REPORT FOR DECISION

Agenda Item	

MEETING:	**OVERVIEW & SCRUTINY COMMITTEE** **CABINET** **COUNCIL**
DATE:	**13 FEBRUARY 2013** **20 FEBRUARY 2013** **20 FEBRUARY 2013**
SUBJECT:	**BUDGET 2013/14 to 2014/15**
REPORT FROM:	**CABINET MEMBER FOR FINANCE & RESOURCES**
CONTACT OFFICER:	**M Owen – Executive Director of Resources** **S Kenyon – Asst. Director of Resources (Finance and Efficiency)**

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 2013/14 to 2015/16 (section A) and the Revenue Budget for 2013/14 to 2014/15 (section B) together with the Council's strategy for tackling the range of challenges and opportunities it faces through the Plan for Change.

Section A sets out the draft Capital Programme and a forecast of the available resources. In view of what continues to be a 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;

- the final Local Government Finance Settlement for 2013/14
- changes to the system of Local Government Finance
- Forecast outturn for 2012/13
- The budget strategy for 2013/14 and 2014/15 and the approach to balancing the budget as set out in the Plan for Change.

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 2013/14, to be funded (in part) by £0.645m of Central Government grant equivalent to a 1% rise.

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

OPTIONS & RECOMMENDED OPTION

The Overview & Scrutiny Committee is asked to note the report.

The Cabinet 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 2013/2014 at its meeting on 20 February 2013.

Council is recommended to:

Section A – Capital Programme

1. Approve, amend or reject the Capital Programme for 2013/14 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 Start Up Funding Allocation (SUFA) for 2013/14, and indicative allocations for 2014/15;
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 Assistant Director of Resources (Finance) calculated the amount of 51,227.93 as the Council Tax base for the year 2013/14 in accordance with the Local Government Act 2003 and with regulations made under section 33(5) of the Local Government Finance Act 1992 and the Local Authority (Calculation of Council Tax Base) (England) Regulations 2012;
6. Note the forecast outturn position for 2012/13;
7. Approve that the actual minimum level of balances for 2013/14 be increased to £4,400,000 in view of a revised risk profile;
8. Approve, amend or reject the draft Revenue Budget for 2013/14 as shown in the report;
9. Approve the programme of savings set out in the

Plan for Change (Appendix 4);

10. Note the recommendations of the Schools' Forum around education funding issues;
11. Endorse the statements by the Assistant Director of Resources (Finance and Efficiency) on the robustness of budget assumptions and on the minimum level of balances;
12. Determine the level of the Council Tax for 2013/14.

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:	Overview & Scrutiny Committee

TRACKING/PROCESS **EXECUTIVE DIRECTOR: Mike Owen**

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Both	Finance & Resources		
Scrutiny Committee	**Cabinet**	**Committee**	**Council**
Overview & Scrutiny 13/2/2013	20/2/2013	Special JCCs	20/2/2013

SECTION A

CAPITAL PROGRAMME

1.0 BACKGROUND

1.1 This report outlines the proposed approach in respect of the Capital Programme 2013/14 to 2015/16 and sets out a strategy recommended by the Strategic Leadership Team and endorsed previously by the Cabinet.

2.0 PROGRESS AGAINST THE 2012/13 PROGRAMME

2.1 Details of spend against the 2012/13 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report presented to the Cabinet on 20th February 2013.

3.0 CAPITAL RESOURCES FOR 2013/14

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 (known as 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 The Settlement for 2013/14 makes no allowance for any supported borrowing meaning that the full costs of any additional borrowing will fall against the authority's revenue budget. This follows the approach adopted by the Coalition Government since 2011/12 to limit borrowing by local authorities and encourage them to structure local needs and circumstances to their Councils' levels of affordability for borrowing.

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. Whilst market conditions are challenging at the moment, the Council anticipates generating capital receipts from a number of sites in the future.

4.0 PROPOSED CAPITAL PROGRAMME 2013/14

4.1 In line with last year's Capital Programme, and the Council's Medium Term Financial Strategy, it is recommended that the 2013/14 – 2015/16 Capital Programme is restricted to the fully funded schemes / schemes which are self financing based upon a viable 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 verifiable business case that clearly demonstrates that schemes will be self-financing – taking into account any associated borrowing costs.

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 the ongoing adverse conditions within the property market it is felt that it would be more prudent to limit the use of capital receipts to fund capital expenditure in the coming year.

4.4 In addition to the schemes highlighted at Appendix 1, Members are advised that a scheme is being developed which will see the regeneration of Radcliffe Town Centre. Part of this entails improvements to the market shown in Appendix 1. Members are advised that negotiations are underway with Transport for Greater Manchester to secure funding to implement an agreed option for relocating the bus station. Finally, a "soft" market testing exercise has begun to explore options for redeveloping the current bus station and surrounding land.

4.5 Appendix 1 also highlights inclusion in principle for Phase 3 Construction work at Burrs Halt; subject to identification of funding opportunities.

4.6 Figures for the schools' capital programme are still awaited from the Department for Education. Members are advised that any works undertaken will be fully funded from the grant available; i.e. net nil cost to the Council.

5.0 FUNDING THE CAPITAL PROGRAMME

5.1 The net costs of the draft programme are proposed to be financed as follows;

Source	2013/14 £	2014/15 £	2015/16 £	Total £
Net Cost	**4,992,600**	**1,449,600**	**1,244,600**	**7,686,800**
Financed by; Capital Receipts	1,940,000	205,000	0	2,145,000
Transformation Reserve	300,000	0	0	300,000
S106 Reserves	199,000	199,000	199,000	597,000
Borrowing (Invest to Save Business Case)	2,553,600	1,045,600	1,045,600	4,644,800
Total	**4,992,600**	**1,449,600**	**1,244,600**	**7,686,800**

6.0 RISKS

6.1 There are three main 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.

6.2 The Capital Programme Management Group meets regularly to monitor the Programme and management reports are considered by the Strategic Leadership Team and Overview & 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 The report begins by providing Members with details of the final Local Government Finance Settlement for 2013/14 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2012/13 and the draft Revenue Budget for 2013/14 to 2014/15. It provides details of the wide-spread consultation process that was undertaken and summarises responses received. Finally it summarises the options identified for meeting the anticipated shortfall on the draft.

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 A draft settlement was announced on 20th December 2012, outlining figures for 2013/14, and indicative allocations for 2014/15. The Settlement was particularly complex as a result of fundamental changes to the system of Local Government Finance which are outlined at Section 2.0.

1.5 Setting the budget for 2013/14 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.**

1.6 Members should also be aware that the budget proposals have been drawn up after a widespread, and well represented, consultation exercise. Further details are given in section 7.

2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2013/14

2.1 The Draft Local Government Finance Settlement for 2013/14 (the Settlement) was released on 20th December 2012 and is due to be confirmed on 13th February 2013.

The Settlement provides details of the authority's income from Central Government, and was subject to a number of fundamental changes which take effect on 1st April 2013.

Local Retention of Business Rates

2.2 Historically, Local Authorities collected Business Rates and paid them over to a Central Government "pool".

2.3 The Government then redistributed rates income using a formula based approach – relative to perceived need.

2.4 Some Authorities were net "gainers", receiving more than they paid into the national pool (e.g Bury); others were net "payers" – receiving less than they paid in.

2.5 With effect from April 2013, there will be a new approach whereby Central and Local Government share Business Rates income on a 50:50 split.

2.6 Authorities which previously gained from the Business Rates Pool (ie Bury) will also receive a **"top up"** payment to ensure no loss of income. Conversely, Authorities who were net payers will pay a **"tariff".**

2.7 The Government has established a notional **baseline** (based upon average collections over the last 2 years).

2.8 The combination of Business Rates Baseline, Top Up, and Revenue Support Grant are now referred to as the **"Start Up Funding Allocation"** and essentially represent the Authority's baseline income for the year – before Council Tax.

2.9 If Authorities exceed the business rate baseline e.g. through growing the local economy, then they retain 50% of the additional income generated.

2.10 **"Levies"** are applied to what is deemed to be excessive growth, and equally a **"safety net"** applies to prevent significant losses.

2.11 This new approach presents a number of risks to the Council;

- Losses on Appeals – will have to be funded 50% by the Council; this includes significant backdating as far back as 2005.

- Economic Conditions – the current economic conditions make the new approach more of a challenge as there is a higher risk of business failure – leading to a potential loss of income to the Council

- Equally however, in addition to the obvious social / economic benefits, there is now a "budgetary" incentive for the Council to stimulate business growth in the Borough

Localised Council Tax Benefit Scheme

2.12 The Council currently pays out around £14m in Council Tax benefits and this is funded by central government grant. With effect from 2013/14, the Council Tax Benefit scheme is to be "localised" allowing Councils to devise their own schemes relevant to local circumstances. Alongside this, there will be an average 10% reduction in grant funding. The Council approved Bury's local scheme in December 2012, which seeks to fully recover grant losses through a number of measures including;

- levying Council Tax on empty properties
- levying Council Tax on second homes
- restricting the amount of benefit to the equivalent of Band B properties
- cessation of the over 65's discount

2.13 In December 2012, the Government announced that a **one-off** grant of £100m would be made available nationally to Local authorities to assist in developing their local Council Tax Support schemes (£295k for Bury). The grant came with stringent conditions as to how schemes could be designed, in particular, specifying that those who would currently be entitled to 100% benefit would pay no more than 8.5% of Council Tax under the revised scheme. The grant also prohibited restricting benefit to lower bands of Council Tax – a key feature of Bury's scheme.

2.14 A full assessment of the implications of accepting the grant was undertaken, and the grant was rejected for the following reasons;

- The one-off nature of the funding – creating budget pressures in future years
- The restrictions that the grant conditions would have placed on the local scheme ran contrary to the Council's approved objectives for the localised scheme (especially safeguarding vulnerable people)
- Widespread consultation on the Council's proposed scheme had already taken place with residents and stakeholders.

2.15 Whilst fully costed and affordable now, the risk of increases in the number of Council Tax Benefit claimants rests with the Council going forward.

Overview of Settlement

2.16 Bury's 2013/14 "Start Up Funding Allocation" (SUFA), and 2014/15 Indicative SUFA compare to an equivalent 2012/13 SUFA (reworked by the DCLG) as follows;

	SUFA £m	**Change %**
2012/13 (adjusted)	82.941	
2013/14	**78.741**	**-5.06%**
2014/15	71.715	-8.92%

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

	2013/14
Bury	**-5.06%**
Greater Manchester	-3.62%
Met districts	-3.28%
London boroughs	-3.00%
Counties / Districts	-4.63%
England	-3.93%

2.17 Comparatively speaking, Bury's losses are greater than the average for all classes of Authority.

2.18 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 6.70% in 2013/14.

Damping Band	**Max Poss Loss 2013/14**
Band 1	-2.70%
Band 2	-4.70%
Band 3 (Bury's band)	-6.70%
Band 4	-8.70%

2.19 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 contributes **£1.614m** to support 'floor' authorities in 2013/14. This compares to a "damping" loss of £0.697m in 2012/13.

2.20 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 three years.

Rolled in Grants

2.21 The settlement has once again seen the "rolling in" of former specific grants – meaning these are now part of the mainstream funding settlement.

2.22 This offers the Council more freedom in terms of how grants are applied as ringfencing is relaxed once a grant is "rolled in".

2.23 A critical consideration however is the level at which grants are rolled in; the table below highlights that the grants rolled in under the 2013/14 settlement have suffered significant reductions;

Grant	**2012/13 £'000**	**2013/14 £'000**	**Change £'000**	**Change %**
Early Intervention Grant	8,370	5,965	-2,405	-28.73
Homelessness Prevention Grant	484	463	-21	-4.33
Lead Local Flood Authority Grant	162	122	-40	-24.69
Learning Disability / PH Reform	4,272	4,390	+118	+2.76
	13,288	10,940	-2,348	-17.67

2.24 The draft budget has been structured such that these grants are preserved at their 2012/13 levels – recognising the fact that in most cases staffing and other contractual commitments are in place. This policy will need to be kept under annual review.

2.25 Grants rolled in under previous years' settlements are no longer ring fenced, and are essentially now part of the Council's mainstream financial settlement. Despite this, the DCLG continues to publish **"notional"** grant allocations. A similar approach has been adopted with these grants – whereby budgets are preserved at the 2012/13 level. Whilst this protects services from notional grant reductions, it also means however that any notional increases are not passported on to services. Details of all grants previously rolled in are detailed below;

Grant	**2012/13 £'000**	**2013/14 £'000**	**Change**	
			£'000	**%**
Local Transport Services	88	97	+9	+10.23
Supporting People	5,440	5,954	+514	+9.44
Housing Services for Older People	46	38	-8	-17.39
LSC Transfer	432	389	-43	-9.96
HIV / AIDS	81	93	+12	+14.81
Preserved Rights	684	660	-24	-3.51
Animal Health & Welfare	2	1	-1	-50.00
	6,773	7,232	+459	+6.78

2.26 If Members agree with this approach, then effectively these grants will operate on a "cash freeze" basis – at 2012/13 levels, with no scaling up or down to reflect the notional allocations announced. This policy will need to be kept under review.

Other Specific Grants

2.27 In addition to the overall settlement, a number of specific grants are made available. The number of these grants reduces every year as they continue to be rolled into the overall funding settlement.

2.28 The settlement gave details of specific grants as follows;

Grant	**Amount £'000**
Community Right to Bid	8
Community Right to Challenge	9
Council Tax Support – New Burdens	119
Housing Benefit Admin Subsidy Grant	1,365
Local Reform / Community Voice Grant	143
Social Fund	692

2.29 By their nature, these are specific grants, each with their own terms and conditions; they are therefore not available to support the wider Council budget.

3.0 FORECAST OUTTURN 2012/13

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 current 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.

3.3 The table below shows a summary of the forecast outturn based on information available at 31 December 2012 (i.e. month 9):

	£m
Adult Care Services	+0.111
Chief Executive's	+0.697
Children's Services	+0.130
E&DS	+0.255
Non Service Specific	-0.991
TOTAL PROJECTED UNDERSPENDING	**+0.202**

3.4 The forecast shows a net overspend of £202,000 (0.14%) against the current budget. Behind this figure, a number of hot-spots remain within specific service areas, particularly around reduced income for some services in light of the prevailing economic conditions e.g. Property Services, Planning Fees, Car Parking, Looked After Children and Vulnerable Adults. Star Chambers have continued to play close attention to the situation as have the Overview & Scrutiny and Audit Committees.

3.5 Members should note that many of these pressures are on-going in nature, particularly in respect of income targets. The effect in 2012/13 has been mitigated through one-off / temporary measures e.g. holding vacant posts.

3.6 It should also be highlighted that some budgets are underspending because of the early achievement of 2013/14 savings approved by Council in February 2012.

3.7 The draft budget outlined at 4.6.3 includes a provision of £0.750m to address underlying service pressures – particularly around income shortfalls. It is recommended that allocation of this provision is delegated to the Strategic Leadership Team (as advised by the Executive Director of Resources), and that decisions are made once the final outturn for 2012/13 is known.

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

4.0 DRAFT REVENUE BUDGET 2013/14 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 2013/14 budget
- The potential Council Tax position for 2013/14
- The detailed draft budget for 2013/14 and 2014/15

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 Medium Term Budget Forecast

4.3.1 The Council has consistently taken a medium-term view of it's financial position. 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 initial forecast savings anticipated under the Plan for Change, and highlights further savings required as a result of;

- The one-off nature of the 2012/13 Council Tax Freeze Grant **£1.9m**
- The announcement of a 2013/14 Freeze Grant; compensating Councils at a rate equivalent to a Council Tax rise of 1%; resulting in a further **£1.9m** shortfall compared to the MTFS
- Reductions in "rolled in" Grants identified in the Settlement totalling **£2.3m**
- Ongoing spend pressures within the current Budget
- Provision for losses as a result of Business Rate Appeals (50% to be borne by the Council wef 1st April 2013, including back-dating)
- Mitigated (in part) by the continued strong performance of the Council's successful Treasury Management function.

	Initial Savings Requirement £ million	**Further Savings Requirement £ million**	**Total Savings Requirement £ million**
2012/13	8.7	0	8.7
2013/14	3.9	6.4	10.3
2014/15	5.1	2.3	7.4
Total	**17.7**	**8.7**	**26.4**

4.3.3 In 2012/13 the Council successfully launched the Plan for Change which for the first time sought to balance the budget on a three year basis. This approach is to be continued for 2013/14 and 2014/15.

4.3.4 It is already very clear that the 2014/15 budget will present a significant challenge following the Chancellor's Autumn Statement which announced a further reduction of 2% in Local Government funding.

4.3.5 The potential impact for Bury is reflected in the budget forecast shown below, however assessing savings required beyond 2014/15 is difficult given the Government's planned Comprehensive Spending Review to take place over Summer 2013.

4.3.6 Coupled with the risks inherent in the new finance system (localisation of Business Rates & Council Tax Support), ongoing cost / demand pressures, and pressures around staff pay it is clear that further savings will be required for 2014/15; **an initial estimate is that further savings of £4.4m <u>could</u> be required.** This figure will be confirmed as a matter of urgency to ensure sufficient time is allowed to develop options, and to ensure a full consultation exercise takes place.

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 and Efficiency) / 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 before any assessment of risks is made.

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 "rolled in" grants;
- Assessing unavoidable pressures that must be met to maintain a robust and balanced 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. The draft budget does however recognise that on-going pressures exist in a number of areas notably income generation, and a provision has been made to address this (see 3.7).

4.5.3 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.

4.5.4 In determining the assumptions to be used to underpin the 2013/14 budget the following considerations have been taken into account:

	Note	**2013/14**
Pay	1	0.0%
Pensions (increase in employers' contribution rate)	2	0.7%
Prices	3	0.0%
Waste levy	4	18.0%
Transport levy	5	2.38%
Rise in income from fees and charges	6	2.0%
Council Tax base (no. of Band Ds)	7	51,227.93
Council Tax rate rise	8	0%

Notes:

1. **Pay** - the current budget forecast makes no provision for pay inflation. 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 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 general provision for non-pay inflation although Directors have been invited to bid for funding towards unavoidable/contractual inflationary cost increases.

4. **Waste Levy –** Bury's waste levy is set to rise by £2.006m in 2013/14; an increase of nearly 18%. The scale of this increase has been mitigated through the Council's continued progress in rolling out recycling initiatives; saving approximately £1m in 2012/13. Ultimately, when recycling targets are achieved (or even exceeded), then the pressure of the waste levy will be greatly reduced. The Council has recognised that this strategy will entail high costs initially, and reduced costs in future years, and makes use of an earmarked reserve to "smooth" the actual cost between years pending a return to inflationary levy increases. This is in line with the Golden Rules.

5. **Transport levy** – the levy comprises two distinct elements. Firstly there is the amount required to fund transport infrastructure improvements across the Greater Manchester area which has been set at an average annual rise of +3.0% pa.

   Secondly there is the amount required to meet the rise in the Integrated Transport Authority's general costs. Initially this was forecast to be +1.62%; giving a total levy increase of +4.62%.

   Following robust scrutiny of the ITA's budget by Members and officers from Bury, Trafford and Wigan it has been possible to reduce this element to an average increase of +0.63%.

   The final levy is allocated pro-rata to population, this means that Bury's total increase amounts to 2.38%

6. **Income** - this is a further general assumption and Directors are free to decide how to meet the requirement depending on their individual circumstances, and the market sensitivity of prices.

7. **Council Tax** - acting under delegated powers, the Assistant Director of Resources (Finance) has calculated the amount of 51,227.93 (Band D equivalent) as the Council Tax base for the year 2013/14 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This represents significant reduction from 2012/13 (59,923.70) as Council Tax Support is now applied at source as a discount, rather than being paid after billing as a benefit. The base calculation also reflects the additional charges being made in respect of empty properties and empty homes under the Council's approved local Council Tax scheme.

8. **Council Tax rate** – this report is drafted on the basis of a 0% Council Tax rise which would also trigger payment of a Freeze Grant. Members are asked to note that the proposed 2013/14 Freeze Grant only compensates the Council at a rate equivalent to a 1% rise in Council Tax. Members should be aware that a freeze is not mandatory although a rise of any level will mean that the grant is foregone.

   Assuming preceptors follow the same approach, then the Band D Council Tax for 2013/14 would be:

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

Members are advised of that each additional 1% rise in the Council Tax would generate income of £0.645m but the Freeze Grant would be lost.

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 2013/14 the Government have indicated that local referenda would apply for Council Tax increases in excess of 2.0%. 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. After taking Levy increases into account, the maximum potential increase for Bury (without triggering a referendum) would be around **4.6%.**

4.5.5 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.

4.5.6 Members' attention is also particularly drawn to towards:

- Ongoing and historical 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.

4.5.7 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 2013/14

4.6.1 Budgets reflecting cost increases identified between 2012/13 and 2013/14 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 The budget also preserves "rolled in" grants at their 2012/13 levels as outlined at 2.21; notably the Early Intervention Grant, which would otherwise have faced a reduction of **£2.4 m**.

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

4.6.5 The table below summarises the initial draft 'standstill' budget for 2013/14:

	2013/14 £000
Opening Budget	**140,596**
Add: one-off savings from previous year	0
Less: specific grant income now rolled in to settlement	13,288
Add: Education Services Grant (net of academies)	-3,672
Add: Service Pressures	750
Add: Provision for Impact of Future Business Rate Appeals	600
Less: New Homes Bonus Grant top-sliced from RSG	-566
Less: Contribution from Waste Smoothing Reserve	-493
Less: 2 Year Olds Programme now DSG Funded	-235
Less: Estimated Business Rates Yield above baseline target	-454
Inflation:	
Pay	0
Contractual Commitments	1,570
Energy Costs	293
Income	-395
Staffing costs:	
Increase in employers' pension contribution	470
Increase in National Insurance	0
Non JNC increments	70
Levies:	
Integrated Transport Authority	313
Waste Disposal Authority	2,006
Revenue effects of Capital Programme	100
Cost of borrowing	-250
Estimated Budget	**153,991**
Less:	
Revenue Support Grant	-47,284
Retained Business Rates Baseline	-24,154
Business Rates Top Up Allocation	-7,303
Council Tax:	
Council Tax (@ 0% rise)	-64,534
Council Tax Freeze Grant (equiv 1% rise)	-645
Estimated Resources	**143,920**
TOTAL SAVINGS REQUIRED	**10,071**

4.7 Education Services Grant

4.7.1 The Local Authority Central Spend Equivalent Grant (LACSEG) grant funds central costs of the Authority in delivering its statutory LEA functions. The Government have now stated that this grant should be reduced to recognise the conversion of schools to Academies.

4.7.2 In order to facilitate this, the LACSEG grant has been removed in its entirety from the Settlement by reducing the SUFA by £3.775m, and will be returned to the Authority as a new **Education Services Grant** (ESG) – at a lower level taking account of the number and size of Academies within the Borough.

4.7.3 The final amount being of ESG being returned to Bury has not yet been announced, however modelling suggests that the Council stands to lose approximately £0.1m as a result of this. Given that final allocations will not be advised until March 2013 the assumption made represents an outstanding risk within the budget strategy.

4.8 Public Health Transfer

4.8.1 The Public Health function transfers from the PCT to the Local Authority with effect from 1st April 2013 and a baseline exercise of the current cost of the Public Health function within the PCT has been undertaken and has estimated the cost to be £8m.

4.8.2 In October 2011, the (then) Executive agreed the principle that Public Health funding would be ring-fenced recognising that there is a Government definition of public health and that the Council will need to report quarterly on the spending of these monies.

4.8.3 In January 2013, the Council received notification that £9m central Government funding would be available to fund the Public Health function. Whilst it may appear there is now £1m headroom within the Public Health budget it should be noted that significant risks apply to the various external contracts that make up the majority (£6.5m) of Public Health activity.

4.8.4 An exercise is currently underway to validate contracts transferring from the PCT to the Council, and there is a risk that the value of commitments transferring will be greater than the £6.5m estimated by the PCT

4.8.5 Until the contract validation exercise is complete, it is essential that no new calls are placed upon Public Health funding, i.e.

- no changes to staff terms and conditions
- no new commitments to be entered into

4.8.6 There is therefore assumed to be a net nil effect in respect of the Public Health budget

4.9 The Draft Budget 2014/15

4.9.1 The table overleaf sets out a provisional forecast for the 2014/15 budget; based upon internal estimates of costs, and the indicative 2014/15 funding announcement. For <u>illustrative purposes</u>, the forecast shows a 3.50% Council Tax rise – this being in line with previous assumptions made under the Medium Term Financial Strategy, and the Plan for Change.

	2014/15 £000
Opening Budget	**143,920**
Further Losses on Rolled in Grants	272
Inflation:	
Pay @1%	882
Prices - Contractual Commitments	1,048
Energy Costs	307
Income	-403
Staffing costs:	
Increase in employers' pension contribution	691
Increase in National Insurance	0
Increments	1,234
Levies:	
Integrated Transport Authority	300
Waste Disposal Authority	1,120
Estimated Budget	**149,371**
Less:	
Start Up Funding Allocation:	
Revenue Support Grant	-39,293
Retained Business Rates Baseline	-24,895
Business Rates Top Up Allocation	-7,527
Council Tax:	
Council Tax (@ 3.50% rise)	-66,793
Council Tax Freeze grant 2013/14 (if on-going)	-645
Total Resources	**139,153**
Savings Required	10,218
Less: savings in Plan for Change 1 and 2	-7,432
Further savings required	2,786
Add: Further savings due to potential changes in Referendum Rules	1,613
Latest Additional Savings Required	**4,399**

4.9.2 The forecast shows that there is a potential requirement for a further £4.4m savings – over and above those already identified under the Plan for Change.

5.0 SCHOOLS' ISSUES

5.1 Dedicated Schools Grant (DSG)

5.1.1 This is a ring-fenced grant provided to local authorities and can only be spent on schools and specified areas within the Schools Block.

5.1.2 The DSG financial analysis provided by the Department for Education (DfE) shows that the 2013/14 per pupil funding is £4,821.97 per pupil. It has been confirmed that this amount will be the same value in 2014/15 and therefore will have been at the same level for the life of the current Parliament.

5.1.3 There are some significant increases in the funding responsibilities being included in the 2013/14 DSG and these are:

- Extension of the 2 Year Old offer - £1,796,000 being transferred from the Local Authority's Early Intervention Grant,

- Funding of Special Educational Needs for 16-24 year olds in Further Education - £1,015,000 being provided by the Education Funding Agency,

- NB the current estimated cost of this provision is approx £1.6 million, which is subject to confirmation of student numbers in early February 2013.

5.1.4 The 2013/14 DSG is being split into three sub-blocks:

- Schools
- Early Years
- High Needs

5.1.5 Although the DfE have provided a funding analysis of each of the three sub-blocks, there is no limit to how much can be allocated to each block.

5.1.6 The Schools sub-block is subject to the national funding formula framework and the local authority, in conjunction with the Schools Forum, can determine the values of each of the formula factor components. These values were submitted by the required deadline date to the Education Funding Agency, which is an aspect of the Department for Education.

5.2 <u>Pupil Premium</u>

5.2.1 The Pupil Premium Grant is additional funding provided by Government and is currently extra to the Dedicated Schools Grant.

5.2.2 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.

5.2.3 For 2012/13, the DfE 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.

5.2.4 In accordance with the announcements made in the current Parliament's spending plans some three years ago, the Pupil Premium Grant is being increased by a further amount in 2013/14 and will be £900 for each pupil eligible for a Free School Meal and Looked After Child and £300 for each child of service personnel in schools.

5.3 Key Points for Bury schools in 2013/14

5.3.1 The funding amounts that will be available for Bury schools, and associated providers in 2013/14 are summarised below;

- £146 million available to Schools, Early Years, High Needs and support services, which is substantially greater than the combined total of the rest of the Council's services

- £6 million higher than 2012/13 funding (4% increase) – not all 'new' money as there are increased responsibilities

- Current indications are that 7 schools out of 77 mainstream schools could be adversely affected by the schools' funding formula changes

- This fact excludes those schools with high falling rolls as their reductions would occur regardless of the changes

- Comparing the overall funding for schools, and excluding those with double digit falling rolls, there is one Primary school and one Secondary school facing a 1% reduction in their 2013/14 funding compared to 2012/13 levels.

6.0 OPTIONS FOR BALANCING THE BUDGET / PLAN FOR CHANGE

6.1 Forecasts in the original Plan for Change highlighted that the Council had to save £9 million for the period 2013/14 to 2014/15.

6.2 Additional savings of £8.7 million were subsequently required for the reasons outlined at 4.3.2; taking the total to £17.7 million as follows;

	Initial Savings Requirement £ million	**Additional Savings Requirement £ million**	**Total Savings Requirement £ million**
2013/14	3.9	6.4	10.3
2014/15	5.1	2.3	7.4
Total	**9.0**	**8.7**	**17.7**

6.3 Proposals for the initial savings requirement were approved by Council in February 2012.

6.4 Departments and Portfolio Holders were requested to develop options to fulfil the additional savings requirement; these formed the basis of the public / stakeholder consultation exercise outlined at Section 7.0 and are detailed at Appendix 4.

6.5 The total proposed savings for 2013/14 and 2014/15 are summarised in the table below:

Department	Initial Plan for Change Savings (Approved Feb 2012)		Additional Plan for Change Savings (Appendix 4)		Total Savings	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
Adult Care Services	1,465	2,037	2,071	720	3,536	2,757
Childrens Services	1,006	1,238	1,006	676	2,012	1,914
Env & Dev Services	1,168	1,513	1,959	723	3,127	2,236
Chief Executives	289	349	504	176	793	525
Corporate Options	0	0	906	0	906	0
Total	**3,928**	**5,137**	**6,446**	**2,295**	**10,374**	**7,432**
Less: Amendments to car allowance proposal – post consultation					-303	0
Available Savings					**10,071**	**7,432**

6.6 These savings are further analysed in the table below:

Type	2013/14 £'000	2014/15 £'000	Total £'000
Efficiencies	5,226	3,032	8,258
New Proposals	4,210	3,820	8,030
Decisions already taken	635	580	1,215
Total	**10,071**	**7,432**	**17,503**

6.7 It can be seen that the initial savings proposals in respect of car allowances have been revised following extensive consultation.

6.8 This leaves revised savings totaling £10.071m in 2013/14; sufficient to deliver a balanced budget.

6.9 There are also savings totaling £7.432m identified for 2014/15, however as explained at sections 4.3.4 and 4.3.5 it is likely further savings will be required.

6.10 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, approved in June 2011, sets out how the council intends to manage the challenges it faces over a three-year financial period from 2012/13 to 2014/15. At the same time the Plan for Change programme intends to identify opportunities for the council to pro-actively improve both the efficiency and effectiveness of services to ensure continued value for money.

7.2 The Plan for Change allows us to change and adapt what we do to ensure we continue to meet statutory requirements and that we can respond to the needs of our changing customer base, increased demand for services and also manage the expectations of service users in a climate of much reduced resources.

7.3 The Plan for Change three-year Programme of Savings was formally approved by Council in February 2012 after two large-scale consultation exercises which identified a number of priority areas for the council. The choices consultation received input from 3678 individuals.

7.4 The results of the choices consultation 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 In light of the requirement for additional savings, the three-year plan has been updated, with a series of new additional proposals. These proposals were formally launched in a user friendly document on 28 November 2012 and have been subject to a period of public consultation up until 31 January 2013.

7.6 Residents and other stakeholders were invited to submit comments on the updated Draft Programme of Savings in 2013/14 -2014/15.

- Participation in an online survey
- In writing
- By email
- Over the phone
- At a weekend or evening public meeting
- At township forums meetings
- At a staff briefings prior to public launch of the consultation
- Via meetings with union reps and at JCC meetings

In addition a business briefing event and a focus group session with members of Youth Cabinet took place.

7.7 In total this consultation has received input via:
- 55 online survey submissions
- 187 pieces of correspondence (letter and email)
- 2 petitions regarding the Ranger Service
- 143 comments at public meetings

7.8 Significant numbers of comments were received regarding a proposal to remove the Ranger Service (121 comments or correspondence) and two petitions (568 and 518 signatures respectively). In addition a wide range of comments were received on the both the current savings proposals and those which are already implemented following approval at February 2012 budget council (e.g. toning tables at Castle Leisure).

7.9 The Council is proud of its record on consultation and has transformed the way it has engaged with the public and services users. The results of the consultation exercise have been analysed and Members must give the "product" of consultation conscientious consideration when taking a decision. However, these suggestions have not resulted in any changes being proposed to the Programme of Savings prior to the meeting of full council for approval.

7.10 The council's ongoing commitment to an open and transparent decision making process and consultation has allowed the council to involve the local community from the very start of the budget setting process and this approach supports the value of the Plan for Change to 'put residents first'.

7.11 In addition it should be noted that over the course of the last year the council has consulted with residents regularly in relation to the Plan for Change reviews, which have taken place. The views and opinions expressed in these consultations have helped shape some of the savings and will also continue to inform work to change services moving forward.

7.12 A full summary of consultation responses received is attached at Appendix 5.

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 and Efficiency) as 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, and significantly the new addition of locally retained Business Rates. In respect of Formula Grant, the income stream is known for the coming year, and indicative figures have been provided for 2014/15, however 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 increasingly likely beyond. It is essential that the Council acts to prepare for the implications on public spending cuts on local government.

8.4.2 As far as expenditure is concerned, the areas of greatest risk in the budget are those that are subject to demand fluctuations.

8.4.3 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.

8.4.4 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.

8.4.5 A recent initiative has been to utilise one-off sources of funding to pay for promotional / awareness raising campaigns in respect of fostering & adoption; the business case being that ultimately this investment should lead to sustainable and ongoing reductions in the number of children being placed with costly external providers.

8.4.6 Managers are also 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.

8.4.7 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.

8.4.8 Turning to income budgets, 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.

8.4.9 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2013/14 has been revised to 97%, based on past, current and projected performance, and the heightened risk of collecting from empty properties and second homes. Collection rates will continue to be rigorously monitored, with particular emphasis on these new areas.

8.4.10 The Government has said that excessive Council Tax increases (deemed to be >2% for 2013/14) could trigger local referenda under the Localism Act.

8.4.11 Fees and charges (excluding Council House rents) are budgeted to raise over £50m of income in 2013/14 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.

8.4.12 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%.

8.4.13 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.

8.4.14 It is clear from monitoring that has taken place during 2012/13 that the difficult economic climate has had a downward effect on various charging streams such as property services income, car park fees, planning charges etc. It is important that this is considered by Members and Directors when the budget is set. There is provision within the minimum level of balances calculation to reflect this risk.

8.4.15 In terms of general expenditure budgets the single largest area of expenditure is on staff pay. There remains a clear indication from the Government that Local Authorities should continue to exercise pay restraint, and the 2013/14 proposed budget makes no provision for a pay award reflecting the view of the vast majority of Councils that a pay rise is unaffordable. The actual outcome of national pay negotiations remains to be seen, however every 1% rise equates to approximately £0.9m additional cost for the Council. Members should note that there is a £0.9m provision within the Minimum Level of Balances (albeit on a one-off basis) to mitigate the impact of a pay award.

8.4.16 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.

8.4.17 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)

8.4.18 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 (e.g. contractual commitments) or where it impacts on business-critical services.

8.4.19 The Council currently pays out around £14m in Council Tax benefits and this is funded by central government grant. With effect from 2013/14, the Council Tax Benefit scheme is to be "localised" allowing Councils to devise their own schemes relevant to local circumstances. Alongside this, there will be an average 10% reduction in grant funding. The Council approved Bury's local scheme in December 2012, which sought to recover grant losses through a number of measures including levying Council Tax on empty properties and second homes. Whilst fully costed and affordable now, the risk of increases in the number of Council Tax Benefit claimants rests with the Council going forward.

8.4.20 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.

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

8.5 Risks inherent in the budget strategy

8.5.1 There are specific risks inherent in the budget strategy relating to the radical overhaul of the system of Local Government Finance as follows;

- Many changes have converged simultaneously, and within a very compressed timescale. Interpreting the impact and inter-action of these changes has been a significant challenge.

- The risk of raising and collecting business rates is now borne (50%) by the Council, and the local business rates yield now has a direct budgetary consequence. This risk is further raised in the current economic climate. A prudent approach to the estimated yield has been adopted.

- Similarly, the Council must now stand 50% of the cost of business rate appeals; this applies to appeals already lodged, and any that may be lodged in the future. Clearly the outcome of appeals is unknown, and cannot be estimated. The liability also has the potential to be backdated as far back as 2005. Provision has been made within the budget to contribute to the cost of appeals.

- The localisation of Council Tax Support brings significant risks in the event that claimant numbers rise beyond the levels expected. A prudent approach has been taken in designing the Local Council Tax Support scheme.

- Collection rates may suffer under the proposed scheme as the Council seeks to collect Council Tax from Second Homes and Empty Properties. Prudent collection rates have been factored in to the calculation of the Council Tax base.

8.5.2 In addition, other more general risks still apply

- The capacity of the Council to respond to the level of savings required whilst maintaining essential services could be compromised. Over 420 staff have left the organisation since 2010. This risk cannot be eliminated, however can be mitigated by the Council's proven track record on performance management.

- Savings targets may not be achieved. This risk is mitigated by rigorous financial control / budget monitoring. The Council has a strong record of delivering a balanced budget and achieving a favourable outturn position. This approach includes the use of Star Chambers which ensure both Portfolio Holders and managers has clear understanding and ownership of the budget and pressures in their area.

- Budgets may overspend during the year as a result of unforeseen pressures, or demand outstripping the levels originally anticipated. The budgetary control framework will give early warning of this, allowing remedial action to be taken where possible.

- Assumptions may prove to be inaccurate due to external influences, e.g. national economic conditions

8.5.3 Given the robust nature of the budget strategy, the Council's strong record of performance and the strength of the budget monitoring process these risks are felt to be at a medium level for 2013/14. However it is important that this level of risk is mitigated and provision has therefore been made within balances to cover these items.

8.5.4 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 12 February 2013, and no major changes have been identified.

8.7 Conclusion

8.7.1 In light of the above the Assistant Director of Resources (Finance and Efficiency) 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 pace and 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 around the continued development of 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.

This year's budget process has in particular been frustrated by the significant changes to the system of Local Government Finance (e.g. Business Rates Retention), and the late announcement of the Council's funding settlement.

Members should note that some of the detailed guidance around Business Rates Retention has <u>yet to be finalised and issued</u>.

In the absence of this guidance, judgements have been made by consultation with specialist organisations, e.g. SIGOMA and CIPFA, and through close joint working with colleagues in other Greater Manchester Authorities.

Finally, experience of past years has highlighted that a number of budgets face considerable pressure, particularly services reliant upon income generation, services for people with physical and learning Disabilities and out-of borough placements for children. It is essential that Members support the work of Star Chambers 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 section 151 Officer can state that **the budget for 2013/14 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:

	Risk	£000
Pay inflation Cushion: Pay awards have not been set for 2013/14 and so there is a degree of uncertainty about the extent to which the budget provision will meet the actual costs. In order to mitigate risk in this area an allowance equivalent to 1.0% (previously 0.5%) should be retained in balances.	H	900
Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been set, this contingency assumes a 3.0% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.	M	900
Interest Cushion: Given the fact that the cost of borrowing budget reflects a baseline position in respect of interest rates, that borrowing has been locked in and that the Capital Programme requires no new borrowing then risk in this area is felt to be on the up-side especially with short-term investment rates at an historic low.	M	100
Uncertainty of Income Cushion: Adequate provisions are made for bad debts, however, in the past some income budgets have not been achieved and therefore it is prudent to provide a contingency for all non grant income. The provision towards current income shortfalls in the draft budget will seek to address this issue.	H	400
Unpredictable and Demand Led Expenditure Cushion: The Council's budgets have had to be kept to a minimum level for a number of years. As a result, the flexibility to compensate for overspends, by reducing spending in other areas is limited. Conversely, significant investment has been made into 'high risk' budgets and this has helped to mitigate this risk. This contingency is now based upon 2.0% of all "demand led" expenditure largely in the areas of Children's and Adult Care Services.	H	1,200

Budget Strategy Risk Cushion: There is always likely to be a level of uncertainty around the authority's ability to achieve savings options and this contingency is based around 10% of the on-going savings options.	M	750
Emergency Expenditure Cushion: Provision must be made for the cost of emergencies that by their very nature cannot be predicted and for any uninsured losses. The Government's "Bellwin Scheme" partially protects authorities from catastrophic costs of some emergencies, but costs up to the threshold of the Bellwin Scheme will still need to be covered by reserves: The Government will pay 85% of any disaster costs above the threshold. This contingency provides for the Council's contribution, assuming a major disaster costing £3.0m. Contingency for smaller emergencies e.g. highway collapse.	L L	400 400
TOTAL		**5,050**

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

	Risk Level	**Likelihood**	**Provision £000**	**Max. Impact £000**
Pay inflation cushion	H	100%	900	900
Non-pay inflation cushion	M	80%	900	720
Interest cushion	M	80%	100	80
Uncertainty of income	H	100%	400	400
Demand led expenditure cushion	H	100%	1,200	1,200
Budget strategy cushion – savings	M	80%	750	600
Emergency expenditure cushion	L	60%	800	480
			5,050	**4,380**

9.7 This would set the minimum balance requirement for 2013/14 at **£4.380m.** 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 **£4.400m** (rounded), this being an increase of £100k from the 2012/13 budget.

9.8 The forecast position on the General Fund balance at 1 April 2013 is shown in the following table:

	£m
General Fund Balance 31 March 2012 per Accounts	**10.230**
Less : Minimum balances to be retained in 2013/14	-4.400
Less : Forecast overspend 2012/13	-0.202
Less : Earmarked to fund Equal Pay Settlements	-1.500
Forecast Available balances at 1 April 2013	**4.128**

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 £4.4m, the balances will earn approximately £94,000 in 2013/14 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. However, utilising balances in this way would be contrary to the Golden Rules.

COUNCILLOR TONY ISHERWOOD

EXECUTIVE MEMBER FOR FINANCE & RESOURCES

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APPENDIX 2

ADVICE FROM THE ASSISTANT DIRECTORS OF LEGAL & DEMOCRATIC SERVICES AND FINANCE & EFFICIENCY

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 **(>2.0% for 2013/14)** 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.

APPENDIX 3

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. 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 and Council Tax Support.

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.

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 **(>2.0% for 2013/14)** 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. This has now been replaced by the Start Up Funding Allocation (see below).

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.

Start Up Funding Allocation

A combination of Business Rates Baseline, Top Up, and Revenue Support Grant are which essentially represents the Authority's baseline income for the year – before Council Tax.

Targeted grant

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