

# REPORT FOR DECISION

<b>Agenda Item</b>	
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**MEETING:** EXECUTIVE  
SCRUTINY COMMITTEE (INTERNAL)  
COUNCIL

**DATE:** 15 FEBRUARY 2012  
15 FEBRUARY 2012  
22 FEBRUARY 2012

**SUBJECT:** BUDGET 2012/13 to 2014/15

**REPORT FROM:** DEPUTY LEADER & EXECUTIVE MEMBER FOR  
FINANCE

**CONTACT OFFICER:** M Owen – Executive Director of Resources  
S Kenyon – Asst. Director of Resources (Finance)

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**TYPE OF DECISION:** COUNCIL

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

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**SUMMARY:**

The report provides Members with details of the Capital Programme for 2012/13 to 2014/15 (section A) and the Revenue Budget for 2012/13 to 2014/15 (section B) together with the Council's strategy for tackling the range of challenges and opportunities it faces over the next three years - the Plan for Change. The Plan has been informed and shaped by the largest public consultation exercise undertaken by the Council. Over 3,500 people took part, including residents and staff, through face-to-face events, roadshows and on-line.

Section A sets out the draft Capital Programme and a forecast of the available resources. In view of the very difficult revenue budget situation 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 2012/13, the forecast outturn for 2011/12, the initial budget strategy, budget assumptions, the Council Tax base, the 3-year budget forecast and the approach to balancing the budget set out in the Plan for Change.

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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.

The report is prepared on the basis that the Bury element of the Council Tax will be frozen for 2012/13, to be funded by £1.890m of central Government grant. As a result the forecast budget for 2012/13 shows a deficit of £7.993m for 2012/13. The report goes on to suggest options for balancing the budget.

Members should note that £1.890m of the Government Grant is available for 2012/13 **only**; thereby introducing an equivalent on-going budget pressure for 2013/14 and future years.

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.

Scrutiny Committee is asked to note the report.

## **OPTIONS & RECOMMENDED OPTION**

Executive is recommended to note the report and request that the Council consider and determine all matters relating to the Budget, the Capital Programme and the level of the Council Tax for 2012/2013 at its meeting on 22 February 2012.

Council is recommended to:

### **Section A – Capital Programme**

1. Approve, amend or reject the Capital Programme for 2012/13 and future years, shown in Appendix 1;
2. Approve, amend or reject the proposed financing of the Capital Programme;

### **Section B – Revenue Budget**

3. Note the details of the final Formula Grant Settlement for 2012/13;
4. Approve the level of repayment of principal on General Fund debt at the minimum of 4% in line with the current Minimum Revenue Provision policy;
5. Note that under delegated powers the Executive Director of Resources calculated the amount of 59,922.70 as the Council Tax base for the year 2012/13 in accordance with the Local Government Act 2003 and with regulations made under section 33(5) of the Local Government Finance Act 1992;
6. Note the forecast outturn position for 2011/12;
7. Amend the Golden Rules enshrined in the Council's budget strategy so that the amount below which the balances cannot fall is retained at £3.7m;
8. Approve that the actual minimum level of balances

- for 2012/13 be retained at £4,300,000 in view of the scale of the savings target;
9. Approve, amend or reject the draft Revenue Budget for 2012/13 as shown in the report;
  10. Approve the programme of savings set out in the Plan for Change (Appendix 4);
  11. Note the recommendations of the Schools' Forum around education funding issues;
  12. Endorse the statements by the Assistant Director of Resources (Finance) on the robustness of budget assumptions and on the minimum level of balances;
  13. Freeze the Bury element of the Council Tax at the level set for 2011/12, supported by a one-off central Government grant equivalent to a rise of 2.5%.

## **IMPLICATIONS:**

### **Corporate Aims/Policy Framework:**

Do the proposals accord with Policy Framework? Yes.

### **Statement by Section 151 Officer:**

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

### **Statement by Executive Director of Resources:**

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

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.

### **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

### **Wards Affected:**

All

### **Scrutiny Interest:**

Scrutiny Committee (Internal)

## **TRACKING/PROCESS**

**EXECUTIVE DIRECTOR: Mike Owen**

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Both	Deputy Leader		
Scrutiny Committee		Committee	Council
Internal 15/2/12		Executive 15/2/12 Special JCCs	Council 22/2/12

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**SECTION A**

**CAPITAL PROGRAMME**

## **1.0 BACKGROUND**

1.1 This report outlines the proposed approach in respect of the Capital Programme 2012/13 to 2014/15 and sets out a strategy recommended by the Strategic Leadership Team and endorsed previously by the Executive.

## **2.0 PROGRESS AGAINST THE 2011/12 PROGRAMME**

2.1 Details of spend against the 2011/12 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report presented to the Executive on 15 February 2012.

## **3.0 CAPITAL RESOURCES FOR 2012/13**

3.1 The Capital Programme can be 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 2012/13 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 in October 2011 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 2012/13. 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 2012/13:

	<b>£m</b>
Supported borrowing	0
General Capital Receipts	0
Capital Reserve	0
Grants and External Contributions	7.303
Regional Housing Allocation	0
HRA Business Plan (former Major Repairs Allowance)	7.370
HRA Business Plan (Revenue Contribution)	0.033
<b>TOTAL FUNDS</b>	<b>14.706</b>

#### **4.0 PROPOSED CAPITAL PROGRAMME 2012/13**

4.1 In line with last year's Capital Programme, and the Council's Medium Term Financial Strategy that was approved by Executive on 18 January 2012, it is recommended that the 2012/13 – 2014/15 Capital Programme is restricted to the fully funded schemes / schemes which are self financing based upon a proven Business Case. The proposed Programme is outlined at Appendix 1. In the event that Grant allocations change, the specification of schemes will be reviewed to ensure no under / overspend.

4.2 Invest-to-save schemes can be considered in year, and in line with the Golden Rules will be subject to a proven business case that clearly demonstrates that schemes will be self-financing

4.3 Members are reminded that capital receipts can only be committed to schemes when the cash from the sale of assets has been received, or there is a high level of certainty that the cash will materialise. Given adverse conditions within the property market it is felt that it would be imprudent to make any provision for the use of capital receipts to fund capital expenditure in the coming year.

#### **5.0 RISKS**

5.1 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 however 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.

5.2 The Capital Programme Management Group meets regularly to monitor the Programme and monitoring reports are considered by the Strategic Leadership Team, 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).



**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. 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 2012/13 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2011/12 and the draft Revenue Budget for 2012/13 to 2014/15. Finally it summarises the options identified for meeting the anticipated shortfall on the draft Budget in line with the Plan for Change consultation process and it 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 2.
- 1.4 Indicative Funding in respect of 2012/13 was announced in December 2010 as part of a two-year settlement. A draft settlement was announced (2012/13 only) on 8th December 2011, with no change from the December 2010 position and figures were finally confirmed without change in January.
- 1.5 There is no settlement information beyond 2012/13, however based upon the Comprehensive Spending Review, Bury can expect to have to make savings of at least £18 million for the period 2012/13 to 2014/15.
- 1.6 Setting the budget for 2012/13 is likely to be a difficult and contentious exercise and so to assist Members the Assistant Director (Legal and Democratic Services) has prepared a note (attached at Appendix 3) 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 Assistant Director of Resources (Finance and Efficiency) / section 151 Officer. 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.**
- 1.7 Members should also be aware that the budget proposals have been drawn up after a very large, and well presented, consultation exercise. Further details are given in section 7.

## **2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2012/13**

- 2.1 The Local Government Finance Settlement for 2012/13 (the Settlement) was released on 8th December 2011 and confirmed in January 2012. The Settlement provided details of the authority's income from Formula Grant (previously Revenue Support Grant and National Non-Domestic Rates), and other Specific Grants. The figures (both local and national) reflected the broad picture set out in the Comprehensive Spending Review which was announced on 20 October 2010, and indicative settlements announced in December 2010.

- 2.2 The Settlement was again complex both in terms of its structure and the figures used, however followed the same principles used in the 2011/12 Settlement.
- 2.3 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 5.2% in 2012/13 to £23.6bn.
  - A transitional grant of £20m for 2012/13, to ensure that no Authority in receipt of formula grant faces a reduction of more than 8.8% in “revenue spending power” (broadly grants plus council tax).
  - The passing of the Localism Act brings reforms to the Housing Finance system; this is outlined in the Housing Revenue Account report elsewhere on this agenda.
- 2.4 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 grant loss cannot exceed 9.4% in 2012/13.

<b>Damping Arrangements</b>	<b>2012/13</b>
Education / Social Service Authorities:	
Band 1	7.4%
Band 2	8.4%
Band 3 (Bury's band)	9.4%
Band 4	10.4%
Police Authorities	6.7%
Fire Authorities	3.4%
Shire Districts:	
Band 1	10.5%
Band 2	11.5%
Band 3	12.5%
Band 4	13.5%

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 is in this position and loses **£0.697m** to support ‘floor’ authorities in 2012/13.

- 2.5 In addition to this, Members should note 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.

2.6 Bury's 2012/13 Formula Grant compares to that received in 2011/12 as follows;

	<b>Bury's Cash Grant</b>	<b>Reduction in Grant (on previous year)</b>
	<b>£m</b>	
2011/12 (adjusted) 2012/13	67.390 <b>61.330</b>	-9.0%

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

	<b>2012/13</b>
<b>Bury</b>	<b>-9.0%</b>
Greater Manchester	-7.7%
Met districts	-7.6%
London boroughs	-7.6%
Shire districts	-11.5%
England	-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.

2.7 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 2012/13
- 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 (£6.773m).

2.8 The balance is then available to support the budget. The calculation for Bury for 2012/13 is shown in the table below:

	£m	£m
<b>2012/13 Formula Grant</b>		<b>61.330</b>
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	0.088	
Supporting People	5.440	
Housing Services for Older People	0.046	
Learning and Skills Council Staff Transfer	0.432	
HIV/Aids	0.081	
Preserved Rights	0.684	
Animal Health and Welfare	0.002	-6.773
<b>Formula Grant available in 2012/13</b>		<b>49.679</b>

2.9 A further important distinction is that the grants 'built 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.

2.10 However the allocation of grants 'rolled in' used in the 2012/13 Formula Grant (and which will also be passed to Departments) represents continued reductions from the allocations in previous years;

	2010/11 allocation £m	2011/12 allocation £m	2012/13 allocation £m
Local Transport Services	0.136	0.096	0.088
Supporting People	6.081	5.457	5.440
Housing Services for Older People	0.070	0.053	0.046
Learning & Skills Council Transfer	0.458	0.475	0.432
HIV/Aids	0.068	0.074	0.081
Preserved Rights	0.908	0.711	0.684
Animal Health and Welfare	0.003	0.002	0.002
<b>TOTAL</b>	<b>7.724</b>	<b>6.868</b>	<b>6.773</b>

2.11 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. The net affect on Bury is broadly neutral.
- Council Tax Compensation (2011/12): this was paid to authorities that set their 2011/12 Council Tax at the same level as 2010/11 or below. The grant was equivalent to a 2.5% increase in Council Tax which in Bury's case was £1.888m. This funding is ongoing **for the duration of the current spending review**.
- Council Tax Compensation (2012/13): in addition to the above, the Government has announced compensation (again equivalent to 2.5% rise) for those Authorities that opt to freeze their Council Tax again in 2012/13. This would be a further £1.890m in Bury's case. Members must note that the compensation relating to the 2012/13 freeze applies **for one year only**. If accepted, this creates an ongoing budget pressure of £1.890m for future years.
- Early Intervention Grant £8.370m: this grant was introduced in 2011/12, replacing many elements of the SureStart and Area Based Grants. Whilst the 2012/13 grant represents a slight increase on the previous year, it is still approximately £1.9 million less than when these grants were paid separately.

2.12 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 2012/13, Bury's allocation is £484,000.

2.13 The Government has provided firm grant allocations for one year only pending a review of the current local government finance system. Any changes to the finance system are unlikely to be introduced before April 2013.

### **3.0 FORECAST OUTTURN 2011/12**

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 2011 (i.e. month 9):

	<b>£m</b>
Adult Care Services	-0.056
Chief Executive's	+0.162
Children's Services	+0.445
E&DS	-0.162
Non Service Specific	-0.492
<b>TOTAL PROJECTED UNDERSPENDING</b>	<b>-0.103</b>

3.4 Despite the month 9 position showing a forecast underspend of £103,000, 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 has suffered reduced income for some services in light of the prevailing economic conditions. Star Chambers have continued to play close attention to the situation as have the Internal Scrutiny and Audit Committees.

3.5 The impact that this position has on the General Fund balance is explained in section 9.

#### **4.0 DRAFT REVENUE BUDGET 2012/13 to 2014/15**

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

- The three year budget forecast
- "Golden Rules" supporting the budget strategy
- Assumptions behind the draft 2012/13 budget
- The potential Council Tax position for 2012/13
- The detailed draft budget for 2012/13

4.2 The report then goes on to consider the Schools' position, options for balancing the budget, the "Plan for Change" consultation 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 Three-Year Budget Forecast**

4.3.1 The Council has consistently taken a medium-term view of its financial position through the preparation of a three-year budget forecast. In doing this it recognises that assumptions and estimates become less reliable further into the future but it is felt that this is a sensible approach to take.

4.3.2 The table below shows the shortfall on the budgets for the current and coming three years:

	<b>£ million</b>
2011/12	14.4
2012/13	7.9
2013/14	4.1
2014/15	5.7
<b>Total</b>	<b>32.1</b>

4.3.3 In the past the Council has focussed on addressing the budget shortfall for the coming year as part of an annual savings cycle. However with the introduction of the Plan for Change process a different approach has been taken and services have identified savings which will address the shortfalls through until the end of 2014/15. Of necessity the options for 2012/13 are firmer in their detail so as to ensure the robustness of the estimates but the fact that the Council now has a clear direction of travel in balancing it's longer term budget is a very welcome development.

4.3.4 **Members should be aware that should the Council Tax be frozen for 2012/13 then the initial target for 2012/13 would have to be increased by £0.8m and the target for 2013/14 would be increased by £1.9m.**

#### **4.4 Golden Rules**

4.4.1 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 and that the budget proposals are in line with the Golden Rules.
- 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

4.4.2 The Assistant Director of Resources (Finance) / section 151 officer reports on progress against the 'Golden Rules' as part of the quarterly Finance and Performance Monitoring report.



4.4.3 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. It is recommended that the rule relating to the minimum level of balances remains at 2.5% of the net budget (excluding schools); this equates to £3.7 million.

## 4.5 Assumptions

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

- Adding the effects of contractually binding 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 in light of the Government's announcements on Council Tax.
- 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.

4.5.2 The forecast is based around a standstill budget, one which reflects the current level of service up-rated for contractually binding inflation and other unavoidable pressures. The Priority Investment Reserve no longer exists and so Departments will be required to absorb the impact of demographic, demand and other pressures from within their respective service resources, as well as contributing 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.

4.5.3 In determining the assumptions to be used to underpin the 2012/13 budget the following considerations have been taken into account:

	Note	2012/13
Pay	1	0.0%
Pensions (increase in employers' contribution rate)	2	0.7%
Prices	3	0.0%
Waste levy		12.3%
Transport levy	4	1.0%
Rise in income from fees and charges	5	2.0%
Council Tax base (no. of Band Ds)		59,923
Council Tax rate rise	6	0%

## Notes:

- 1. Pay** - the three year budget forecast makes no provision for pay inflation. In October 2011 the Local Government Services Trade Unions presented a pay claim for 2012/13 for "a substantial increase on all pay points that recognises the financial hardship being suffered by NJC workers – in particular the lowest paid. Bury, like many Councils, recognises that many employees have struggled to cope with the effects of the recession however, as employers, the Council faces a stark choice and protecting jobs and services would be seriously compromised by offering pay increases. The Chancellor's recently announced 1% ceiling for public sector pay has been noted although it is recognised that this is a ceiling not a target and also that local government pay awards are subject to separate negotiations independent of the Government.
- 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 two 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. However given changes in the Metrolink development programme it is felt prudent by TfGM to roll half of the 2012/13 contribution back to the end of the programme.

Secondly 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 0.5% in 2012/13 leading to an overall increase in the levy of 1% against an initial forecast of 4%. Bury's element is expected to increase by 0.7% due to population changes between districts.
- 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 Assistant Director of Resources (Finance) has calculated the amount of 59,922.70 (Band D equivalent) as the Council Tax base for the year 2012/13 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 equates to the same number of properties as 2011/12.

- 7. Council Tax rate** – this report is drafted on the basis that Members will wish to accept the Council Tax Freeze Grant on offer again in 2012/13. Members are asked to note that unlike the 2011/12 Freeze Grant, the compensation available in 2012/13 will be **for one year only, consequently if accepted, this will create an ongoing budget pressure of £1.890m in future years.** Members should be aware that a freeze is not mandatory although a rise of any level will mean that the grant is foregone. The impact in 2012/13 and proposals for meeting any shortfall are set out in paragraph 4.6.5 below.

The same offer is available to precepting authorities such as GM Police and GM Fire & Rescue; however compensating them at a level of 3.0%.

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 2012/13 will be:

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

Members are reminded that in February 2010, 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 recipients who qualified as at 1st April 2010, 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 reaching 65 after 1st April 2011.

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 2012/13 the Government have indicated that local referenda would apply for Council Tax increases in excess of 3.5%. This actually applies to an adjusted Council Tax rate that allows for the impact of levies before calculating the increase in the tax for referenda purposes.

- 4.5.4 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.

4.5.5 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 endeavours of the "Plan for Change" in allocating resources in line with residents' wishes and Council Choices.

4.5.6 The Assistant Director of Resources (Finance and Efficiency) has assessed the robustness of these, and other, assumptions as set out in section 8 and Members are asked to give particular attention and endorsement to the Assistant Director's comments.

#### 4.6 The Draft Budget 2012/13

4.6.1 Budgets reflecting cost increases identified between 2011/12 and 2012/13 have been drawn up in conjunction with the Heads of Finance and other staff within the Council's Departments.

4.6.2 This budget reflects the assumptions set out in section 4.5 above, but excludes costs funded by the Dedicated Schools Grant.

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

4.6.4 The table below summarises the initial draft 'standstill' budget for 2012/13:

	<b>2012/13</b>
	<b>£000</b>
<b>Opening Budget</b>	<b>133,429</b>
Less: one-off costs from previous year	0
Inflation:	
Pay	0
Contractual Commitments	1,078
Energy Costs	445
Income	-392
Integrated Transport Authority	500
Waste Disposal Authority	1,881
Staffing costs:	
Increase in employers' pension contrib'n	487
Increase in National Insurance	0
Contribution to pay and grading	500
Non JNC increments	130
Revenue effects of Capital Programme	65
Cost of borrowing	-306
<b>Estimated Budget</b>	<b>137,817</b>
Less:	
Formula Grant	-49,679
Council Tax (@3.5% rise)	-78,257
Council Tax Freeze Grant (1st year)	-1,888
<b>TOTAL SAVINGS REQUIRED</b>	<b>7,993</b>

4.6.5 Should Council decide to freeze the Council Tax in line with the Government's proposals then a projected **£2.769m** of additional income will be lost in 2012/13 and will be replaced by **£1.890m** of one-off Government grant. This means that the total income from Council Tax will be £1259.75 multiplied by the base of 59922.70 which comes to **£75.488m**, a net shortfall of **£0.879m** compared to the original budget. This will be found as follows:

Impact of additional recycling on the WDA levy	-£0.524m
Savings on the TfGM levy following scrutiny	-£0.355m

4.6.6 The above savings result directly from input to the levy setting process by Bury Council Members and officers.

#### 4.7 Equal Pay

4.7.1 The authority is in the process of settling equal pay claims in line with terms previously endorsed by the Executive. The funding strategy involves the use of prudential borrowing to meet the majority of the liability 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. The balance of any liability will be met from within general and ear-marked reserves and Members can be assured that this can be achieved without a detrimental impact on the Golden Rules or the authority's financial viability.

### 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.

	£million	£million	£million	%
<b>Total Grants</b>				
Dedicated Schools Grant	134.1	135.7		
Other Grants	1.2	1.4		
Pupil Premium	1.7	3.6		
	137.0	140.7	3.7	2.7%
<b>Schools Delegated Budgets</b>				
Budgets	123.4	124.7	1.3	1.1%
Pupil Premium	1.7	3.6	1.9	111.8%
Total Schools Budgets	125.1	128.3	3.2	2.6%
<b>Central Spend</b>				
Budget	11.9	12.1	0.2	1.7%

- 5.2 The DSG financial analysis provided by the Department for Education (DfE) shows that the 2012/13 per pupil funding is the same amount as 2011/12, i.e. £4,821.97 per pupil. Consequently, the only fluctuations in schools' delegated funding will be because of changes in pupil numbers.
- 5.3 In 2011/12, the Pupil Premium grant was introduced at an amount of £430 for each pupil eligible for a free school meal and those Looked After Children on the register for six months or more. In total, this amounts to almost £1.9 million and is additional to the funding provided through the Dedicated Schools Grant.
- 5.4 For 2012/13, the DfE have increased the Pupil Premium to £600 per pupil eligible for a free school meal and have extended the eligibility criteria to include a pupil that has been eligible for a free school meal during the past six years. This increased the number of eligible pupils by more than 2,000 to more than 6,000 pupils. It is estimated that the 2012/13 Pupil Premium will more than double to over £3½ million. The final figure will not be known until the summer months when the DfE will have determined the actual amounts per school based on the January 2012 Pupil Census.
- 5.5 For information, the "Central Spend within the Schools Block" includes Pupil Referral Units, Out-of-borough Placements and specific support for pupils with Special Educational Needs. Supply cover for long-term absences, such as Maternity leave, are also included within the Central Spend.
- 5.6 Contained within the statutory financial reporting requirements is the "Central Expenditure Limit" condition whereby the rate of increase of the Central Spend should not be greater than the rate of increase in schools' delegated budgets, excluding the Pupil Premium. Any "breach" of the Central Expenditure Limit requires the sanction of the Schools Forum, which was formally agreed at their meeting of 30<sup>th</sup> January 2012.
- 5.7 Per Pupil Minimum Funding Guarantee (MFG) – previously 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 2012/13 the per pupil MFG is remaining the same as 2011/12, i.e. minus 1.5%, which effectively lowers the levels of financial protection some schools have benefitted from, especially in relation to falling numbers on roll.
- 5.8 The Schools Forum at its meeting on 30<sup>th</sup> January 2012 agreed to recommend to Council that there would be the following resolutions to the 2012/13 schools funding formula:

Remove the Personalised Learning formula components and distribute the funding through the Key Stage component factors, which translates into:

√ Key Stage 1 and 2 – increase from 0.94 to 0.95

√ Key Stage 4 – increase from 1.22 to 1.28

Maintain the Looked After Child component at £1,000 per pupil including the national Pupil Premium amount of £600.

Maintain the Age Weighted Pupil Unit Formula at the 2011/12 level.

Maintain all other formula components at their 2011/12 levels.

5.9 In addition, the Forum agreed to fund through the Central Spend part of the schools budget:

- ∇ An increase the Carbon Reduction Tax budget by £44,000 to £176,000 because of the 33% tax increase from £12 per tonne to £16 per tonne.
- ∇ Make a £10,000 contribution to the cost of employing the Schools Carbon Reduction Officer in Environment and Development Services.
- ∇ The £165,000 cost of the newly acquired responsibilities of some aspects of the Connexions service – funded by limiting the increase in the Key Stage 4 component to 1.28 so that there is no financial impact on Nursery and Primary schools.

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 as determined by the DfE.

In addition, the Government determined that money was deducted from each local authority’s Formula Grant, which was distributed to academies throughout England by the Young People’s Learning Agency (YPLA).

5.11 The amount deducted from Bury’s 2011/12 Formula Grant was £445,258 and is nearly £400,000 different from the amount that the only school that converted to an academy within the Authority will receive.

5.12 Following representation by several local authorities, including Bury, and two consultation papers issued by the DfE, the Secretary of State is “minded to” reimburse those local authorities that have had more deducted than the amount provided to converted academies in their area by means of a specific grant towards the end of the 2012/13 financial year. The method of calculation and how much will be received is unknown at this stage.

5.13 Please note that these arrangements will only apply to 2012/13 and there will be no “refund” of the amounts deducted in 2011/12.

## 6.0 OPTIONS FOR BALANCING THE BUDGET / PLAN FOR CHANGE

6.1 As explained in section 4.3, initial forecasts highlighted the Council had to save almost £18 million for the period 2012/13 to 2014/15 as follows:

	<b>Savings Requirement (£m)</b>
2012/13	7.993
2013/14	4.100
2014/15	5.700
<b>TOTAL</b>	<b>17.793</b>

6.2 It should be noted that these savings are in addition to the £14.4 million reduction in revenue funding suffered by the Council in 2011/12.

- 6.3 Whilst there is confidence around the level of savings required 2012/13, projected savings for 2013/14 and 2014/15 are based upon projections from national control totals in the Comprehensive Spending Review, and therefore contain an element of uncertainty.
- 6.4 The Council recognised that a different approach was needed to address savings of this magnitude. It was also felt beneficial to approach the challenge as a 3 year exercise with the aim of ensuring the budget is sustainable going forward, and the organisation is "Fit for the Future."
- 6.5 The exercise commenced by allocating Council Departments 3-year savings targets pro-rata to their controllable cash budget. It must be emphasised that this approach is seen as nothing more than a starting point and that the ultimate distribution of savings between services will be influenced by priorities and the outcome of consultation:

<b>Savings Targets</b>	<b>2012/13 (£m)</b>	<b>2013/14 (£m)</b>	<b>2014/15 (£m)</b>	<b>Total (£m)</b>
Adult Care Services	2.857	1.465	2.037	6.359
Childrens Services	1.846	0.947	1.317	4.110
Env. & Dev. Services	2.571	1.319	1.833	5.723
Chief Executives	0.719	0.369	0.513	1.601
<b>TOTAL</b>	<b>7.993</b>	<b>4.100</b>	<b>5.700</b>	<b>17.793</b>

- 6.6 Draft savings options were developed jointly by staff and Executive Members throughout summer/autumn 2011 which were then the subject of public consultation. Three year savings options were put forward as follows;

<b>Savings Options</b>	<b>2012/13 (£m)</b>	<b>2013/14 (£m)</b>	<b>2014/15 (£m)</b>	<b>Total (£m)</b>
Adult Care Services	2.859	1.465	2.037	6.361
Childrens Services	1.845	1.006	1.238	4.089
Env. & Dev. Services	2.989	1.168	1.513	5.670
Chief Executives	0.963	0.289	0.349	1.601
<b>TOTAL</b>	<b>8.656</b>	<b>3.928</b>	<b>5.137</b>	<b>17.721</b>

- 6.7 Environment & Development Services and Chief Executives exceeded their savings target in 2012/13 to contribute to recognised service pressures / future years savings.
- 6.8 The overall "Plan for Change" savings options highlight an overall (3 year) shortfall of £72,000 (0.4%); this is predominantly within Environment & Development Services, and will be addressed as service reviews take place.



**Members are requested to note that 2012/13 savings targets have been fulfilled.**

6.9 Savings options are further categorised as follows;

	<b>Adult Care (£m)</b>	<b>Childrens (£m)</b>	<b>EDS (£m)</b>	<b>Chief Execs (£m)</b>	<b>TOTAL (£m)</b>
Policy / Service Change	1.100	0.800	2.074	0.146	<b>4.120</b>
Efficiency	4.483	3.137	1.854	0.935	<b>10.409</b>
Decisions already taken	0.778	0.152	1.742	0.520	<b>3.192</b>
<b>TOTAL</b>	<b>6.361</b>	<b>4.089</b>	<b>5.670</b>	<b>1.601</b>	<b>17.721</b>

6.10 Clearly the largest amount of savings have been derived through efficiency measures (nearly 60% over 3 years); where it is anticipated there will be no discernable impact to residents and service users.

6.11 A further analysis of the type of efficiency measures proposed is provided in the table below:

	<b>3 Year Saving (£m)</b>
Procurement Savings	1.409
Vacant Posts	0.371
Buildings / Accommodation	0.309
Income Generation	0.890
Use of New Technology	0.150
Energy Efficiency	0.092
External Funding Optimisation	2.852
Staff Restructuring	2.679
Early Intervention	1.300
Other	0.357
<b>TOTAL</b>	<b>10.409</b>

6.12 Appendix 4 outlines the savings options being put forward to address the budget shortfall for 2012/13, along with outline savings proposals for 2013/14 and 2014/15.

6.13 The next section of this report expands further upon the approach taken in the Council's Plan for Change, and particularly the outcome of extensive resident and stakeholder consultation.

## **7.0 THE "PLAN FOR CHANGE" / CONSULTATION**

- 7.1 The Plan for Change sets out how the Council intends to manage many of the challenges it faces over the next three financial years (2011/12-2014/15). At the same time, the Plan is also intended to promote opportunities for the Council to pro-actively improve the efficiency and effectiveness of the services provided, both internally and by collaborating with other public sector partners.
- 7.2 The Plan allows the Council to address challenges, such as the new responsibilities granted to local government in the Localism Act, as well as consider how other new responsibilities are tackled, such as our duties relating to public health. It provides a starting point from which other key issues can be considered, such as the changing customer base, increased demand for services and managing the changing expectations of service users in a climate of much reduced resources.
- 7.3 The Plan was formally approved in June 2011 after which, in August 2011, the Council launched a large-scale consultation exercise to engage with residents of the borough and those who work, study and visit here to tell provide information on what were felt to be the key priorities for the Council. The Choices consultation asked respondents to rank a series of statements from 1st to 10th (with 1st being the most important and 10th being the least important). This consultation lasted until 30 September 2011 and a total of 3,678 responses were received.
- 7.4 The results indicated the following in terms of priority areas:
- Supporting vulnerable people
  - A strong local economy
  - Decent place to live
  - Maintain opportunities for high quality education and training
  - Managing roads and the transport network
  - Keep Bury clean and green
  - Promoting healthier lives
  - Leisure and cultural opportunities
  - Encourage strong and vibrant communities
  - Better informed and engaged communities.
- 7.5 A full analysis and further methodological details on the Council Choices consultation can be found in the [Choices Consultation: Statistical Report](#).
- 7.6 The outcome of the consultation helped inform the decision making process for the Programme of Savings. A [user-friendly document](#) was produced which detailed the three-year savings proposals and between 16 November 2011 and 13 January 2012 the Council embarked upon an unprecedented and widespread consultation exercise on the budget and savings proposals.
- 7.7 The draft Programme of Savings document was available online and at public access points to read. Participants were provided with an opportunity to provide verbal feedback at a public meeting or consultation event, alternatively they could provide written feedback via the online survey, emailing or writing to the Plan for Change Team. Internally, a number of staff briefings and roadshows took place, and formal discussions were held with the Union Convenor as well as through the Corporate and Teachers' JCCs.

- 7.8 In total just over 278 comments were received on a wide range of ideas and suggestions. However, there were no significant comments which have resulted in any significant changes to the savings proposals.
- 7.9 The 3 year approach to budget setting was particularly endorsed by a number of respondents. In addition there was wide-ranging support in respect of internal efficiencies, notably;
- § Rationalisation of buildings
  - § Maximising use of technology
  - § Consideration of terms and conditions for employees/ senior staff members
  - § Management restructures
  - § Effective procurement
  - § Energy Efficiency
- 7.10 There was no single issue which generated a high number of comments and suggestions were distributed evenly. For this reason, the savings outlined in the Plan for Change will now form the basis of the budget being presented to Full Council for approval. A final Programme of Savings is attached as an appendix to the report.
- 7.11 The range and scope of the two-phased consultation process has allowed the Council to involve the local community from the very start of the budget setting process and this approach supports the values of the Plan for Change to 'put residents first'. Similarly, the extent of the consultation exercises reinforces the Council's commitment to openness and transparency.
- 7.12 Members should also be aware that the Programme of Savings document highlights that a number of reviews will take place throughout the next financial year. As these reviews progress there will be further opportunities for engagement, consultation and communication on these proposals.

## **8.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES**

- 8.1 In line with the provisions of s25 of the Local Government Act 2003, the Assistant Director of Resources (Finance) / section 151 officer 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 section 151 officer 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, Specific 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 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 2012/13 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 2012/13 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 that excessive Council Tax increases could trigger local referenda under the Localism Act.
- 8.4.5 Fees and charges (excluding Council House rents) are budgeted to raise over £50m of income in 2012/13 from almost a thousand sources. Of all the funding 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 2% 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 2%.

- 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 2011/12 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 reflects 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 2012/13 makes no provision for a pay award reflecting the view of the vast majority of Councils that a pay rise is unaffordable. Beyond 2012/13, the Chancellor has proposed a 1% cap on "Public Sector" wages; how this relates to Local Government staff remains to be seen.
- 8.4.10 An allowance has been built into the budget to fund the 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 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.
- 8.4.12 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)
- 8.4.13 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.
- 8.4.14 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 2011/12 and so this is not considered to be a significant risk at this stage.

- 8.4.15 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. Members should note the increasing difficulty in securing a satisfactory interest yield as the number of institutions the Council can safely invest with is reducing.
- 8.4.16 For levies the budget has been set at the level recommended to the external bodies by AGMA or as notified.
- 8.4.17 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.
- 8.4.18 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.
- 8.4.19 The approach to managing the issues faced by the Children's Services and Adult Care Services budget has been changed in recent years with the relevant Star Chambers focussing on the current budgetary position and strategy, with the Project Boards concentrating on future developments that are aimed at reducing costs, managing risks and restructuring services and care packages. Managers are continuing to ensure that proper contractual arrangements are in place and that there is a full understanding of causes and the trends. Systems are being reviewed and replaced and training has been provided to non-financial managers within both service areas.
- 8.4.20 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. 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 2012/13. 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 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 14 February 2012, and no major changes have been identified.

## **8.7 Conclusion**

- 8.7.1 In light of the above the Assistant Director of Resources (Finance) 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 Assistant Director of Resources (Finance) and s151 Officer) can state that **the budget for 2012/13 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 Assistant Director of Resources (Finance); is required to report on the adequacy of the authority's financial reserves. The s151 officer must determine a minimum level reserves and then report on the likely balance on that reserve at the end of the year for which the Council Tax is being set and at the end of the preceding financial year.

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:

	<b>Risk</b>	<b>£000</b>
<p><b>Pay inflation Cushion:</b> Pay awards have not been set for 2012/13 and so there is a 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 but in order to mitigate risk in this area an allowance equivalent to 0.5% should be retained in balances.</p>	H	500
<p><b>Non-Pay inflation Cushion:</b> 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><b>Interest Cushion:</b> 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><b>Uncertainty of Income Cushion:</b> 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><b>Unpredictable and Demand Led Expenditure Cushion:</b> 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><b>Budget Strategy Risk Cushion:</b> 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

<b>Emergency Expenditure Cushion:</b> 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
<b>TOTAL</b>		<b>4,950</b>

- 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:

	<b>Risk Level</b>	<b>Likelihood</b>	<b>Provision £000</b>	<b>Max. Impact £000</b>
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
			<b>4,950</b>	<b>4,280</b>

- 9.7 This would set the minimum balance requirement for 2012/13 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 the same level as agreed for the 2011/12 budget.

- 9.8 The forecast position on the General Fund balance at 1 April 2012 is shown in the following table:

	£m
<b>General Fund Balance 31 March 2011 per Accounts</b>	<b>8.305</b>
Less : Minimum balances to be retained in 2011/12	-4.300
Less : Forecast underspend 2011/12	+0.103
<b>Forecast Available balances at 1 April 2012</b>	<b>4.108</b>

- 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 2012/13 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 a change in the Council Tax rate of 1.3%). 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 2012 is **£2.7m**.

**COUNCILLOR JOHN SMITH**

**DEPUTY LEADER & EXECUTIVE MEMBER FOR FINANCE**

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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. COUNCIL TAX REFERENDUM**

Under the provisions of the Localism Act, The Secretary of State has the power to require any billing or precepting Authority which sets an excessive Council Tax increase (**>3.5% for 2012/13**) to hold a public referendum.

Any authority planning an excessive council tax increase will be required to prepare a 'shadow budget' based on the maximum non-excessive council tax increase allowed and they will also be required to inform the Secretary of State by notice.

The legislation will require the authority proposing the excessive increase ('the relevant authority') to prepare supporting factual material setting out the proposed council tax increase and budget, the comparative non-excessive council tax rise and shadow budget, and the estimated cost of holding the referendum. At the same time that bills are sent to council taxpayers, the billing authority will send this information, together with polling cards, to every registered local elector. Local councillors would of course be free to make the case for any excessive increase, but the relevant authority would be prohibited from campaigning on the issue.

If the proposed rise in council tax were rejected, the relevant authority would immediately adopt the shadow budget and transfers from the Collection Fund would be reduced accordingly. It would also be required to inform the Secretary of State by notice. The billing authority would be able to issue new bills immediately, offer refunds at the end of the year or allow credits against liability in the following year. However, consistent with existing legislation, billing authorities will be required to refund (and re-bill) any local resident who requests this.

## **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**

### **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.

### **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.

### **Council Tax Referendum**

Under the provisions of the Localism Act, The Secretary of State has the power to require any billing or precepting Authority which sets an excessive Council Tax increase (**>3.5% for 2012/13**) to hold a public referendum (see Appendix 2).

### **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.