

REPORT FOR DECISION

MEETING: SCRUTINY COMMITTEE (INTERNAL)
COUNCIL

DATE: 17 FEBRUARY 2011
23 FEBRUARY 2011

SUBJECT: BUDGET 2011/12

REPORT FROM: Cabinet Member for Resource, HR and Performance

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

TYPE OF DECISION: COUNCIL

FREEDOM OF INFORMATION/STATUS: This paper is within the public domain

SUMMARY: The report provides Members with details of the Capital Programme for 2011/12 to 2013/14 (section A) and the latest estimate of the revenue outturn position for 2010/11 and the forecast Revenue Budget for 2011/12 (section B).

Section A sets out the draft Capital Programme and a forecast of the available resources. In view of the very difficult revenue budget situation set out in section B it recommends that the Programme be limited to those schemes that are fully funded from external sources.

Section B addresses the revenue budget and also outlines other important budget issues including the final Formula Grant Settlement for the year, the forecast outturn for 2010/11, the initial budget strategy, budget assumptions and the Council Tax base.

It also 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 freeze in the Bury element of the Council Tax, to be funded by £1.9m of central Government grant, then the forecast budget shows a deficit of £9.6m for 2011/12. The report goes on to suggest options for balancing the budget.

Members' attention is drawn particularly to the fact that despite the extremely challenging local government finance Settlement, and the resultant savings target, the proposed budget places no reliance on one-off savings options.

**OPTIONS &
RECOMMENDED OPTION**

Section A – Capital Programme

1. That the Capital Programme for 2011/12 and future years, shown in Appendix 1 be approved, amended or rejected;
2. That the proposed financing of the Capital Programme be approved, amended or rejected;

Section B – Revenue Budget

3. That the details of the final Formula Grant Settlement for 2011/12 be noted;
4. That the level of repayment of principal on General Fund debt at the minimum of 4% be approved in line with the current Minimum Revenue Provision policy;
5. That it be noted that under delegated powers the Director of Finance and E-Government calculated the amount of 59,912.76 as the Council Tax base for the year 2011/12 in accordance with the Local Government Act 2003 and with regulations made under section 33(5) of the Local Government Finance Act 1992;
6. That the forecast outturn position for 2010/11 be noted;
7. That the Golden Rules enshrined in the Council's budget strategy be amended as set out in paragraph 4.3.3 so that the amount below which the balances cannot fall is increased to £3.7m;
8. That the actual minimum level of balances for 2011/12 be increased to £4,300,000 in view of the scale of the savings target;
9. That the draft Revenue Budget for 2011/12 as shown in the report be approved or amended, together with the options for balancing the budget;
10. That the recommendations of the Schools' Forum around education funding issues be approved;
11. 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;
12. That the Council should freeze the Council Tax at the level set for 2010/11, supported by central Government grant equivalent to a rise of 2.5%.

IMPLICATIONS:**Corporate Aims/Policy Framework:**

Do the proposals accord with Policy Framework? Yes.

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.

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.

Equality/Diversity implications:

An Initial Assessment of the financial policies of the Authority has been undertaken to determine whether there is any differential impact upon particular groups and whether the impact is adverse. Members are asked to note that no potentially adverse differential impact on particular groups has been identified.

Considered by Monitoring Officer:

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

Are there any legal implications?

No

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:

Scrutiny Committee (Internal)

TRACKING/PROCESS**DIRECTOR: Mike Owen**

Chief Executive/ Management Board	Cabinet Member/Chair	Ward Members	Partners
Both	Cabinet Member for Resource, HR and Performance		
Scrutiny Committee		Committee	Council
Internal		Special JCCs	

SECTION A

CAPITAL PROGRAMME

1.0 BACKGROUND

1.1 This report outlines the proposed approach in respect of the 2011/12 to 2013/14 Capital Programme and sets out a strategy recommended by the Management Board and endorsed by Cabinet Members.

2.0 PROGRESS AGAINST THE 2010/11 PROGRAMME

2.1 Details of spend against the 2010/11 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report 2010/11.

3.0 CAPITAL RESOURCES FOR 2011/12

3.1 The Capital Programme is funded from four main sources:

- Borrowing
- Capital grants / contributions from external agencies / partners
- Capital receipts from the sale of assets
- Revenue contributions and reserves

3.2 In previous years the revenue implications of a specified level of borrowing were supported through the Formula Grant system (known as Supported Borrowing) with the revenue costs of any borrowing above this level falling wholly on the authority's revenue budget (Unsupported borrowing). Unsupported borrowing was allowed through the workings of the Prudential Code for Capital Finance in Local Authorities which permits authorities to undertake additional borrowing as long as certain tests of prudence can be met. In Bury the Code is enhanced by a Prudential Borrowing Strategy.

3.3 However the Settlement for 2011/12 makes no allowance for any further supported borrowing meaning that the **full** costs of **any** additional borrowing will fall against the authority's revenue budget. Coupled with the announcement in the Spending Review that Public Works Loan Board interest rates were to be increased by 1% it is clear that the Coalition wishes to discourage borrowing by local authorities.

3.4 Capital grants and external contributions have all suffered as a consequence of the Spending Review and the level of investment will be amended accordingly.

3.5 The other main funding source is capital receipts generated from the sale of the authority's land and property. Given current market conditions it is felt to be imprudent to assume that the authority will generate any capital receipts in 2011/12. In the event that conditions improve, and receipts are generated, then the authority has the opportunity to review its borrowing position and/or provide for investment in additional capital schemes.

3.6 The table below summarises the capital funding sources that are available in 2011/12:

	£m
Supported borrowing	0
General Capital Receipts	0
Capital Reserve	0
Grants and External Contributions	11.350
Regional Housing Allocation	0
Major Repairs Allowance (Housing only)	4.961
TOTAL FUNDS	16.311

4.0 PROPOSED CAPITAL PROGRAMME 2011/12

4.1 The implications of Government 'messages' from the Settlement and the Spending Review, that "borrowing" is not encouraged, are explained above.

4.2 In November 2010, in line with usual procedures, Directors were asked to submit "Expressions of Interest" in respect of potential capital schemes within their service areas, outlining costs over the next three years and potential sources of funding e.g. specific grants.

4.3 The total value of the bids submitted (over 3 years) came to **£104.8 million**. Details of the bids shown in Appendix 1, distinguished between those schemes which are fully funded (by grant) and those where there is a cost to the Council.

4.4 Fully funded bids total **£16.311m** in 2011/12 and **£38.425 million** over 3 years.

4.5 Part/unfunded bids total **£66.4 million** as follows:

	2011/12 £m	2012/13 £m	2013/14 £m	Total £m
Gross Cost	11.0	28.6	26.8	66.4
Less: available external funding	-0.9	-8.4	-8.1	-17.4
Net Cost to Council	10.1	20.2	18.7	49.0

4.6 The following options are potentially available to fund the net cost:

- Prudential Borrowing
- Use of Capital Receipts
- Contribution from Revenue

Prudential Borrowing – this would involve the Council entering into an external loan arrangement of typically 25 years. Members are requested to note that the revenue costs of doing this are currently 9.24% or £92,000 pa per £1 million borrowed. The current Prudential Borrowing strategy suggests that such borrowing should only be incurred on an invest-to-save basis or to bridge timing differences as part of a wider funding strategy.

In view of the budget position set out later Members need to appreciate that any new borrowing costs will require further revenue budget savings to be made.

Use of Capital Receipts – the Council has a number of sites earmarked for disposal, however these sales have not yet taken place, and Members are strongly advised to bear in mind the risks behind the fragile state of the property market and that the current receipts strategy recommends that receipts should only be committed when the cash has been received.

Contribution from Revenue – in light of pressures on the Council’s revenue position this is not considered a feasible option.

4.7 Management Board considered the bids submitted and the availability of funding on 17th January 2011 and in the light of the revenue budget position they recommended the following approach:

- That only fully funded schemes be recommended for approval
- That the Council should not enter into any new Prudential Borrowing arrangements except to fund schemes on an invest-to-save basis (in line with the Golden Rules)
- Invest-to-save schemes can be considered in year, and will be subject to a proven business case that clearly demonstrates that schemes will be self-financing
- The use of any cash generated from the sale of assets will be either used to repay debt or made available to finance in-year capital bids relating to priority areas.

5.0 RISKS

5.1 Other than the more typical risks that exist as part of the capital strategy (see below) the recommendation made by Management Board will mean that a large number of schemes bid for in 2010 will not proceed. Directors and officers are aware that this may lead to operational risks and mitigation plans will be put in place during 2011/12.

5.2 There are three main general risks inherent in the capital strategy:

- **Capital receipts are not realised.** This risk has been addressed through prudent forecasting, in the light of current market conditions although there are no plans to use receipts to fund the Programme.
- **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.

- 5.3 The Capital Programme Management Group meets regularly to monitor the Programme and monitoring reports are considered by Management Board, and Internal Scrutiny Committee 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).
- 5.4 Furthermore, the Council's auditors, KPMG, have recently reviewed the Authority's processes for setting and monitoring the Capital Programme. The Council's overall approach has been endorsed, and a number of operational recommendations are in the process of being implemented.

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 Housing Revenue Account is the subject of a separate paper.
- 1.2 This section of the report begins by providing Members with details of the final Local Government Finance Settlement for 2011/12 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2010/11 and the draft Revenue Budget for 2011/12. Finally it summarises the options identified for meeting the anticipated shortfall on the draft Budget and examines Council Tax options.
- 1.3 Local Government finance is a complex subject and to assist Members a glossary of the main terms and acronyms is attached at Appendix 3.
- 1.4 The national economic background against which the 2011/12 budget has to be set is well trailed. In May 2010 the current coalition government was formed. Within 18 days of taking up office an emergency budget was announced to save £6bn in expenditure in-year. Local government had £1.165bn removed from its grant funding streams and for Bury this meant an immediate cut in grant of over £5.4m in revenue and capital terms.
- 1.5 In June the Chancellor set out the coalition government's approach to resolving the national deficit. This was to be largely via public expenditure reductions and to a smaller extent by taxation with the structural deficit to be corrected over a four year period. The Chancellor advised that 'non-protected' government departments would receive real term reductions in their budgets of 25%. He also announced a pay freeze for two years for public sector employees earning more than £21,000 per annum, although this does not apply directly to local government where pay is negotiated directly between employing authorities and the employees' representatives (see paragraph 4.4.3).
- 1.6 Using this high level information the Council's initial assessment was that savings of £12.2m would be required in 2011/12 although for the following four months there was limited further information coming from Whitehall about the likely settlement for local government, making it difficult for the Council to finalise its budget plans.
- 1.7 On 20 October the Chancellor announced the outcome of the Comprehensive Spending Review (CSR). The reduction for local government was stated to be an average of 7.1% per annum in real terms over the four year period. However this came with significant front-loaded grant reductions but with little detail behind the national control totals that were published. The Government also announced that it was to consolidate many of the funding streams paid to local authorities which was felt to be a welcome development.
- 1.8 The draft grant settlement was announced on 13 December and it was only at this point that the Council was able to determine what the cut in funding was likely to be. However due to complications around the treatment of Learning and Skills Council funding we were unable to confirm our actual grant entitlement until the final Settlement was announced on 31 January 2011.

- 1.9 Details of the Settlement and the impact on the Council are set out in section 2.0. However in summary the Council's loss of Formula Grant (the main grant received from government) will be 13.3% in 2011/12, compared to a national average of 9.9%. For 2012/13 the reduction will be 9.0% compared to a national average of 7.3%.
- 1.10 Setting the budget for 2011/12 is likely to be the most difficult and contentious decision that the Council has ever faced and so to assist Members the Director of Legal and Democratic Services has prepared a note (attached at Appendix 2) setting out in detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning personal and prejudicial interests and goes on to specify the responsibilities of the Director of Finance and E-Government. The paper concludes with specific legal advice over aspects of the budget which potentially may give rise to difficulties. **Members are strongly advised to give their best attention to this advice.**

2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2011/12

- 2.1 The final Local Government Finance Settlement for 2011/12 (the Settlement) was published on 31 January 2011 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 (see section 4.10). It also provided firm figures for 2012/13. The figures (both local and national) reflected the broad picture set out in the Comprehensive Spending Review which was announced on 20 October 2010.
- 2.2 The Settlement was extremely complex both in terms of its structure and the figures used. For the first time, the 'headline' interpretation was based on a new measure, known as '*revenue spending power*' which consisted of a selection of grants together with income from Council Tax. Using this comparison it suggests the Council's reduction in funding was 4.26%, which was better than most AGMA authorities. However, we would expect to fare better than most using this measure simply because we were not entitled to a number of funding streams previously enjoyed by others and so Members need to be aware that the use of *revenue spending power* masked the full scale of funding reductions.
- 2.3 The Settlement also introduced some significant changes in grant funding arrangements as well as significant reductions in grant entitlements. As promised the Government has reduced substantially the number of grant streams paid to authorities and instead has diverted a number into Formula Grant.
- 2.4 Because of the number of changes made the Government has calculated an adjusted 2010/11 to allow year on year comparisons to be made. The adjusted 2010/11 grant figure has been created to enable like-for-like comparisons between the amount of formula grant an authority would have received in 2010/11, had formula grant in that year covered the same functions for each authority as it does for 2011/12. All percent changes quoted in this section are comparisons to adjusted figures.

2.5 The key headlines at a national level include:

- Central government Formula Grant funding for councils (including Revenue Support Grant and pooled Business Rates, but excluding Police Grant and the Metropolitan Police Special Payment) falls by 12.1% in 2011/12 to £24.9bn.
- The total funding for local government, Aggregate External Finance (AEF), falls by 2.7% in 2011/12 when compared with the adjusted 2010/11 figure. This sum includes a 3% increase in ring-fenced and specific grants (mainly schools grant) and additional funding for PFI.
- A transitional grant of £85m for 2011/12, benefiting 37 authorities whose 'revenue spending power' (broadly grants plus council tax) would have otherwise have fallen by more than 8.9%, has been provided to help minimise reductions for authorities facing exceptional decreases in grant allocation.
- An Early Intervention Grant of £2.214bn, a decrease of over 27% when compared with the grants paid to councils in 2010/11.
- Reform of the housing finance system, with detail contained in the Localism Bill.

2.6 Damping arrangements, which limit the maximum **loss** of grant that various authorities can suffer, will continue but with a banded approach to floors now being adopted as shown in the table below. An authority will be placed into one of the four bands depending on its reliance of government support. The most dependant authorities will be placed in band 1; Bury is in band 3 and therefore receives a maximum loss in formula grant of 13.3% in 2011/12.

Damping Arrangements	2011/12	2012/13
Education / Social Service Authorities:		
Band 1	11.3%	7.4%
Band 2	12.3%	8.4%
Band 3 (Bury's band)	13.3%	9.4%
Band 4	14.3%	10.4%
Police Authorities	5.14%	6.7%
Fire Authorities	9.5%	3.4%
Shire Districts:		
Band 1	13.8%	10.5%
Band 2	14.8%	11.5%
Band 3	15.8%	12.5%
Band 4	16.8%	13.5%

2.7 The cost of the 'floor' mechanism is self-financing within the national system which means that authorities who receive a grant loss of less than 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 below the floor in 2011/12 and so we **receive** £0.289m. However in 2012/13 we **lose** £0.697m to support 'floor' authorities.

2.8 Members might like to know that at the end of the previous Spending Review period Bury had suffered from the application of floors and ceilings to the extent that our actual grant was **1.9%** less than it would otherwise had been and we had lost **£4.2m** of grant over the three years.

2.9 Bury's Formula Grant for the two years that have now been announced is set out in the following table (with comparisons shown against adjusted figures):

	Bury's Cash Grant	Reduction in Grant (on previous year)
	£m	
2010/11 (adjusted)	78.215	
2011/12 (actual)	67.812	-13.3%
2011/12 (adjusted)	67.390	
2012/13	61.330	-9.0%

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

	2011/12	2012/13
Bury	-13.3%	-9.0%
Greater Manchester	-11.5%	-7.7%
Met districts	-11.3%	-7.6%
London boroughs	-11.2%	-7.6%
Shire districts	-14.5%	-11.5%
England	-9.9%	-7.4%

Comparatively speaking, Bury's losses are greater than the average for Greater Manchester authorities, for Metropolitan Districts, for London boroughs and for England.

2.10 The biggest difficulty that the Settlement presents from a technical point of view is deciding how much of the Formula Grant is available to support the general budget and how much represents grants that have been transferred from cash into the formula. Basically there are three components to the calculation:

- Take the actual Formula Grant for 2011/12
- Take off grants that have been 'added directly' into Formula Grant – there will then be made available to Departments to compensate for the loss of the equivalent cash grants (£4.878m)
- Take off grants that have been 'rolled in on a tailored basis' to Formula Grant. These differ from other grants by virtue of the fact that specific amounts are added to each authority's Formula Grant (i.e. the sums allocated are firm and are not impacted by the distribution formula) although the budget treatment will be the same and they will be made available to Departments to compensate for the loss of the equivalent cash grants (£6.868m).

2.11 The balance is then available to support the budget. The calculation for Bury for 2011/12 is shown in the table below:

	£m	£m
2011/12 Formula Grant		67.812
Less: cash grants now built in to Formula Grant		
National Concessionary Travel Scheme	0.878	
Child Death Review Processes	0.025	
Care Matters White Paper	0.217	
Mobile Homes Act	0.001	
Economic Assessment Duty	0.065	
Mental Health	0.567	
Child and Adolescent Mental Health	0.332	
Learning Disability Development Fund	0.161	
Mental Capacity Act	0.102	
Carers	0.880	
Adult Social Care Workforce	0.491	
Local Involvement Networks	0.122	
Adult Social Services recycled funding	1.037	-4.878
Less: cash grants rolled in to Formula Grant		
Local Transport Services	0.096	
Supporting People	5.457	
Housing Services for Older People	0.053	
Learning and Skills Council Staff Transfer	0.475	
HIV/Aids	0.074	
Preserved Rights	0.711	
Animal Health and Welfare	0.002	-6.868
Formula Grant available in 2011/12		56.066

2.12 A further important distinction is that the grants 'added in' have been put into Formula Grant at their 2010/11 levels and these are the sums that will be passed to Departments (i.e. on a cash freeze basis with no scaling up or down). If Members agree with this approach then the effect will be to protect these areas from being scaled down to the extent that the Formula Grant itself has been reduced. This policy will need to be kept under review although it should be recognised that some of the above grants have already been offered up as savings.

2.13 However the allocation of grants 'rolled in' used in the 2011/12 Formula Grant (and which will also be passed to Departments) represents a significant reduction compared to the 2010/11 allocations as shown below:

	2010/11 allocation £m	2011/12 allocation £m	Change £m
Local Transport Services	0.136	0.096	-0.040
Supporting People	6.081	5.457	-0.624
Housing Services for Older People	0.070	0.053	-0.017
Learning and Skills Council Staff Transfer	0.458	0.475	0.017
HIV/Aids	0.068	0.074	0.006
Preserved Rights	0.908	0.711	-0.197
Animal Health and Welfare	0.003	0.002	-0.001
TOTAL	7.724	6.868	-0.856

2.14 Formula Grant is just one component of the annual settlement, albeit a significant one. Announcements were also made about other grants, including the complete cessation of many. Some grant changes worthy of particular note include:

- Concessionary Fares £0.878m: currently the Greater Manchester Integrated Transport Authority (GMITA) receives a specific grant towards the cost of concessionary fares. The grant has now been rolled into Formula Grant for each of the ten AGMA authorities and the ITA levy will increase as a result (as shown in the table in paragraph 2.11). The net affect on Bury is broadly neutral.
- NHS Support for Adult Social Care: nationally the Department for Health has allocated £648 million specifically for Adult Social Care. This funding (of which Bury's allocation is £2.218m) is being distributed through PCTs although they have been instructed to transfer these funds directly and in full to local councils via an agreement under s256 of the 2006 NHS Act

The Department of Health has stated that the intent of this funding is "to invest in social care services to benefit health and to improve overall health gain". The Department also states that they intend that decisions on how these funds are to be invested and the expected outcomes should be agreed jointly by Councils and their respective PCTs.

- In addition to NHS support for adult social care, the Government has also provided £530 million in 2011/12 (£930 million in 2012/13) directly to local authorities for adult social care, paid through the Formula Grant. This amount has not been separately identified in any of the subsequent papers received from Government but if it were apportioned pro-rata to the NHS funding methodology, Bury's share would be in the order of £1.7 million. Given the overall funding position in respect of the 2011/12 Formula Grant, and given that the funding is not ring fenced, it is recommended that no specific budget provision for this be made in 2011/12. However, the position shall be kept under review in future years.
- Council Tax Compensation: this will be payable to authorities that set their 2011/12 Council Tax at the same level as 2010/11 or below. The grant is equivalent to a 2.5% increase in Council Tax which in Bury's case will be £1.888m. No grant is payable if there is **any** increase in the Tax rate for 2011/12 and not only would the whole of the grant be lost there is also a higher risk of any increase being caught by capping.
- Early Intervention Grant £7.836m: this is a new grant introduced during the recent Funding Settlement and replaces many aspects of the SureStart and Area Based Grants. These previous grants' 2010/11 original budgets amounted to £10¼ million while the EIG 2011/12 funding is £7,835,910, a shortfall of approx £2½ million. How much of these external monies will be allocated to the appropriate services has yet to be determined.

- 2.15 Under the 'Valuing People Now' Strategy published in 2009, responsibility for funding and commissioning social care for adults with learning difficulties transferred from the NHS to local authorities. For 2011/12, this funding will be provided by way of a specific grant from the Department of Health, each council's allocation being based on reported current PCT expenditure. Bury's share of this grant is £4.169 million which should be sufficient to cover the increased commissioning liability.
- 2.16 The Council has also received a Homelessness Grant for a number of years and this is set to continue. The Government has stated its commitment to protecting its investment in this grant resulting in the value of the grant being maintained. For 2011/12, Bury's allocation is £484,000.
- 2.17 The Government has provided firm grant allocations for two years only. This is because a review of the current local government finance system is to take place in 2011, commencing in spring. It is expected the review will include consideration of the full or partial localisation of business rates. Any changes to the finance system are unlikely to be introduced before April 2013.

3.0 FORECAST OUTTURN 2010/11

- 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 The table below shows a summary of the forecast outturn based on information available at 31 December 2010 (i.e. month 9):

	£m
Adult Care Services	0.191
Chief Executive's	-0.125
Children's Services	0.826
E&DS	-0.100
Non Service Specific	-1.414
TOTAL PROJECTED UNDERSPENDING	-0.622

- 3.4 Despite the month 9 position showing a forecast underspend of £0.622m, a number of hot-spots remain within specific service areas, particularly around safeguarding children and services for people with learning and physical disabilities. In addition, the authority lost a very considerable sum of in-year grant funding and so to deliver an estimated underspending has involved significant management action being instigated to mitigate the effects of the pressures being faced by services. Star Chambers have continued to play close attention to the situation as has the Internal Scrutiny and Audit Committees.
- 3.5 The positive impact that this position has on the General Fund balance is explained in section 9.

4.0 DRAFT REVENUE BUDGET 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
- Assumptions behind the draft budget
- The potential Council Tax position
- The draft budget for 2011/12

4.2 The report then goes on to consider the Schools’ position, options for balancing the budget, the Transformation process and the robustness of the estimates behind the draft budget. This in turn leads to an assessment of the adequacy of the Council’s minimum level of balances which is then linked to an evaluation of the financial implications of the risks that are faced by the Council in relation to it delivering on its priorities and in relation to the budget strategy and assumptions.

4.3 Golden Rules

4.3.1 The Council has enshrined certain values into its longer-term approach to its finances by the adoption of four ‘Golden Rules’. These were incorporated into the Council’s financial policies by Members in February 2007 to underpin the budget setting and management process:

- The level of General Fund balances retained by the Council to meet unexpected changes in the budget or to fund events that cannot be foreseen will be based on an assessment of the risks faced by the Council but they will not be allowed to fall below the higher of £3m or 2.5% of the net budget (excluding schools). This formula needs to be debated and justified in relation to the risk strategy adopted each year.
- The level of one-off options used to support the on-going revenue budget will reduce in each successive year with an aspiration to move to a fully sustainable budget by 2011/12 after which on-going costs will be fully met from on-going resources. The proposals set out in section 6 show that this has been achieved.
- 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

4.3.2 The Director of Finance and E-Government reports on progress against the ‘Golden Rules’ as part of the quarterly Finance and Performance Monitoring report.

4.3.3 The Golden Rules are now enshrined in the Council’s financial policies and it is clear that they have had a positive influence on the Council’s financial standing. 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 **£3.7m** or 2.5% of the net budget (excluding schools). This is an increase of £0.1m.

4.4 Assumptions

4.4.1 The draft Budget for the coming year has been prepared by rolling forward and re-pricing the current year's budget using a number of specific stages:

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

4.4.2 The forecast is based around a standstill budget, one which reflects the current level of service up-rated for inflation and other unavoidable pressures. In view of the exceptional financial position projected for the coming years Members are asked to accept that it would be impractical to make a further allocation into the Priority Investment Reserve. This means that Departments will be required to absorb the impact of demographic, demand and other pressures as well as to contribute towards the corporate savings targets set for them. This will be extremely challenging and the risks associated with such a strategy have been reflected in the calculation of the minimum level of balances.

4.4.3 In determining the assumptions to be used to underpin the 2011/12 and 2012/13 budgets the following considerations have been taken into account:

	Note	2011/12	2012/13
Pay	1	0.0%	0.0%
Pensions (increase in employers' contribution rate)	2	0.7%	0.7%
Prices	3	0.0%	0.0%
Waste levy		7.9%	12.3%
Transport levy	4	-2.0%	1.0%
Rise in income from fees and charges	5	1.0%	1.0%
Council Tax base (no. of Band Ds)		59,913	60,013
Council Tax rate rise	6	0.0%	3.5%

Notes:

- 1. Pay** - the employers have consulted councils on the pay strategy through pay briefings in the nine English regions, Wales and Northern Ireland. The Employers' Side of the NJC has decided that in the light of the clear and consistent message from the vast majority of councils the financial position is such that any pay increase would simply not be affordable.

The employers recognise that, like councils, many employees have struggled to cope with the effects of the recession. However, the employers face a stark choice; they want to help councils protect services and offering a national pay increase for 2011/12 would severely compromise that aim. A pay freeze was subsequently confirmed on 17 February 2011 with no provision for any increase for staff paid below £21,000 pa.

- 2. Pensions** – based on the latest 3-year actuarial review of the GM Pension Fund the rate at which Bury Council as an employer is required to contribute (as a % of pensionable pay) is forecast to rise from 15.7% to 17.8% between 1 April 2011 and 31 March 2014. Working on a number of technical assumptions around the reduction in the total pay bill and the level of early/ill health retirements it has been agreed with the Fund that this increase can be allocated equally over the three years.
- 3. Prices** – whilst it is recognised that inflation is increasing it is felt that the Council's financial position is such that it would be imprudent to make a provision for non-pay inflation although Directors have been invited to bid for funding towards unavoidable/contractual inflationary cost increases.
- 4. Transport levy** – the levy now comprises three distinct elements. Firstly there is the amount required to fund transport infrastructure improvements across the county area which has been set at an annual, and unavoidable, rise of 3% pa. which has now been built into the base budget.

Secondly there is the requirement to meet the costs of the National Concessionary Fare scheme for which funding was included in the Formula Grant allocation wef 2011/12. This is broadly neutral as far as Bury is concerned and means that we will receive £0.878m and pass over the same amount. Finally there is the amount required to meet the rise in the Integrated Transport Authority's general costs. Following robust scrutiny of the ITA's budget by Members and officers from Bury, Trafford and Wigan it has been possible to reduce costs to the extent that this element of the levy will fall by 2.0% in 2011/12. Current forecasts are for a rise of 1% in the following year.

- 5. Income** - this is a further general assumption and Directors are free to decide how to meet the requirement depending on their individual circumstances.
- 6. Council Tax** - acting under delegated powers, the Director of Finance and E-Government has calculated the amount of 59,912.76 (Band D equivalent) as the Council Tax base for the year 2011/12 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This represents a 98% in-year collection rate, and is a rise of 25 properties compared to 2010/11. For the following year it is anticipated that conditions in the property market will be such that the base will grow by no more than 100 properties.

- 7. Council Tax rate** – the Government have announced that they have set aside funds to allow a Council Tax freeze for 2011/12 (but only 2011/12). Effectively, Councils that freeze the Tax rate will be entitled to a grant equivalent to a rise of 2.5%. For Bury this is estimated at £1.888m and indications are that this will not be a one-off payment (i.e. taxpayers won't have to see a consequential rise in future years which would be the case if the payment was not on-going). Members should be aware that a freeze is not mandatory although a rise of any level will mean that the grant is foregone.

The same offer is available to precepting authorities such as GM Police and GM Fire & Rescue.

It is assumed that Members would wish to take advantage of the available grant and freeze the tax rate and that the preceptors will do the same.

This means that the Band D Council Tax for 2011/12 will be:

	£	£
Bury MBC		1,259.75
GM Police Authority	144.33	
GM Fire and Rescue Authority	52.65	196.98
TOTAL		1,456.73

Members are reminded that the Council decided to levy a lower Council Tax in the case in households where the Council Tax payer was aged 65 or over and not in receipt of benefit. It is assumed that the discount will continue to be paid to **existing** recipients but that there will be no increase in the discount (so for these households the Band D Council Tax will be £1,414.02) and there will be no extension of the discount to people newly reaching 65.

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. In future years they will also be advised to consider carefully the increase in the tax rate in the light of any possible capping criteria and in the light of legislation to allow a community challenge to the proposed increase.

For 2011/12 the Government have indicated that they would look to cap any budget where:

- the 2011/12 budget is greater than 92.5% of it's 2010/11 budget (as adjusted for various changes) and
- the Band D Council Tax for 2011/12 is increased by more than 3.5% compared with 2010/11

In light of this, the 2012/13 budget forecast assumes a rise of 3.5%, which is also in line with the national Spending Review which assumed that Council Tax income would rise between 3% and 4%. The proposed budget for 2011/12 also meets the criteria mentioned above and so will not fall foul of capping.

- 4.4.4 Allowance has also been made for the cost of the job evaluation strategy (and protection) resulting from the application of the local scheme.
- 4.4.5 Provision has been made for the cost of adding back any one-off initiatives used to fund the previous years' budget
- 4.4.6 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 low level of interest rates, coupled with the uncertainties in the financial markets, means that the authority's ability to generate investment returns has been weakened considerably.
- 4.4.7 Members' attention is particularly drawn to towards:
- Demand led pressures in excess of nominal inflation
 - Bury's high VFM rating
 - A non-transparent methodology of distributing grant to local areas
 - The impact of the recession on income levels
 - The difficulty in demonstrating clearly the reallocation of resources on a priority-led basis given the scale of the public expenditure reductions.
- 4.4.8 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.

4.5 The Draft Budget 2011/12

- 4.5.1 Budgets reflecting cost increases identified between 2010/11 and 2011/12 have been drawn up in conjunction with the Heads of Finance and other staff within the Council's Departments.
- 4.5.2 This budget reflects the assumptions set out in section 4.4 above, but excludes costs funded by the Dedicated Schools Grant.
- 4.5.3 Options for balancing the budget are set out in section 6.

4.5.4 The table below summarises the draft 'standstill' budget for 2011/12 and an **initial** forecast for 2012/13:

	2011/12		2012/13
	£000		£000
Opening Budget	141,582		133,429
Less: one-off costs from previous year	-562		0
Inflation:			
Pay	0		0
Prices	928		848
Income	-204		-206
Integrated Transport Authority	-200		500
Waste Disposal Authority	904	1,428	1,881
Staffing costs:			
Increase in employers' pension contrib'n	658		660
Increase in National Insurance	352		0
Contribution to pay and grading	564		500
Non JNC increments	130	1,704	130
Revenue effects of Capital Programme	24		95
Cost of borrowing	-400		0
Other changes:			
Carbon Reduction Scheme (non schools)	228		230
Building Schools' for the Future provision	-1,000	-772	0
Estimated Budget	143,004		138,067
Less:			
Formula Grant	-56,066		-49,679
Council Tax	-75,475		-78,257
Council Tax Freeze Grant	-1,888		-1,888
TOTAL SAVINGS REQUIRED	9,575		8,243

4.6 Equal Pay

4.6.1 The authority is currently appealing against a judgement in the Employment Appeals Tribunal relating to equal pay claims. At this point in time, due to negotiations that are taking place and due to the fact that an appeal is pending, it is not possible to quantify accurately the provision that needs to be made towards the cost of meeting equal pay claims. However the strategy of using prudential borrowing to meet the majority of any liability remains and a prudent on-going provision of £0.9m was made within the budget for 2010/11 and current indications are that this will remain adequate.

4.7 International Financial Reporting Standards (IFRS)

4.7.1 The introduction of IFRS is well underway and the authority is making sound progress. The financial implications of changes to the treatment of leases and holiday entitlement are being assessed although their effects are currently being mitigated by government. However it may be that IFRS will have a detrimental impact on future years' budgets and technical staff are working to ensure that this is minimised.

5.0 SCHOOLS' ISSUES

- 5.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant provided to local authorities and can only be spent on schools and specified areas within the Schools Block.

Schools Block	2010/ 2011	2011/ 2012	Change	Percentage Increase
	£million	£million	£million	%
Total DSG				
Budget	116.6	117.0		
Other Grants	17.1	17.1		
Pupil Premium	-	1.8		
	133.7	135.9	2.2	1.6
Schools Delegated Budgets				
Budgets including devolved grants	120.4	124.4	4.0	3.3
Central Spend				
Budget	13.3	11.6	-1.7	-12.8

- 5.2 For information, the "Central Spend within the Schools Block" includes Pupil Referral Units, Out-of-borough Placements, and fee payments to PVI providers (under 5's). Supply cover for long-term absences, such as Maternity leave, are also included within the Central Spend. Previously in 2010/11 Schools Catering (excl High Schools) was included in the Central Spend but the Schools Forum are now recommending that this budget is included in relevant schools' delegated 2011/12 budgets. This transfer mainly explains the large drop in the Central Spend.
- 5.3 The Estimated 2011/12 DSG published in December 2010 is based on the DfE's estimates of pupil numbers. The Final DSG will be based on the January 2011 PLASC Return and the Early Years Census, which is scheduled for March 2011. Consequently the Final DSG will be available during summer 2011.

The DSG financial analysis provided by the Department for Education (DfE) shows that the 2011/12 per pupil funding is the same amount as 2010/11. Consequently the only fluctuations in schools delegated funding will be because of changes in pupil numbers.

- 5.4 In addition to the DSG announcement, the DfE has decided to subsume a number of their 2010/11 grants provided to schools into an enlarged DSG, and these amount to more than £17 million. Also the new Pupil Premium grant of almost £1¾ million will be included in the 2011/12 DSG. All these grant changes are listed below:

	£ millions
Schools Standards Grant	4.6
Schools Standards Grant (Personalisation)	1.2
School Development Grant	4.4

Specialist Schools	1.4
High Performing Specialist Schools	0.3
School Lunch Grant	0.3
Ethnic Minority Achievement Grant (EMAG)	0.4
One to One Tuition	0.9
Extended Schools Sustainability	0.7
Extended Schools Subsidy	0.6
Targeted Support – Primary (National Strategies)	0.7
Targeted Support – Secondary (National Strategies)	0.3
Diploma Formula Grant	0.1
Early Years Free Entitlement	1.1
Pupil Premium	1.8

5.5 Although the Schools Forum can recommend different allocation methodologies for these resources, in order to avoid too much “turbulence” in schools’ funding the DfE wish that the 2010/11 allocation methodologies are replicated for 2011/12.

5.6 At their meeting on 17th January 2011 the Schools Forum agreed to replicate the 2010/11 grant distribution methodology for all of the above grants apart from:

- School Lunch Grant – this is now included within the Central Spend and the Schools Forum formally agreed to continue to allow EDS’s Head of Catering to spend these funds on behalf of schools.
- Ethnic Minority Achievement Grant - this is now included specifically within the Central Spend and the Schools Forum formally agreed to continue with current buy-back arrangements and to allow the Head of the Curriculum Language Advisory Service to spend these funds on behalf of schools.
- Targeted Support (Primary) – previously the allocation of these resources was determined by staff within Children’s Services. The Schools Forum has agreed to increase the Key Stage 1 and 2 components within the Schools Funding Formula from 0.92 to 0.94 as a means of distributing these funds to Primary schools.
- Diploma Formula Grant – the requirement for this grant is disappearing at the end of the academic year and the Schools Forum has agreed to increase the Key Stage 4 component within the Schools Funding Formula from 1.21 to 1.22 as a means of distributing these funds to High schools.
- Pupil Premium – in 2011/12 the DfE are providing additional grant monies amounting to £430 for each pupil entitled to a free school meal and for every Looked After Child in school. All of these monies will be distributed to the school where the eligible pupil is educated. NB this per pupil funding will increase by the same amount for the next three years until it becomes approx £1,700 per pupil by 2014/15.

5.7 Per Pupil Minimum Funding Guarantee (MFG) – in the past this has been the Government’s assessment of the inflationary effects on schools’ delegated budgets, which would also recognise the impact of key initiatives. In 2011/12 the per pupil MFG has been set at minus 1.5%, which effectively lowers the levels of financial protection some schools have benefited from, especially in relation to falling numbers on roll.

- 5.8 This negative MFG also applies to the grants, as listed above, which are being subsumed into the enlarged Dedicated Schools Grant.
- 5.9 The Schools Forum at its meeting on 17 January 2011 agreed to recommend to Council that there would be the following resolutions to the 2011/12 schools funding formula:
- Key Stage 1 and 2 – increase from 0.92 to 0.94
 - Key Stage 4 – increase from 1.21 to 1.22
 - Delegate Nursery, Primary and Special School Meals at per school costs determined by EDS, with the proviso that a formula allocation method is developed.
 - Additional Educational Needs – this is the deprivation factor, which uses the Super Output Areas Index of Multiple Deprivation. The Schools Forum wish to continue using this measure of deprivation rather than the entitlement to Free School Meals, which the Pupil Premium is based on.
 - Maintain the Looked After Child component at £1,000 per pupil including the Pupil Premium amount of £430. This approach effectively contributes approx £80,000 of resources to other areas within the schools funding formula.
 - Maintain the Age Weighted Pupil Unit Formula at the 2010/11 level.
 - Maintain all other formula components at their 2010/11 levels.
- 5.10 Academies – these are to be resourced outside of local authority arrangements but are based on three aspects of funding:
- Schools Funding Formula – academies will receive the same level of per pupil funding as a maintained school would using the local authority’s funding formula mechanism.
 - Local Authority Central Spend Equivalent Grant (LACSEG) – this is an amount of money based on a per pupil share to cover the cost of some central services, which the local authority no longer has to provide. Academies will be able to “trade” with the local authority for the services it wishes to buy.
 - In addition, the Government have determined that £145 million is deducted from each local authority’s Formula Grant, which will be distributed to academies throughout England by the Young People’s Learning Agency (YPLA). Bury’s share of the deduction is £445,258 for which there is no provision in the budget. Of the two schools that have applied to become academies it is estimated that they will receive approx £132,000, leaving a difference of more than £300,000 for the YPLA to use as they see fit.

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 that for 2010/11 and onwards the intention was to have a sustainable budget that placed no reliance on one-off savings options.

- 6.2 Remarkably given Bury's financial position this has been achieved and this is a considerable achievement given the authority's very difficult financial circumstances and one that the Council should be very proud of. Very few authorities can claim to have achieved this and Members are strongly advised to seek to continue this policy so that turbulence within the budget is minimised and steady long-term planning can continue.
- 6.3 The unprecedented scale of savings that we have to make mean that a different and long-term approach is going to be needed if we are set to continue to set sustainable and balanced budgets. The authority recognises that we must:
- Buy time
 - Build a vision of how we might look in the future
 - Be proactive and start early
 - Get people engaged
 - Respond to local needs and priorities
 - Recognise the scale of the problem
 - Be open to a range of skills and techniques
 - Think creatively and act innovatively
 - Build the capacity/capability to change
 - Transform the organisation
- 6.4 In view of this our response has been to accept that:
- Salami slicing and efficiencies won't bridge the gap – we must transform
 - We need to make big (and quick) decisions about what are and aren't priorities
 - It will be essential to involve the community in decisions about priorities
 - We need to implement sound change management/workforce engagement/communications strategies
 - We must innovate faster and better
- 6.5 Our approach to this task will be to:
- Determine as a first priority that front-line services should be protected as far as possible
 - Recognise that over 80% of the budget is spent on staff
 - Accept that 2011/12 will involve an austerity budget
 - Implement the Fit for the Future process so that we become a Council for the 21st Century (see section 7)
- 6.6 As part of its long-term budget planning the Council identified an initial savings requirement for 2011/12 of £12.2m. Changes announced as part of the final national grant Settlement meant that we lost £2.2m of grant so in total the budget had to be reduced by of £14.4m. In an effort to protect front-line services and minimise job losses a number of measures were identified to reduce the requirement for savings including ending the contribution into the Council's Priority Investment Reserve, putting a stop to new borrowing and negotiating reductions in payments to the Waste and Transport Authorities. As a result this has brought down the budget shortfall to £9.6m (as shown in section 4.5)

- 6.7 The in anticipation of the budget position a two-pronged approach was taken to savings. Firstly a number of 'corporate' options were examined and it is recommended to Members that £0.9m of savings be made by changing staff terms and conditions so that increments are frozen for the coming three years and also that staff be required to take three days unpaid leave. Further assessments have been made and the savings from this approach are now estimated as being **£1.113m**.
- 6.8 Secondly Departments were set initial savings targets totaling **£8.4m** as shown in the following table. These were initially allocated out to each of the main service areas broadly on the basis of net budget. The value of savings options identified is also shown in the table and details of individual options are provided at Appendix 4.

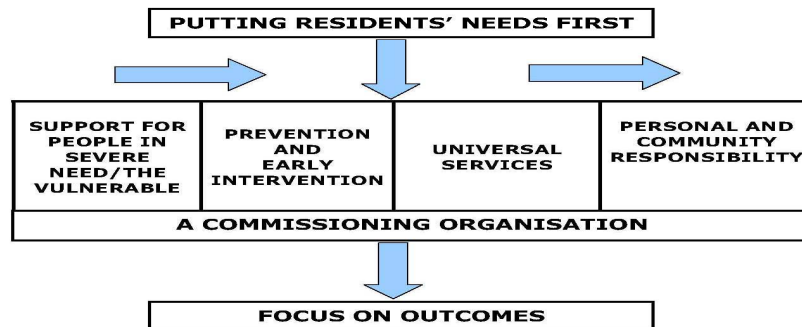
	Savings Target £m	Value of options £m
Adult Care Services	3.335	3.330
Chief Executive's	0.648	0.725
Children's Services	1.999	1.989
Env. & Development Services	2.418	2.418
TOTAL	8.400	8.462

- 6.9 This means that the total value of savings identified stands at **£9.575m** and means that if all options are accepted then the budget for 2011/12 will balance without the need to use reserves.
- 6.10 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.
- 6.11 Given the potential scale of saving required in future years as a result of the magnitude of national public debt it will be necessary for the Council to take a radical approach to balancing the budget in future years. This is discussed in more detail in section 7.

7.0 TRANSFORMATION

- 7.1 The coalition government has clearly stated that reducing the country's structural deficit is its key priority. Achieving this means a scale of reductions in public spending that we have not seen before and all public services, including the NHS, police and fire services will be affected, alongside local authorities. This means that the scope and nature of public services will radically change over the next four years and we recognise that it will not be possible to achieve the levels of savings required by way of the Council's traditional budget-setting process.
- 7.2 This means that the Council will need to transform itself and to shape the way that we do this we have identified Seven Principles for Transformation which set out a clear statement of how we will reshape Bury Council.

- 7.3 These mean that we should, wherever possible, seek to be an enabling council, helping individuals and communities to take responsibility and help themselves, whilst maintaining support for those individuals in our communities who are in severe need or vulnerable.
- 7.4 Our transformation principles call for a critical examination of where we intervene to improve outcomes, both for individuals and universal services. At present our services and resources are very focussed on a small proportion of the population and intervening at 'crisis' stage or when our residents' needs are complex. The Seven transformation principles are:



- 7.5 In seeking to transform what we do and how we get it done, the council has opportunities which it needs to assess, maximise and utilise. Transformation means looking critically at how we utilise these opportunities to shift from where we are now to where we want to be. This will mean that we stop doing some things and have to make other difficult decisions such as the level of risk the council is prepared to carry.
- 7.6 A fundamental and objective review of each of our services will be undertaken, against clear criteria, to inform this decision-making. The Service Transformation Assessment Reviews (STAR) will help us to understand why we do what we currently do and what we need to do or ensure gets done in the future and achieve any agreed savings targets.
- 7.7 This process has already started and services included in the first two phases are listed below:

Phase 1	Phase 2
<ul style="list-style-type: none"> • Communications, Marketing and Consultation • Financial Assessment and Means Testing • Learning Disabilities • Organisational Development and Training • Parks and Open Spaces • Safeguarding 	<ul style="list-style-type: none"> • Environmental Services • Highways • Income Billing and Collection • Leisure • Libraries • Working with the Third Sector and Communities • Finance and HR

7.8 Each STAR review will assess a service, cross-cutting theme or function against the criteria included in the diagram below. As STARS are completed, they will have had consideration of a range of management and delivery options for each service in order to achieve the best model which best meets the STAR Principles. The first of these reviews is expected to be published in draft for consultation during the summer and in good time to inform the 2012/13 budget planning process.

7.9 A Transformation Strategy is nearing completion and will be the subject of consultation. This will be a key document that will provide leadership, instil confidence about the future and create a dynamic process of planned change through an inclusive engagement process

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 when 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 A Member-level Corporate Risk Management Group has been established to monitor the corporate risks and to assess the effectiveness of the mitigation action that has been identified. Provision has been made in the draft Budget to address these risks, 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. It is clear that there are going to be severe reductions in public spending over the course of the current Parliament and it is essential that the Council acts to prepare for the implications on public spending cuts on local government.
- 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 2011/12 has been retained at 98% which is realistic, based on past, current and projected performance. It also compares favourably with other metropolitan authorities. The fact that the Tax is likely to be frozen in 2011/12 should assist with collection. The Council has also embarked on a more aggressive collection regime.
- 8.4.4 One concern is that the Government has said it will cap authorities whose increase in Council Tax is deemed to be excessive. More details are given in paragraph 4.4.3.
- 8.4.5 Fees and charges (excluding Council House rents) are budgeted to raise some £36m of income in 2011/12 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 1% 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 1%.
- 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 Members.
- 8.4.8 It is clear from monitoring that has taken place during 2010/11 that the difficult economic climate has had a downward effect on various charging streams such as car park fees, planning charges etc. It is important that this is considered by Members and Directors when the budget is set. The provision within the minimum level of balances calculation has increased significantly to reflect this risk.

- 8.4.9 In terms of expenditure budgets the single largest area of expenditure is on staff pay. For future years the Chancellor has indicated that with effect from 2011/12 public sector pay will be frozen except for employees earning less than £21,000pa. The draft budget for 2011/12 makes no provision for a pay award reflecting the view of the vast majority of Councils that a pay rise is unaffordable. On 17 February 2011 the employers' side confirmed that pay will be frozen with no provision for any increase for staff earning less than £21,000.
- 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 detailed pay modelling of the results. In view of this it is felt that the risk inherent in this element of the budget is low.
- 8.4.11 Further changes were implemented during 2010/11 in respect of 'Part 3' terms and conditions and the budget only reflects the impact of changes that are not subject to protection.
- 8.4.12 The approach taken towards equal pay is set out in section 4.6 and it is felt that the strategy has minimised the potential impact on, and risk for, the Council's finances. It is also felt that the provision made in 2010/11 is adequate.
- 8.4.13 Staff accounts for a majority 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 (ITA/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 and supported accommodation for children, the elderly and people with learning and physical disabilities. The draft budget assumes a cash freeze on the individual budgets for such items although Directors have been encouraged to bid for support to meet inflationary costs where it is unavoidable or where it impacts on business-critical services.
- 8.4.15 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 current economic climate has led to an increase in claimant numbers and it is accepted that unemployment is likely to rise during the coming financial year. Performance has been maintained in 2010/11 and so this is not considered to be a significant risk at this stage.
- 8.4.16 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.

- 8.4.17 For levies the budget has been set at the level recommended to the external bodies by AGMA or as notified.
- 8.4.18 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.
- 8.4.19 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, cost and statutory obligations make it extremely difficult for Services to manage within the resources that have been voted. Such budgets include care packages (both residential and home based support) for adults with learning and physical difficulties and mental health issues, care costs associated with an increasingly older population, independent special school fees, learning support services and the external placement of children.
- 8.4.20 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.

However it is clear that pressures in these areas are unlikely to diminish due to increasing demands arising from an aging population, from increasing client expectations and from transitional cases from Children's Services. Within the ACS service area a Project Board continues to examine the budget and the options available to maintain spend within available resources.

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

8.5 Risks inherent in the budget strategy

- 8.5.1 There are specific risks inherent in the budget strategy itself and these include:
- Savings targets may not be achieved
 - Budgets may overspend during the year as a result of unforeseen pressures
 - Assumptions may prove to be inaccurate
- 8.5.2 Given the robust nature of the budget strategy, the Council's past performance and the strength of the budget monitoring process these risks are felt to be at a medium level for 2011/12. However it is important that this level of risk is mitigated and provision has therefore been made within balances to cover these items.

- 8.5.3 Having said this, it must be stressed that the risk factor worsens significantly in future years and it is imperative that this future risk level is considered by Members when they address the 2012/13 budget.

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 22 February 2011, 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 recessionary pressures/impacts being adequately assessed and resourced, then indications suggest that this is the case.

Estimates have been based on the best and latest information available and provision has been made within the minimum balances to meet unforeseen eventualities (see section 9 of this report). However the scale of the current and future cuts in public spending are a major concern and this should be recognised in the approach adopted to the budget.

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 introduction of the Procure to Pay module within the Agresso system.

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 various income budgets. 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.

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 then I (as the Director of Finance and E-Government and s151 Officer) can state that **the budget for 2011/12 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
<p>Pay inflation Cushion: Pay awards have now been set for 2011/12 and so there is no degree of uncertainty about the extent to which the budget provision will meet the actual costs. The 0% assumption made in respect of the 2011/12 award is felt to be prudent in light of the settlement but in order to mitigate risk in this area an allowance equivalent to 0.5% should be retained in balances.</p>	H	500
<p>Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been set, this contingency assumes a 3.0% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.</p>	M	800
<p>Interest Cushion: Given the fact that the cost of borrowing budget reflects a baseline position in respect of interest rates, that borrowing has been locked in and that the Capital Programme requires no new borrowing then risk in this area is felt to be on the up-side especially with short-term investment rates at an historic low.</p>	M	100
<p>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.</p>	H	400
<p>Unpredictable and Demand Led Expenditure Cushion: The Council's budgets have had to be kept to a minimum level for a number of years. As a result, the flexibility to compensate for overspends, by reducing spending in other areas is limited. Conversely, significant investment has been made into 'high risk' budgets and this has helped to mitigate this risk. This contingency is now based upon 2.0% of all "demand led" expenditure largely in the areas of Children's and Adult Care Services.</p>	H	1,500
<p>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.</p>	M	850

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		4,950

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%	500	500
Non-pay inflation cushion	M	80%	800	640
Interest cushion	M	80%	100	80
Uncertainty of income	H	100%	400	400
Demand led expenditure cushion	H	100%	1,500	1,500
Budget strategy cushion – savings	M	80%	850	680
Emergency expenditure cushion	L	60%	800	480
			4,950	4,280

9.7 This would set the minimum balance requirement for 2011/12 at **£4.280m**. The calculation made under the Golden Rules would lead to a minimum level of balances of £3.7m and it is recommended that Members agree to set the minimum level of balances at the higher level of **£4.300m** (rounded), this being an increase of £0.5m on the level agreed for the 2010/11 budget

9.8 The forecast position on the General Fund balance at 1 April 2011 is shown in the following table:

	£m
General Fund Balance 31 March 2010 per Accounts	6.244
Less : Minimum balances to be retained in 2011/12	-4.300
Add: Potential revenue surplus 2010/11	0.622
Available balances at 1 April 2011	2.566

- 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 £4.3m, the balances will earn £86,000 in 2011/12 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 1.3% 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 forecast balance on the Reserve at 31 March 2011 is **£3.3m**.

10.0 CONSULTATION

- 10.1 The savings options being considered by the Council have been widely distributed and made available on the Council's web-site, where a dedicated e mail address and response form were provided. Regular meetings have been held with staff representatives and formal Budget JCCs have been held. In addition a public consultation meeting took place on 1 February 2011 which over 130 members of the public attended.
- 10.2 A separate note will be circulated to Members setting out the responses to the consultation exercise.

11.0 OUTLOOK FOR FUTURE YEARS

- 11.1 The figures in the table in paragraph 4.5.4 show that the budget for 2012/13 faces a considerable shortfall and, even though firm figures are not available, it is unlikely that the position will improve significantly in the following years. Members are asked to keep this uppermost in their minds when considering the 2011/12 budget. They are also asked to continue to provide support and guidance to officers as options for addressing future shortfalls are drawn up.

COUNCILLOR IAIN GARTSIDE

EXECUTIVE MEMBER FOR RESOURCE, HR and PERFORMANCE

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ADVICE FROM THE DIRECTORS OF LEGAL AND DEMOCRATIC SERVICES and FINANCE AND E-GOVERNMENT

1. INTRODUCTION

This note sets out in some detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning personal and prejudicial interests.

The paper concludes with specific legal advice over aspects of the budget which potentially give rise to difficulties.

2. WHEN THE BUDGET MUST BE SET

Under Section 32 of the Local Government Finance Act 1992, budget calculations have to be made before 11th March, but they are not invalid merely because they are made on or after 11th March. However, delay in setting the Council Tax will have very serious financial consequences. It will render the Council vulnerable to legal proceedings requiring it to set the tax.

In any event, it is important that the tax is set well in advance of 1st April as no sum is payable for Council Tax until 14 days after the date of posting bills.

Serious financial losses will accrue very soon from a late setting of Council Tax as income is delayed and interest is foregone.

An important feature of Council Tax is that the statutory budget calculation must be followed exactly. If not, the Council Tax resolution will be invalid and void. Detailed advice will therefore be available at the Council meeting.

3. NOTICE

There is a requirement to publish notice of the amount set for Council Tax in at least one local paper within 21 days.

4. CAPPING

The Local Government Finance Act 1992 and Local Government Act 1999 contain powers on the part of the Secretary of State to cap the Council's budget requirement. The cap is applied to the budget requirement and not to the final level of Council Tax requirement, and so it is a means by which the Secretary of State can directly control the Council's expenditure. An authority can be designated for capping if the amount it calculates as its budget requirement is considered to be excessive either intrinsically or in relation to the previous year's calculation.

The Secretary of State can insist that the authority revises its budget for the year within such lower amount as he determines, or he can set a notional amount for the year which is taken into account in determining capping decisions for the following year. If the decision is for the authority to revise its budget for the year, the capped authority must then in effect re-set its budget and Council Tax at an appropriate level. Any reduction in budget must be passed on in full by way of a reduced Council Tax.

5. MEMBERS' FIDUCIARY DUTIES

The obligation to make a lawful budget each year is shared equally by each individual Member. In discharging that obligation, Members owe a fiduciary duty to the Council Taxpayer.

The budget must not include expenditure on items which would fall outside the Council's powers. Expenditure on lawful items must be prudent, and any forecasts or assumptions such as rates of interest or inflation must themselves be rational. Power to spend money must be exercised bona fide for the purpose for which they were conferred and any ulterior motives risk a finding of illegality. In determining the Council's overall budget requirement, Members are bound to have regard to the level of Council Tax necessary to sustain it. Essentially the interests of the Council Taxpayer must be balanced against those of the various service recipients.

Within this overall framework, there is of course considerable scope for discretion. Members will bear in mind that in making the budget, commitments are being entered which will have an impact on future years. Some such commitments are susceptible to change in future years, such as staff numbers which are capable of upward or downward adjustment at any time. Other commitments however impose upon the Council future obligations which are binding and cannot be adjusted, such as loan charges to pay for capital schemes.

Only relevant and lawful factors may be taken into account and irrelevant factors must be ignored. A Member who votes in accordance with the decision of his or her political group but who does so after taking into account the relevant factors and professional advice will be acting within the law.

Party loyalty and party policy are capable of being relevant considerations for the individual Member provided the member does not blindly toe the party line without considering the relevant factors and professional advice and without properly exercising any real discretion.

Under the Code of Conduct, members are required, when reaching decisions, to have regard to relevant advice from the Chief Finance Officer and the Monitoring Officer. If the Council should fail to set a budget at all or fail to set a lawful budget, contrary to the advice of these two officers there may be a breach of the Code by individual members if it can be demonstrated that they have not had proper regard to the advice given.

6. ARREARS OF COUNCIL TAX AND VOTING

In accordance with section 106 of the Local Government Finance Act 1992, where a payment of Council Tax that a member is liable to make has been outstanding for two months or more at the time of a meeting, the Member must disclose the fact of their arrears (though they are not required to declare the amount) and cannot vote on any of the following matters if they are the subject of consideration at a meeting:

- (a) Any decision relating to the administration or enforcement of Council Tax.

- (b) Any budget calculation required by the Local Government Finance Act 1992 underlying the setting of the Council Tax.
- (c) Any recommendation, resolution or other decision which might affect the making of the Annual Budget calculation.

Members should note the following points:

- (i) These rules are extremely wide in scope. Virtually any Council decision which has financial implications is one which might affect the making of the budget underlying the Council Tax for next year and thus is caught.
- (ii) The rules do not apply just to full Council meetings but extend to committees and sub-committees of the Council.
- (iii) Members who make a declaration are not entitled to vote on the matter in question but are not prevented by the section from taking part in the discussion. However, where questions of enforcement are under consideration, Members with any arrears of Council Tax are likely to have a prejudicial interest under the Code of Conduct.

In these circumstances Members are disentitled from taking part in discussions as well as from voting, and must declare an interest whether or not their arrears have been outstanding for two months and must leave the room.

- (iv) Members will have a defence under section 106 if they did not know that the section applied to them (i.e., that they were in arrears to the relevant extent) at the time of the meeting. Thus unwitting Members who for example can prove that they did not know and had no reason to suppose at the time of the meeting that their bank has failed to honour a standing order will be protected should any prosecution arise.
- (v) It is not enough to state that a benefit application has been submitted which has not yet been determined, as Members remain liable to pay pending determination.

7. PERSONAL AND PREJUDICIAL INTERESTS

Under the Code of Conduct, a member will have a personal interest in an item of business if a decision in relation to that business might reasonably be regarded as affecting his or her well-being or financial position or the wellbeing or financial position of a relevant person to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the electoral division or ward, as the case may be, affected by the decision.

Any member with such an interest will, generally, have to declare that interest at the start of the agenda item. However, the business of the meeting relates to or is likely to affect any of the following categories of people then you need only disclose to the meeting the existence and nature of that interest if you actually address the meeting on that business:

- i) any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;

ii) any body exercising functions of a public nature.

Members should seek early advice to avoid any confusion on the night of the meeting.

A personal interest will also be a prejudicial interest if it is one that members of the public, knowing the facts, would reasonably regard as so significant as to be likely to prejudice the Member's judgement of the public interest.

However, under the Code, a member will not have a prejudicial interest if the business under consideration — (a) does not affect your financial position or the financial position of a connected person (listed in paragraph 8 of the Code) nor (b) does not relate to the determining of any approval, consent, licence, permission or registration in relation to you or any connected person or body. (There are other specified exemptions relating to school meals, council tenancies, allowances, etc).

If a member does have a prejudicial interest then the Member concerned must withdraw from the meeting and leave the room. A failure to comply with the Code puts the member at risk of suspension or disqualification. (If any member is aware of any interest that may amount to a prejudicial interest then he or she should seek advice well before the meeting in question in order for the issues to be considered fully).

Dispensations

Dispensations are available in respect of prejudicial interests under the Code of Conduct but only in very limited circumstance and only from the Standards Committee. As the dispensation now has to be given by the Standards Committee and not the Secretary of State there are also time limits to be considered which are new. The Standards Committee can only meet on 5 clear days notice and, unless certified as urgent, business can only be transacted if 5 clear days notice of it has been given. There is no Standards Committee meeting currently fixed before the budget setting meeting.

8. RESPONSIBILITIES OF CHIEF FINANCIAL OFFICER AND AUDITORS' POWERS

Chief Financial Officer and Monitoring Officer

Section 114 of the Local Government Finance Act 1988 places the Chief Financial Officer under an obligation to prepare a report (to full Council) if it appears to him that the expenditure the Authority proposes to incur in a financial year is likely to exceed its resources available to meet that expenditure. A failure to take note and act on such a report could lead to a complaint. Similarly, the Council's Monitoring Officer is required to report to full Council if it appears to her that a decision has been or is about to be taken which is or would be unlawful or would be likely to lead to maladministration.

Under section 25 of the Local Government Act 2003 the Chief Financial Officer is now required to report to the authority on the robustness of the estimates made for the purposes of the calculations required to be made by the Council. These are the estimates which the Executive is required to determine and submit to Full Council and are contained within this report.

However, if the Council were minded to agree a budget based on different estimates e.g. if Council did not agree with the estimates provided by the Leader/Cabinet then those estimates which the Council would adopt would effectively become 'the estimates' for the purpose of Section 25 and as such should be subject to a report by the Chief Financial Officer.

External Auditors' Powers

Section 91 of the Local Government Act 2000 provides that an External Auditor may issue an "Advisory Notice" if he has reason to believe that an Authority is about to take a course of action which, if pursued to conclusion, would be unlawful and likely to cause a loss or deficiency. This power is to be used where the matter is significant either in amount or in principle or both. While the advisory notice has effect it is not lawful for the authority to implement or take the course of action in question unless it has considered the issues raised in the notice and given the auditor notice that it intends to proceed with that course of action in a specified period and that period has expired.

In addition, it is also open to the Auditor to apply for judicial review on any decision of an Authority or failure to act which it is reasonable to believe would have an effect on the accounts of an Authority.

9. SPECIFIC BUDGET ADVICE

Balances and Other Budget Calculations

A local authority must budget so as to give a reasonable degree of certainty as to the maintenance of its services. In particular local authorities are required by section 32 of the Local Government Finance Act 1992 to calculate as part of their overall budget, what amounts are appropriate for contingencies and reserves. The Council faces various contingent liabilities set out in the main budget report. Furthermore the Council must ensure sufficient flexibility to avoid going into deficit at any point during the financial year. Members will need to pay careful attention to the advice of officers here.

In addition to advising on the robustness of the estimates as set out above, the Chief Financial Officer is also required to report on the robustness of the proposed financial reserves. The same advice applies to these as to the other calculations required to be made by the Council. The Director of Finance's view of the level of reserves is contained within the report.

(Having considered the officer's report the Council is then required to "*have regard to the report*" but it is not required to adopt the recommendations in it. However, Members must demonstrate they have acted reasonably if they do not adopt the recommendations).

Alternative Proposals

If alternative proposals to those contained in this report are moved at the budget setting meeting, the Chief Financial Officer will need to consider if the estimates or proposed financial reserves contained in this report are affected and whether a further report (which may be oral) is required under section 25 of the Local Government Act 2003. If the Chief Financial Officer is unable to report on the estimates or the reserves because of the lateness of the alternative proposals then he will not be able to comply with this statutory

requirement. The Act does not say what happens if this duty is not fulfilled and nor does it say whether the Council can set the budget without that advice. It follows from this then that there is no express statutory prohibition. However, the authority is at risk of a Judicial Review by an interested person e.g. a resident or the Audit Commission if the Council has failed to have regard to a report of the Chief Financial Officer on the estimates and reserves used for its budget calculations.

Capital Programme

The requirements of the "*Prudential Code*" established in the Local Government Act 2003 are set out in the report.

Expenditure Charged to the Housing Revenue Account

Members will be aware that the Housing Revenue Account (HRA) is by law to be maintained separately from the General Fund and there are strict rules which determine to which account any expenditure must be charged. There are only very limited areas of discretion here. Members should bear in mind that if they wished to review any current determination which affects the apportionment of charges between the General Fund and HRA, they would need to do so on the basis of an officers' report and specific legal advice. The Housing Revenue Account must be maintained in balance throughout the year by Section 76 Local Government and Housing Act 1989.

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.