 £m	2010/11 £m	2011/12 £m
Opening budget	132.4	137.4	142.0
Add:			
One-off options used	0.3	0.4	0.0
Pay Inflation	2.9	2.3	2.4
Prices	3.8	4.4	4.1
Energy costs	1.1	0.5	0.0
Income	-2.0	-2.1	-2.2
Pensions	0.6	0.7	0.7
Cost of borrowing	0.1	0.5	0.5
Revenue Costs of Capital	0.1	0.1	0.1
Grant tapers	0.2	0.2	0.2
Contribution to pay and grading	0.5	0.5	0.5
	140.0	**144.9**	**148.3**
Funding available:			
Formula Grant	-64.7	-66.1	-67.6
Council Tax (assuming 4.49% rise)	-72.7	-75.9	-79.3
	-137.4	**-142.0**	**-146.9**
DEFICIT	**2.6**	**2.9**	**1.4**
Add:			
Contribution to PIR	1.9	1.9	1.9
TOTAL SAVINGS REQUIRED	**4.5**	**4.8**	**3.3**

The table assumes an annual increase in the Council Tax of 4.49% (as an initial assumption) together with increases in pay inflation of 2.5% in all years; non-pay inflation of 2% in all years; and income rises of 3% in all years.

10.2 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.

10.3 Once the 2009/10 budget has been finalised the savings targets for the coming two years will be up-dated and Directors will be asked to prepare a medium-term savings plan aimed at meeting the revised targets.

10.4 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.

10.5 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.

10.6 It is intended that the results of all of this work will be presented to Members at the Forward Planning Event in July 2009.

10.7 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.

10.8 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 PETER REDSTONE
EXECUTIVE MEMBER FOR RESOURCE

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GLOSSARY OF TERMS

Area Based Grant
A single grant which pools 37 individual specific grants in to one non ring-fenced pool

Budget requirement
This is the amount each authority estimates as its planned spending, after deducting any funding from reserves and any income it expects to raise (other than from the Council Tax and general funding from the Government i.e. Formula Grant and sometimes in the past, certain special grants). The budget requirement is set before the beginning of the financial year.

Business rates
These rates, called National Non-Domestic Rates, are the means by which local businesses contribute to the cost of providing local authority services. Business rates are paid into a central pool. The pool is then divided between all authorities.

Capping
When the Government limits an authority's budget requirement, and hence the Council Tax it sets.

Council Tax
A local tax on domestic property set by local authorities in order to meet their budget requirement.

Council Tax base
The Council Tax base of an area is equal to the number of band D equivalent properties. To work this out, the Government counts the number of properties in each band and works out an equivalent number of band D properties. For example, one band H property is equivalent to two band D properties, because it pays twice as much tax. The amount of revenue which could be raised by Council Tax in an area is calculated allowing for discounts and exemptions but, for the purpose of the Formula Grant calculation, assuming that everyone pays. How this is calculated is set out in Annex C to the Local Government Finance Report.

Council Tax bands
There are eight Council Tax bands. How much Council Tax each household pays depends on the value of their home.

Council Tax discounts and exemptions
Discounts are available to people who live alone and owners of homes that are not anyone's main home. Council Tax is not charged for certain properties, known as exempt properties, such as those lived in only by students. The Council can also approve reductions for certain classes of taxpayer e.g. people aged over 65.

Formula Grant
Comprises Revenue Support Grant, redistributed business rates, and (for relevant authorities) principal formula Police Grant.

The Local Government Finance Settlement
The Local Government Finance Settlement is the annual determination of formula grant distribution as made by the Government and debated by Parliament. It includes:
- the totals of formula grant;
- how that grant will be distributed between local authorities; and
- the support given to certain other local government bodies.

Net Revenue Expenditure (NRE)
This represents an authority's budget requirement and use of reserves.

Non-Domestic Rates
See business rates.

Reserves
This is a council's accumulated surplus income (in excess of expenditure) which can be used to finance future spending.

Revenue Expenditure
Expenditure financed by formula grants, council tax and use of reserves.

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.

Ring-fenced grant
A grant paid to local authorities which has conditions attached to it, which restrict the purposes for which it may be spent.

Specific Grants
Targeted or ring-fenced grants are sometimes referred to as specific grants.

Targeted grant
A grant which is distributed outside the general formula, but has no conditions attached.