

REPORT FOR DECISION

MEETING: **RESOURCE & PERFORMANCE SCRUTINY
COMMISSION
EXECUTIVE
COUNCIL**

DATE: **9 FEBRUARY 2010
24 FEBRUARY 2010
24 FEBRUARY 2010**

SUBJECT: **BUDGET 2010/11 TO 2013/14**

REPORT FROM: **Executive Member for Resource**

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

TYPE OF DECISION: **COUNCIL**

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

SUMMARY: The report provides Members with details of the Capital Programme for 2010/11 to 2012/13 (section A) and the latest estimate of the revenue outturn position for 2009/10 and the forecast Revenue Budget for 2010/11 to 2013/14 (section B).

Section A sets out the draft Capital Programme and a forecast of the available resources. It recommends a continuation of the existing strategy of linking resources to Council priorities and, recognising that there is little or no room for manoeuvre, suggests that the Programme be limited to on-going schemes. However it is also recognised that additional resources may be required for Disabled Facilities Grants, depending on the outcome of a review of the operation of such grants, and if so then proposals for an additional allocation (funded from unsupported borrowing) will be made to the Executive during 2010.

Section B addresses the revenue budget and also outlines other important budget issues including the final Formula Grant Settlement for the year, the forecast outturn for 2009/10, the initial budget strategy, budget assumptions and the Council Tax base.

It also examines the robustness of the assumptions behind the budget forecast and it contains an assessment of the adequacy of the Council's balances.

Assuming a rise in the Bury element of the Council Tax of 4.49% then the forecast budget shows a deficit of £2.4m for 2010/11, after making provision for a £1.9m contribution into the Priority Investment Reserve, and the report goes on to suggest options for balancing the budget.

Members' attention is drawn particularly to the fact that the very challenging target in the Golden Rules to have a budget that places no reliance on corporate one-off savings options by 2010 has been achieved and also to the comments surrounding the potential impact on Bury of expected future cuts in public spending.

**OPTIONS &
RECOMMENDED OPTION**

Section A – Capital Programme

1. That the Capital Programme for 2010/11 and future years, shown in Appendix B be approved, amended or rejected depending on the preferred option to address the shortfall identified;
2. That the proposed financing of the Capital Programme be approved, amended or rejected;

Section B – Revenue Budget

3. That the details of the final Formula Grant Settlement for 2010/11 be noted;
4. That proposals around the use of the Area Based Grant set out in paragraph 2.5 be approved;
5. That the level of repayment of principal on General Fund debt at the minimum of 4% be approved in line with the current Minimum Revenue Provision policy;
6. That it be noted that under delegated powers the Director of Finance and E-Government calculated the amount of 59887.66 as the Council Tax base for the year 2010/11 in accordance with the Local Government Act 2003 and with regulations made under section 33(5) of the Local Government Finance Act 1992;
7. That the forecast outturn position for 2009/10 be noted;
8. That the Golden Rules set in section 4.3 be reaffirmed subject to the amendment set out in paragraph 4.3.3 increasing within the formula the amount below which the balances cannot fall to £3.5m;
9. That the actual minimum level of balances for 2010/11 be increased to £3,800,000;

10. That the draft Revenue Budget for 2010/11 as shown in the report be approved or amended, together with the options for balancing the budget;
11. That the recommendations of the Schools' Forum around education funding issues be approved;
12. That the statements by the Director of Finance and E-Government on the robustness of budget assumptions and on the minimum level of balances be endorsed;
13. That consideration be given to the level of the Band D Council Tax for 2010/11;
14. That consideration be given to the budget position for 2011/12 to 2013/14, as outlined in section 10 of the report.

IMPLICATIONS:

Corporate Aims/Policy Framework:

Do the proposals accord with Policy Framework? Yes.

Financial Implications and Risk Considerations:

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

Statement by Director of Finance and E-Government:

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

Equality/Diversity implications:

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

Considered by Monitoring Officer:

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

Are there any legal implications?

No

Staffing/ICT/Property:

There will be some staffing, ICT and property issues arising from this report depending on decisions taken in respect of the scale and detail of the Capital Programme and the Revenue Budget.

Wards Affected:

All

Scrutiny Interest:

Resource and Performance Scrutiny Commission.

TRACKING/PROCESS**DIRECTOR: Mike Owen**

Chief Executive/ Management Board	Executive Member/Chair	Ward Members	Partners
Both	Leader Executive Member – Resource		
Scrutiny Commission	Executive	Committee	Council
		Special JCCs	

SECTION A

CAPITAL PROGRAMME

1.0 INTRODUCTION

- 1.1 The report provides Members with details of the capital resources available for 2010/11 together with a programme of schemes for approval.

2.0 PROGRESS AGAINST THE 2009/10 PROGRAMME

- 2.1 Details of spend against the 2009/10 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report 2009/10 which is considered elsewhere on the Executive agenda.

3.0 CAPITAL RESOURCES FOR 2010/11

- 3.1 The Capital Programme is funded from four main sources:

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

- 3.2 Although the Prudential Code regime allows each Local Authority to decide on their borrowing levels for Capital Expenditure, only a specified amount is supported by Government through inclusion of the related financing costs in the Revenue Support Grant for the year. All Local Authorities received the final settlement figures for the Formula Grant in late January 2010.

- 3.3 The Government-supported borrowing figure is limited to the level of individual Government Departments' Annual Capital Guidelines (ACGs). The ACGs reflect the level of capital spending that Government departments feel is appropriate for various services within the Council.

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

- 3.5 The other main funding source is capital receipts generated from the sale of the authority's land and property. Given current market conditions, it is assumed that the Authority will not generate any capital receipts in 2010/11. In the event that conditions improve, and receipts are generated, then the Authority has the opportunity to review its borrowing position.

3.6 The table below summarises the capital funding sources that are available in 2010/11:

	£m
Borrowing	8.618
General Capital Receipts	0
Capital Reserve	1.099
Grants and External Contributions	20.876
Regional Housing Allocation	0.800
Major Repairs Allowance (Housing only)	4.906
TOTAL FUNDS	36.299

4.0 CAPITAL PROGRAMME

4.1 Preparation of the Capital Programme is undertaken in two stages. Firstly, scheme bids are placed into the following categories:

- 100% funded schemes
- Contractually/morally approved schemes
- On-going programmes (including Statutory / emergency schemes)
- Discretionary schemes/new approvals

4.2 In line with the priority-led approach previously approved by the Executive it is assumed that Members will wish to support the inclusion of schemes that fall into the first three categories. These are reflected in the draft Capital Programme shown in Appendix B and further details of these categories are given below:

4.2.1 **100% Funded schemes** – these are schemes that are fully funded, where funding is ring-fenced by the Government or another external agency. Such schemes total **£25.152m** and it has been assumed that these should be included in the Programme in order that the funding is utilised.

4.2.2 **Contractually / morally committed schemes** – these are schemes that are committed, generally from starts made in 2009/10. They involve total expenditure of **£4.155m** in 2010/11. Of this amount, **£0.080m** will be generated from external sources and the balance of **£4.075m** will be a call on the authority's own funding. Within this area of the Programme is provision for phase 2 of the Pimhole redevelopment.

Members are reminded that they have flexibility to decide whether the morally committed schemes have to go forward.

4.2.3 **On-going schemes** – these relate primarily to programmes of expenditure which bring spending on various services up to the level indicated by the service ACGs shown below and previously Members have indicated that they would wish to bring funding in these areas up to levels that are no less than the ACGs. However this assumption can be challenged in whole or in part i.e. more or less can be allocated to these areas.

The draft Programme assumes total spend of **£5.595m**, with **£4.177m** coming from the authority's own resources.

4.3 The next stage is to assess the extent of any resources that are available to fund new schemes. On the assumption that Members would wish to include 100% funded, morally and contractually committed, on-going and statutory and emergency schemes in the Programme then the position for 2009/10 is as follows:

	£m	£m
Available resources		36.299
100% funded schemes	25.152	
Contractually/morally committed schemes	4.155	
On-going schemes	5.595	34.902
Available for new schemes		1.397
New schemes approved during 2009/10:		
Slippage	0.607	
Chamberhall Access Road	0.790	1.397
Total		0

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

4.5 The programme has been structured such that existing schemes are continued through to completion, allowing a zero based / priority led approach to be adopted in future years.

4.6 A table showing the individual schemes that comprise the draft Programme for 2010/11 is attached at Appendix B.

4.6.1 Building Schools for the Future

- The Council is currently preparing its submission to demonstrate "readiness to deliver" in respect of this initiative. This work is being undertaken by a team of senior officers, overseen by a Project Board that includes the relevant Executive Members. No capital provision has been made at present; Members will be updated and approval sought to update the Capital Programme as the project progresses. The draft revenue budget makes provision for resources to be available to achieve BSF funding.

4.6.2 Disabled Facilities Grants / Adaptations

- This is, and remains, a priority for the Council with capital resources totalling £950,000 being made available. This is a demand led activity, dependant upon the number of grant applications submitted by residents.
- Sophisticated monitoring arrangements are in place to track applications during the year, and a Grants Panel has been established to review eligibility of applications, and the value of grants awarded.

- Should the level of grant applications exceed the current provision, an “in year” bid for additional resources will be considered – taking into account the Council’s overall financial position.

5.0 RISK ASSESSMENT

5.1 There are three main risks inherent in the capital strategy recommended above:

- **Capital receipts are not realised.** This risk has been addressed through prudent forecasting, in the light of current market conditions.
- **Schemes slip from one year to the next.** This is a normal feature of capital schemes and can occur for a large number of reasons. The risk can be mitigated by slipping corresponding resources between years and is not felt to be high.
- **Scheme costs increase.** Again this is not unusual, but unlike slippage, increased costs are more than timing issues and this cannot be mitigated without an impact on other schemes within the Programme or an impact on future years’ resources. The risk can be mitigated by the use of sound costing techniques, effective project management and monitoring schemes using a risk assessment approach.

5.2 The Capital Programme Management Group meets regularly to monitor the Programme and monitoring reports are considered by Management Board, Executive and Scrutiny Commission on a quarterly basis. Should intervention action be required then it will be undertaken immediately and may include a moratorium on scheme starts, the realisation of further capital receipts or the use of additional borrowing (subject to revenue resources being available).

5.3 Furthermore, the Council’s auditors, KPMG, have recently reviewed the Authority’s processes for setting and monitoring the Capital Programme. The Council’s overall approach has been endorsed, and a number of operational recommendations are in the process of being implemented.

SECTION B
REVENUE BUDGET

1.0 INTRODUCTION

- 1.1 This section of the report examines the position in respect of the Revenue budget for the current and future years, but in doing so it takes a holistic approach to the Council's finances and reflects the revenue implications of proposals made in respect of the Capital Programme. The position in respect of the Housing Revenue Account is the subject of a separate report.
- 1.2 The report begins by providing Members with details of the final Local Government Finance Settlement for 2010/11 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2009/10 and the draft Revenue Budget for 2010/11 to 2013/14.
- 1.3 It summarises the options identified for meeting the anticipated shortfall on the draft Budget and examines Council Tax options.
- 1.4 Local Government finance is a complex subject and to assist Members a glossary of the main terms and acronyms is attached at Appendix A.

2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2010/11

- 2.1 The final Local Government Finance Settlement for 2010/11 (the Settlement) was published on 20 January 2010 and provided details of the authority's income from Formula Grant (previously Revenue Support Grant and National Non-Domestic Rates), Area Based Grant (see below) and the Dedicated Schools Grant (see section 4.10). The figures (both local and national) were unchanged from those set out in the three-year Settlement that was announced in December 2007.
- 2.2 Details of the Formula Grant Settlement at a **national** level can be summarised as follows (Members are asked to remember that CSR2007 and the three-year Settlement only provide figures up to and including 2010/11):

	2010/11
Increase in Aggregate External Finance	4.0%
Increase in Formula Grant	2.6%

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

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

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

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

	Bury's Cash Grant	Increase in Grant (on previous year)
	£m	
2008/09	63.103	3.4%
2009/10	64.688	2.6%
2010/11	66.139	2.3%

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

	2010/11
Bury	2.3%
Greater Manchester	2.5%
Met districts	2.5%
London boroughs	1.8%
Shire districts	1.3%
England	2.6%

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

2.4 It is also worth pointing out that the reality of the situation is worse than shown in the table. The Settlement assumes that Bury's Council Tax base will rise by 462 Band D properties whereas the reality is that it will rise by just 64 properties due to the effects of the downturn. This means that we will be able to collect **£0.506m** less in Council Tax than assumed by the Settlement, which is equivalent to a 0.7% rise in the Council Tax simply to match the consequential loss of grant.

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

3.0 FORECAST OUTTURN 2009/10

3.1 The Council operates a delegated cash ceiling scheme and in order to achieve sound financial management and effective budgetary control budgets are reviewed and revised on an on-going basis within individual services.

3.2 However, whilst it is not necessary to undertake a formal revision of the corporate budget it is essential that a forecast is made of the potential outturn position for the year. Not only is this a matter of good practice but of particular importance is the fact that it also allows a forecast to be made of the likely level of balances available to support future years' budgets.

3.3 The table below shows a summary of the forecast outturn based on information available at 31 December 2009 (i.e. month 9):

	£m
Adult Care Services	0.253
Chief Executive's	(0.692)
Children's Services	0.472
E&DS	1.194
Non Service Specific	(0.278)
TOTAL PROJECTED OVERSPENDING	0.949

3.4 Despite the month 9 position showing a forecast overspend of £0.949m, significant management action has been instigated to mitigate the effects of the pressures being faced by services. This will continue and it is anticipated that this remedial action will have a further positive effect on the overspending. It is possible that a refund from the Waste Authority of some £0.1m may also be forthcoming but it is too early to rely on this. As Members will appreciate, prudence dictates that financial plans should be based on the most pessimistic position and a sum equivalent to the forecast overspending will be earmarked within the General Fund balances.

4.0 DRAFT REVENUE BUDGET 2010/11

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

- "Golden Rules" supporting the budget strategy
- The budget strategy
- Assumptions behind the draft budget
- The draft budget for 2010/11

4.2 The report then goes on to consider the robustness of the estimates behind the draft budget and this in turn leads to an assessment of the adequacy of the Council's minimum level of balances. This is linked to an evaluation of the financial implications of the corporate risks that are faced by the Council in relation to it delivering on its priorities.

4.3 Golden Rules

4.3.1 The Council has enshrined certain values into its longer-term approach to its finances by the adoption of four 'Golden Rules' were adopted by Members in February 2007, to underpin the budget setting and management process:

- The level of General Fund balances retained by the Council to meet unexpected changes in the budget or to fund events that cannot be foreseen will be based on an assessment of the risks faced by the Council but they will not be allowed to fall below the higher of £3m or 2.5% of the net budget (excluding schools). This formula needs to 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 2010/11 after which on-going costs will be fully met from on-going resources. The proposals set out in paragraphs 6.3 and 6.4 show that this has been achieved.
- Prudential borrowing will only be undertaken on an Invest to Save basis
- Pressures and savings will be assessed on a 3-year, rather than a one year basis

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

4.3.3 It is clear that the Golden Rules have had a positive influence on the Council's financial standing and it is recommended that they be re-adopted for the 2010/11 budget setting process. However due to the year-on-year rises in the base budget since the Golden Rules were first adopted it is recommended that the rule relating to the minimum level of balances be amended to say that balances will not fall below the higher of **£3.5m** or 2.5% of the net budget (excluding schools).

4.4 The Budget Strategy 2010/11

4.4.1 The draft Budget for 2010/11 has been prepared in line with the objectives, strategy and assumptions set out in the Financial Strategy 2009 - 2012 and with the Golden Rules identified above. However in coming to a view on the budget for the year a number of specific issues were identified that have also had a major influence on the approach adopted.

4.4.2 Strategy for the 2010/11 Budget:

- To prepare a budget that reflected the costs of inflation and other unavoidable cost increases, leading to a 'continuation of service' budget;
- To set a Council Tax that avoids the threat of capping, based on the best information available on capping criteria and on the results of budget consultations (whilst questioning the assumptions behind capping and the Formula Grant system as it applies to Bury);
- To identify cashable efficiency savings in line with efficiency targets and pay 50% of these into the Priority Investment Reserve (PIR). The remainder will be available to services to meet specific priorities in line with Departmental Medium Term Financial Strategies;
- To link investment and savings decisions to the Council's policies, priorities and other strategies and to the need to maintain the direction of travel on service performance;
- To end the reliance on one-off financing options

4.4.3 Policy direction in terms of balancing the gap between income and expenditure has centered on:

- Prioritising those policy and service areas central to Bury's Community Strategy and Corporate Plan
- Negating the impact of reduced expenditure upon service recipients
- Maximising savings in 'back office' functions
- Maximising 'value for money' across service areas
- Reducing expenditure in areas of top quartile service delivery
- Maximising efficiency
- Outsourcing service provision where justified
- Providing an 'economy of scale' by cross-agency delivery in Bury
- Exploring cross-boundary service delivery models
- Ceasing some areas of discretionary activity

4.4.4 Given the financial situation that was projected when the 2010/11 budget forecast was first produced the budget **initially** being recommended to Members makes **no** provision for additional pressures faced by individual services.

4.4.5 As such, and because of the budgetary position of the Council, these pressures may be managed, but not eradicated. The risk strategy is designed to provide an inter-play between these factors, bringing to the corporate agenda those pressures as they present themselves, whether anticipated or in exceptional circumstances. This is a new departure in the Council's strategy, designed to provide greater stability in budgetary control and it will be managed through regular meetings of the service Star Chambers.

4.4.6 However, the approach adopted in respect of the PIR means that positive steps can be made towards addressing pressures and priorities and more details are set out in paragraph 4.8 and section 7. In addition Directors now prepare Medium Term Financial Strategies within their own cash ceilings showing how spending needs will be matched to anticipated budget allocations over the coming three years. This is a significant departure from the year-on-year budget management that has been expected from Directors in the past.

4.5 Assumptions

4.5.1 The draft Budget for the coming year has been prepared by rolling forward and re-pricing the current year's budget in line with the Financial Strategy. This process has a number of specific stages:

- Adding the effects of inflation and other allowable cost increases to the current year's budget;
- Determining the effects of switching cash grants into Formula Grant and applying accordingly when known;
- Assessing unavoidable pressures that must be met to maintain a standstill budget;
- Transferring 50% of the level of cashable efficiency savings into the Priority Investment Reserve (PIR) (see section 7)
- Calculating the resources that will be available for a given level of Council Tax increase;
- In exceptional cases, building in to the process the revenue affects of Members' long-term decisions;
- Determining options for addressing any budget deficit, balancing income with expenditure;
- Allocating funds from the PIR against bids, in line with Council priorities.

4.5.2 The initial budget for 2010/11 to 2013/14 has been prepared in line with the 'Golden Rules', the Financial Strategy and the strategy set out in section 4.4 above and has resulted from a considerable and energetic input from Members and officers. The task of achieving the strategy direction and policy aspirations whilst balancing the need to meet exceptional demands with extremely limited resources has been exceptional.

4.5.3 The Forecast is based around a standstill budget, one which reflects the current level of service up-rated for inflation and other unavoidable pressures. New demands and developments are then considered for funding on a priority-led basis as set out in section 7.

4.5.4 In determining the assumptions to be used to underpin the 2010/11 budget the following considerations have been taken into account:

Pay – 0%. In the period leading up to Christmas the employers consulted councils through pay briefings in the nine English regions, Wales and Northern Ireland. The Employers' Side of the NJC has now met twice since the conclusion of those briefings in order to consider the views expressed and the detailed responses to the questions that were posed. In the light of the clear and consistent message from the vast majority of councils the employers have concluded that the financial position is such that any increase would simply not be affordable.

The employers recognise that, like councils, many employees have struggled to cope with the effects of the recession. However, the employers face a stark choice; they want to help councils protect services and offering a national pay increase for 2010/11 would severely compromise that aim. The employers have also been influenced by the fact that many Councils, including Bury, will see their pay bills grow significantly this year in any case through their contractual obligation to meet the cost of annual increments.

The minimum level of balances calculation recognises the risk inherent in this approach.

Prices – 0%. Again it is extremely difficult to forecast inflation for the coming year. For now it is felt prudent to make no provision for non-pay inflation although Directors have been invited to bid for funding towards unavoidable/contractual inflationary cost increases.

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

Other major cost centres – energy (see below), pension costs (10.0%), Waste Disposal (11.2%), Passenger Transport (4.9%) – provision has been made to reflect the actual increases being imposed on the authority.

Energy costs – it is clear that energy costs have fluctuated significantly across the sector and the forecast shown below makes provision for a reduction of £0.5m in the cost of gas, electricity and vehicle fuel. However these will be the subject of further refinement, in particular the gas and vehicle fuel element in view of recent falls in the price of gas and oil. Provision has been made in the minimum level of balances calculation to reflect the risk inherent in this approach.

- 4.5.5 Allowance has been made for the cost of job evaluations (and protection) resulting from the application of the local scheme.
- 4.5.6 Provision has been made for the cost of adding back any one-off initiatives used to fund the previous years' budget
- 4.5.7 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.
- 4.5.8 The Bury element of the Council Tax is assumed to rise by 4.49% and the Council Tax base has been set at 59887.66 Band D properties
- 4.5.9 Members' attention is particularly drawn to towards:
- Demand led pressures in excess of nominal inflation
 - Bury's high VFM rating
 - Changes in the grant distribution formula and losses through damping
 - A non-transparent methodology of distributing grant to local areas
 - The impact of the recession on income levels
 - The ability to demonstrate clearly the reallocation of resources on a priority-led basis
- 4.5.10 The Director of Finance and E-Government's assessment of the robustness of these, and other, assumptions is set out in section 8 and Members are asked to give particular attention and endorsement to the Director's comments.

4.6 The Draft Budget 2010/11

4.6.1 Budgets reflecting cost increases identified between 2009/10 and 2010/11 have been drawn up in consultation with the Heads of Finance and other staff within the Council's Departments. This budget reflects the assumptions set out in section 4.5 above, but excludes costs funded by the Dedicated Schools Grant.

4.6.2 The table below summarises the draft 'standstill' budget for 2010/11

	£000	£000
Base Budget 2009/10		137,539
Add back one-off savings from 2009/10		413
Inflation:		
Pay @ 0%	0	
Prices @ 0% (but bids allowed)	776	
Energy	-500	
Income @ 3.0%	-1,022	
Passenger Transport Authority (4.9%)	585	
Waste Disposal Authority (11.2%)	1,021	860
Staffing costs:		
Increase in employers' pension contribution	595	
Contribution to pay and grading	500	
Non JNC increments	143	1,238
Contribution to contingencies re BSF/PFI		1,000
Revenue effects of Capital Programme		0
Grant Tapers		363
Cost of borrowing	637	
Provision for borrowing costs re. Equal Pay	900	1,537
Other changes		687
Estimated Budget 2010/11		143,637
Formula Grant	-66,139	
Council Tax (assumes 4.49% rise)	-76,247	-142,386
SHORTFALL		1,251
Savings from corporate efficiency reviews		-750
Cashable efficiency savings to the Priority		1,900
Investment Reserve		
TOTAL SAVINGS REQUIRED		2,401

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

4.7 Efficiency savings

4.7.1 From 2008/9 the Council was required to make annual cashable efficiency savings amounting to 3% of the non-schools budget (as adjusted for various items). No specific target has been identified by the Government but an in-house assessment puts the cashable target at £4.0m. However it is worth pointing out that the Council has already exceeded the previous target set for the period 2004 to 2007 by some considerable way and these savings have since been reinvested into front-line services via the Priority Investment Reserve or to mitigate against the possibility of cuts in front-line services.

- 4.7.2 It is therefore proposed that the current stated policy of redirecting cashable efficiency savings into services in line with priorities is continued at similar levels previously identified i.e. £1.9m and that the remainder of savings are left within individual Departmental budgets
- 4.7.3 Members can be assured that the authority's Efficiency Strategy commits us to meeting efficiency targets in the areas of both capital and revenue spending.

4.8 Service Developments/Pressures

- 4.8.1 The budget set out in the table in section 4.6 reflects a standstill, or continuation of service, budget. However it is recognised that there will be additional pressures on service budgets. Details of the recommended approach to identifying, and addressing, priorities and other developments are set out in section 7 of this report.
- 4.8.2 For those pressures which do not receive additional internal funding all Directors have also been asked to prepare Medium Term Financial Strategies within their own cash ceilings showing how spending needs will be matched to anticipated budget allocations over the coming three years, taking account of the Council's priorities.

4.9 Equal Pay

- 4.9.1 The authority is currently appealing against a judgement in the Employment Tribunal relating to equal pay claims. At this point in time, due to negotiations that are taking place and due to the fact that an appeal is pending, it is not possible to quantify accurately the provision that needs to be made towards the cost of meeting equal pay claims. However the strategy of using prudential borrowing to meet the majority of any liability remains and a prudent on-going provision of £0.9m has been made within the budget and the Treasury Management Strategy to provide for this approach.

4.10 Schools' Issues

- 4.10.1 The Dedicated Schools Grant (DSG) is ring-fenced and distributed to local authorities only to be spent on specified areas within the Schools Block.

Schools Block	£ millions	£ millions	Percentage Increase
Total DSG			
2009/10 Final Budget	112.108		
2010/11 Estimated Budget	<u>117.744</u>	5.636	5.0%
Schools Delegated Budgets			
2009/10 Original Budget	100.886		
2010/11 Estimated Budget	<u>103.539</u>	2.653	2.6%
Central Spend			
2009/10 Original Budget	11.909		
2010/11 Estimated Budget	<u>13.636</u>	1.727	14.5%

- 4.10.2 The Estimated 2010/11 DSG published in November 2009 is based on an estimate of pupil numbers. The final DSG will be based on the January 2010 PLASC Return and the Early Years Census, which is scheduled for March 2010. Consequently the final DSG will be available during summer 2010.
- 4.10.3 Throughout Authorities in England the baseline increase in Amount per Pupil is 4.4%, including further allocations being made for Personalised Learning and SEN. The **£117.744m** is the largest ever annual revenue budget that Bury has had for its schools and associated expenditure.
- 4.10.4 These figures do not include devolved Standards Fund grants or the Schools Standards Grant, which will increase by the Minimum Funding Guarantee of 2.1% to nearly £15 million for these two grants. Consequently the total budget that will be available to be spent by schools is approximately £132 million.
- 4.10.5 The Schools Forum at its meeting on 19 January 2010 agreed to recommend to Council that there should be no changes to the schools funding formula.
- 4.10.6 There were a number of increases in the "Central Spend" elements, which means that the total budget will increase at a faster rate in 2010/11 than the increase in schools' delegated budgets. This 'breaches' the Central Expenditure Limit calculation and requires the sanction of the Schools Forum. This was formally agreed at their meeting on 19 January 2010.
- 4.10.7 For information, the "Central Spend within the Schools Block" includes Pupil Referral Units, Out-of-borough Placements, Schools Catering (excl High Schools) and fee payments to PVI providers (under 5's). Supply cover for long-term absences, such as Maternity leave, are also included within the Central Spend.

4.11 International Financial Reporting Standards (IFRS)

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

5.0 THE COUNCIL TAX 2010/11

- 5.1 Acting under delegated powers, the Director of Finance and E-Government has calculated the amount of 59887.66 (Band D equivalent) as the Council Tax base for the year 2009/10 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This represents a 98% in-year collection rate, in line with previous years.

5.2 The Band D Council Tax for the current year, 2009/10, was set as follows:

	£	£	% change on 2008/09
Bury MBC		1,218.45	+4.8
GM Police Authority	134.26		+7.5
GM Fire and Rescue Authority	51.37		+3.4
		185.63	
TOTAL		1,404.08	+4.9

5.3 Members are reminded that the Council decided to levy a lower Council Tax in the case in households where the Council Tax payer was aged 65 or over and not in receipt of benefit. For these households the Bury Band D tax was £1,160.09, some 4.8% less than the main declared tax rate. Throughout the budget strategy it has been assumed that this discount will continue, funded via the on-going provision made from the Priority Investment Reserve allocation.

5.4 The initial budget strategy for 2010/11 made the assumption that the Bury element of the Council Tax would rise by 4.49%, reflecting the seriousness of the budget situation following the poor Formula Grant Settlement and also noting comments made at that time by the Local Government Minister around Council Tax capping. Members' attention is also directed to the comments in paragraph 2.2 relating to the loss of income resulting from an optimistic assumption by the Government of the increase in the Council Tax base.

5.5 In order to calculate the overall rise in the tax rate it is also necessary to factor in the potential increases in the Police and Fire precepts. For 2010/11 the Band D precept rates have been assumed to be as shown in the table below although these have yet to be ratified by the respective authorities and may change:

	Increase %	New Precept (Band D)
GM Police Authority	7.50	£144.33
GM Fire and Rescue Authority	2.50	£52.65

5.6 A 4.49% increase in the Bury element of the tax would take the Bury Band D element of the Council Tax (the only part that the Council can directly influence) to **£1,273.16**, a rise of **£54.71** or **£1.05** per week.

5.7 It is important to stress that the 4.49% rise in the Bury element has been used for illustrative purposes only. Each 1% change in the Bury rate would change the level of income available to meet the budget by £730,000.

5.8 In considering the level of the Council Tax Members must be mindful of the fiduciary duty of the Council to the Council Tax payers of the borough and the need to consider the consequences to Council Tax payers of the level of expenditure set within the budget.

5.9 Capping

- 5.9.1 Members are advised to consider carefully the increase in the headline tax rate in the light of the possible capping criteria.
- 5.9.2 The Government has announced that keeping Council Tax under control is a top priority and it will not hesitate to use its capping powers again to protect taxpayers from excessive increases, and could also result in rebilling in year.
- 5.9.3 The Government has said that it was pleased that the average Band D Council Tax increase was 3% this year and expects next year's (2010/11) to fall even further. It is expected that the new average Band D Council tax increase will fall to a 16 year low.
- 5.9.4 Whilst Ministers have signalled they will use capping powers and urged restraint, there are again no preset capping criteria. Capping is usually based on a combination of a budget increase and a Council Tax increase figure and in 2009/10 the limits were a 4% budget increase and a 5% council tax rise. The Council's current plans are based on a budget increase of 3.5% and a Council Tax rise of 4.49%.

6.0 OPTIONS FOR BALANCING THE BUDGET

- 6.1 In determining a strategy for balancing the budget Members are reminded of the Golden Rules set out in section 4.3 above and they are reminded that for 2010/11 the intention was to have a sustainable budget that placed no reliance on one-off savings options.
- 6.2 The policy direction towards the identification of savings options is set out in paragraph 4.4.3 above and in addition the Financial Strategy recognises that having a priority-led approach to the budget implies the need to disinvest in non-priority areas. Generally, we will move away from doing things ourselves when alternatives are more cost-efficient or services can be provided more effectively through partnership working, cross-border joint provision (e.g. AGMA collaboration/the Bolton alliance) or outsourcing.
- 6.3 In anticipation of the budget position Departments were set savings targets totaling **£2.5m** as shown in the following table. These were initially allocated out to each of the main service areas broadly on the basis of net budget. The value of savings options identified is also shown in the table and details of individual options are provided at Appendix C.

	Savings Target £m	Value of options £m
Adult Care Services	0.750	0.750
Chief Executive's	0.250	0.250
Children's Services	0.750	0.750
Env. & Development Services	0.750	0.750
TOTAL	2.500	2.500

- 6.4 Members are asked to note that the proposed 2010/11 budget makes no reliance on corporate one-off savings options. This is a considerable achievement given the authority's very difficult financial circumstances and one that the Council should be very proud of. Very few authorities can claim to have achieved this.
- 6.5 It is recognised that the value of the on-going options is very close to the amount required to balance the budget and Members must be aware that if any options are rejected then other savings of a comparative value will be required or an equivalent sum should be allocated from the PIR.
- 6.6 All options have been assessed against the Council's priorities and wherever possible savings have been structured so that they lead to efficiency savings rather than service reductions and so that the impact on priority areas is minimised.
- 6.7 Given the potential scale of saving required in future years as a result of the magnitude of national public debt it will be necessary for the Council to take a radical approach to balancing the budget in future years. This is discussed in more detail in section 10.

7.0 PRIORITY-LED APPROACH TO RESOURCE ALLOCATION

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

Local intelligence

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

Partnership Working

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

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

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

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

- Uncertainties around the shape of the 2010 Comprehensive Spending Review/emergency budget
- The direct impact of the economic downturn
- Cuts in public spending as a result of action taken nationally to reduce the national budget deficit
- Changing circumstances not being reflected in the current 3-Year Formula Grant Settlement
- Increased focus on child care resulting from the Baby P case
- Increased focus on safeguarding for vulnerable adults
- Proposals for (free) Personal Care at Home, currently passing through Parliament
- The transfer of commissioning responsibility for Learning Disability services from NHS Bury to Adult Care Services (likely value of some £4 million)
- Other legislative demands
- Other ongoing risks identified as part of the risk assessment process

7.3 Other factors arise from demographic issues or local actions:

- Demographic trends e.g. the aging profile of our population
- Increasing waste disposal costs
- Increasing ITA levy
- Increased demands for safeguarding services (children and adults)
- Preparation costs for Building Schools for the Future
- Street lighting options
- Lost revenue due to the recession (mainly EDS)
- Equal pay costs (latest projection of settlement to be reported at the meeting)
- Pension contributions
- On-going service deficits

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

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

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

- Reallocation of existing resources – this may include a change in service direction, a refocusing of management attention and/or a reallocation of revenue and capital budgets
- Utilising LAA pump-priming grant to support LAA/Team Bury reward element priorities and
- Allocating resources from the Priority Investment Reserve/applying available discretionary capital resources

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

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

Ambition	Activity to be Funded
The Place to Live in Gtr Manchester	<ul style="list-style-type: none"> • Improve community cohesion and engagement and developing local communities. • Reduce social exclusion. • Manage environmental assets, enhance environmental quality and address climate change. • Improve housing. • Improve the outcomes for looked after children and care leavers.
An Area Where People Feel Safe and Secure	<ul style="list-style-type: none"> • Reduce crime. • Reduce the fear of crime. • Reduce harm caused by illegal drugs. • Build respect in communities and reduce anti-social behaviour. • Improve domestic fire safety and reducing arson.
The Healthiest Borough in the N West	<ul style="list-style-type: none"> • Reduce teenage pregnancies and improve access to sexual health services. • Reduce alcohol misuse and improve sensible drinking. • Reduce health inequalities. • Support people with mental health problems. • Support people with disabilities. • Enhance children and young people’s emotional wellbeing. • Safeguard children and young people through improved assessment, intervention and focus on prevention. • Improve safeguarding adults coverage and use of policy.
A Popular Visitor Destination	<ul style="list-style-type: none"> • Increase and improve the range of cultural opportunities in the borough.
The Premier Retail Town in the North of Gtr Manchester	<ul style="list-style-type: none"> • Increase the number of visitors to Bury town centre.

A Centre of Excellence for Education and Training in the North West	<ul style="list-style-type: none"> • Improve early years education in all settings. • Continue the transformation of secondary education in order to impact on outcomes for young people and reduce the number of young people who are not in education, employment or training. • Develop a skilled community that meets the needs of expanding work sectors in Bury.
A Place Where each Township Thrives	<ul style="list-style-type: none"> • Reducing the number of children and households living in poverty.
An Area With First Class Services	<ul style="list-style-type: none"> • Locality differentiation of service access/delivery.
Quality Jobs for Bury People	<ul style="list-style-type: none"> • Reduce worklessness throughout the borough, targeting priority neighbourhoods and groups. • Develop knowledge intensive businesses.

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

7.9 The 2009 Strategic Planning process identified the following items as being specific areas that Team Bury partners and the Council would focus activity on:

- Reducing Inequalities – with a particular focus on:
 - Alcohol
 - Poverty
- Further promoting Community Engagement and Development (including a review of the Council’s overview and scrutiny function)
- Promoting Bury – the Place
- Maximising and aligning shared resources across the Team Bury partnership

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

7.11 Recommendations for funding from the PIR will be made to Council on 24 February 2010.

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

8.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES

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

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

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

8.3 Corporate risks

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

8.3.2 The table below sets out the main risks facing the Council, highlights the key actions that are in hand to mitigate the risks and assesses the impact on the budget and level of reserves (cross references are made to the table in paragraph 9.5):

Risk	Rank	Mitigation Action	Impact on Budget
Budget is unsustainable and inadequate to support the achievement of the Council’s priorities and ambitions	M	Golden Rules to be adopted, priority-led budgeting process to be further developed through the Service Assessment Framework, budget monitoring processes to be strengthened by adopting risk based approach.	Adequate provision must be made in balances to meet unforeseen expenditure, budget must reduce reliance on one-off options, budget must make provision for unavoidable pressures
Working practices not revised to take advantage of efficiencies offered by new modernised ICT systems	L	New business systems being implemented, business processes being re-engineered, ICT Strategy been refreshed.	Provision has been made within the Transformation Reserve and Capital Programme to meet capital and implementation costs.

Arrangements for workforce development do not support the provision of a 'fit for purpose' workforce	M	Workforce Development Plan to be implemented	No specific provision made in budget for implementing plan but expected that most implications will be on time and management focus rather than cash costs.
Preparations and performance under new CAA regime not adequate	M	Performance has been prioritised in line with corporate priorities, key PIs, etc. Monitoring process aligned to financial monitoring. Corrective action to be taken as needs identified through monitoring	Resources may need to be redirected if corrective action is required in specific areas. No specific provision needs to be made in the budget given the current direction of travel
Uncontrollable demands for social care out-strip the available resources and capacity, particularly in the area of Adult Care Services	H	Performance prioritised and closely monitored, structure being reviewed along with budget apportionments and methods of service provision. Partnership opportunities being identified and explored; access criteria being reviewed together with procurement strategies. KPMG have reviewed budget and operational arrangements.	Budget provision has been made to address on-going service pressures and further provision will be made within balances to cover unfunded demand (see Unpredictable and Demand Led expenditure cushion).
Disaster management policies, practices and manuals are ineffective	L	Emergency Plan and emergency planning arrangements are being reviewed. Business Continuity Plan	Provision will be made within balances to meet unforeseen event (see Emergency Expenditure cushion)

		being developed, tested and communicated	
Absenteeism levels are unacceptably high and lead to increased costs and/or reductions in performance and/or unacceptable demands on other employees	M	Sickness absence being reduced through effective management action	No provision required at this stage due to improved performance
Partnerships fail to operate effectively and/or governance arrangements are inadequate	L	Partnership arrangements being reviewed, Code of Corporate Governance being reviewed. Partnerships being set clear, agreed outcomes, targets and priorities	No provision required at this stage due to low risk and action that is being taken
Inadequate budgetary provision exists to address the level of backlog maintenance identified in the 2008 - 2011 Asset Management Plan	M	Maintenance needs have been identified, assessed and prioritised and a bid for capital resources has been made. Other actions are being considered, including reallocating existing revenue resources and rationalising the current asset base.	An annual provision of £0.6m has been included within the Capital Programme shown at Appendix B to this report.
The existing provision for Travellers is inadequate	M	Alternative sites for the location of the Travellers' site are being sought.	No provision required at this stage; discussions for external support are on-going.
The financial and HR implications of the Single Status agreement have an adverse impact on the Council's budget and performance	H	A thorough job evaluation and pay-to-points project has been undertaken and a revised pay-line has been implemented.	PIR allocation made in 2008/09. Expected costs arising from one-off and on-going costs have been built into the budget, partly funded from savings

			on other terms and conditions
The deteriorating financial climate will impact adversely on the Council's financial well-being and will lead to increased demand for key services	L	A team has been established to lead the Council's response to the recession. Service managers are monitoring demands and performance. Investment returns clearly reduced.	Services have begun to make savings in non-priority areas to help off-set financial implications from increased demand and reduced income. A contribution from the PIR was approved in 2009/10.

8.3.3 A Member-level Corporate Risk Management Group has been established to monitor the risks set out in the table and to assess the effectiveness of the mitigation action that has been identified. Provision has been made in the draft Budget to address the risks set out in the table, or allowance has been made within balances to cover possible events that are out with of the Council's control.

8.4 Risk implicit in specific areas of the budget

8.4.1 As far as income to the Council is concerned there are a number of key sources including Formula Grant, Area Based Grant, ring-fenced grants, Council tax and fees and charges. In respect of Formula Grant, the income stream is known and guaranteed for the coming year although there is no indication of resources for 2011/12 and future years. It is clear that there are going to be severe reductions in public spending over the course of the next two Parliaments and it is essential that the Council acts to prepare for the implications on public spending cuts on local government. This is addressed in more detail in section 10.

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

8.4.3 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2010/11 has been retained at 98% which is realistic, based on past, current and projected performance. It also compares favourably with other metropolitan authorities.

8.4.4 One concern is that the Government has said it will cap authorities whose increase in Council Tax is deemed to be excessive. More details are given in paragraph 5.9.

8.4.5 Fees and charges (excluding Council House rents) are budgeted to raise some £36m of income in 2010/11 from almost a thousand sources. Of all the income sources this is the area where there is greatest risk of under achievement. To assess the risk it is necessary to understand how relevant income budgets are constructed, fee levels determined, how the charges are made, income collected and recovery procedures applied.

- 8.4.6 Although the budget, through the operation of the cash ceiling scheme, makes a universal assumption that income generated from fees and charges will increase by 3% compared to the previous income budget, the increase in actual fee charging levels, is more responsive and policy-led. As a result, depending on the current income being achieved, market conditions and the particular activity, fees can be increased by more or less than 3%.
- 8.4.7 This means that individual service managers, who understand their part of the business best, are able to advise Members in respect of charging regimes and, once the fees and charges are agreed, are accountable for their efficient collection. Any under achievement of an income budget has to be managed by the service in question through the operation of the cash ceiling scheme. This may mean reducing spending in related areas or even in other unrelated areas. All overspends at the end of a financial year are a first call on the following year unless agreed otherwise by the Executive.
- 8.4.8 It is clear from monitoring that has taken place during 2009/10 that the difficult economic climate has had a downward effect on various charging streams such as car park fees, planning charges etc. It is important that this is considered by Members and Directors when the budget is set. The provision within the minimum level of balances calculation has increased significantly to reflect this risk.
- 8.4.9 In terms of expenditure budgets the single largest area of expenditure is on staff pay. The 2009/10 pay award has been settled, at a level below that provided for in the budget for that year, and so there is no on-going risk associated with this award. For future years the Chancellor has indicated that with effect from 2011/12 public sector pay will not rise by more than 1% per year. The draft budget for 2010/11 makes no provision for a pay award reflecting the view of the vast majority of Councils that a pay rise is unaffordable. As yet the employees' side has not responded to this proposal and it is likely that further negotiations will take place. In view of the risk levels in this area the minimum level of balances contains provision equivalent to a 0.5% rise in pay. However, to fund an award from this source would be a breach of the Golden Rules and would require an equivalent, on-going, provision to be made in the budget for 2011/12, in addition to any assumed rise for that year.
- 8.4.10 An allowance has been built into the budget to cover the one-off and on-going cost of the pay and grading review based on detailed pay modelling of the results. In view of this it is felt that the risk inherent in this element of the budget is low.
- 8.4.11 Further changes will be implemented during 2010/11 in respect of 'Part 3' terms and conditions and the budget only reflects the impact of changes that are not subject to protection.
- 8.4.12 The approach taken towards equal pay is set out in section 4.9 and it is felt that the strategy has minimised the potential impact on, and risk for, the Council's finances.
- 8.4.13 Staff accounts for a majority the Council's expenditure budget and the next significant areas of budget, in descending order of significance are:
- Supplies, services transport and contract payments

- Housing and Council Tax benefits
- Debt charges
- Levies (ITA/Waste/Environment Agency)

- 8.4.14 Supplies and services etc. account for 33% of the gross budget and the majority of this is subject to contractual provision. These contracts provide for food, oil, building and highway materials, IT equipment, stationery and external residential accommodation for children, the elderly and people with learning disabilities. The draft budget assumes a cash freeze on the individual budgets for such items although Directors have been encouraged to bid for support to meet inflationary costs where it is unavoidable or where it impacts on business-critical services.
- 8.4.15 The Council pays out around £30m in Housing and Council Tax benefits and over recent years expenditure has been at a reasonably consistent and predictable level. The current economic climate has led to an increase in claimant numbers and it is accepted that unemployment is likely to rise during the coming financial year. This has been factored in to the draft budget and is therefore not considered to be a significant risk at this stage.
- 8.4.16 The Council exercises sound Treasury Management practices and has a reasonable volatility ratio. Interest rate predictions are up-dated regularly and action taken to mitigate any negative effects, wherever possible. The present downward trend in interest rates was anticipated and both investments and borrowing have been locked-in long-term (as far as prudence allows) at optimal market rates, so minimising risk.
- 8.4.17 For levies the budget has been set at the level recommended to the external bodies by AGMA or as notified.
- 8.4.18 In the paragraphs above 99% of total expenditure has been covered. Of the remainder the areas of greatest risk in the budget are those that are subject to demand fluctuations.
- 8.4.19 Although the Council's financial procedure rules require that no expenditure is incurred without the identification of a budget there are some budgets where variable demand and cost make it extremely difficult for Services to manage within the resources that have been voted. Such budgets include independent special school fees, learning support service, home care and the external placement of children.
- 8.4.20 The approach to managing the issues faced by the Children's Services and Adult Care Services budget has been changed in recent years with the relevant Star Chambers focussing on the current budgetary position and strategy, with the Project Boards concentrating on future developments that are aimed at reducing costs, managing risks and restructuring services and care packages. Managers are continuing to ensure that proper contractual arrangements are in place and that there is a full understanding of causes and the trends. Systems are being reviewed and replaced and training has been provided to non-financial managers within both service areas.

8.4.21 However it is clear that pressures in these areas are unlikely to diminish due to increasing demands arising from an aging population, from increasing client expectations and from transitional cases from Children's Services. Within the ACS service area a Project Board is examining the budget and the options available to maintain spend within available resources. The 2009/10 budget made provision for £2.1m of new resources towards services for people with Learning and/or Physical disabilities and this has helped to put these budgets on a more stable footing. 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.

8.4.22 A report was also commissioned from the Council's external auditors, KPMG, which examined ACS financial management. The report concluded that *"On the basis of the evidence reviewed, whilst there are clear areas where the Council/Directorate can improve, it appears the steps taken were reasonable to deal with the pressures faced. The Adult Care Services Directorate, based on a high level review, seems to have or is implementing the efficiency/transformation activity that would be expected taking into consideration the current agenda facing adult social care"*. The report made several helpful recommendations, all of which have been accepted and implemented by the Department.

8.5 Risks inherent in the budget strategy

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

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

8.5.2 Given the robust nature of the budget strategy, in allowing for on-going demand pressures, and the strength of the budget monitoring process these risks are felt to be at a medium level for 2010/11. However it is important that even this level of risk is mitigated and provision has therefore been made within balances to cover these items.

8.5.3 Having said this, it must be stressed that the risk factor worsens significantly in future years and it is imperative that this future risk level is considered by Members when they address the 2010/11 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 8 December 2009, and no major changes have been identified.

8.7 Conclusion

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

"There can be no guarantee that expenditure will be contained within each and every budget. The nature of the Council's business means that varying demands will be faced during the year and under and over achievement will occur. However, the aim should be that the budget in total is sustainable and, subject to recessionary pressures/impacts being adequately assessed and resourced, then indications suggest that this is the case. Estimates have been based on the best and latest information available and provision has been made within the minimum balances to meet unforeseen eventualities (see section 9 of this report). However the likely future cuts in public spending are a major concern and this should be recognised in the approach adopted to the budget.

Close monitoring of the budget, together with responsive management action, will be necessary to ensure that income and expenditure remain within budget. However significant improvements have been seen in monitoring processes, particularly in terms of the speed and quality of information from the introduction of the Procure to Pay module within the Agresso system.

Service pressures have been identified by Directors and it will be necessary to evidence action that has been taken to mitigate any pressures that have not been funded. It will also be necessary to continue with the sound approach to risk management that the Council has adopted.

Finally, experience of past years has highlighted that a number of budgets face considerable pressure, particularly services for people with physical and learning Disabilities, out-of-borough placements for children, leisure services, adult education and various income budgets. It is essential that Members support the work of the Project Boards and Star Chambers that are referred to elsewhere in this report and that Members and management continue to implement the measures that have so far been identified.

In the light of the risk assessment, the details of the budget as set out in this report, the strength of the Council's Internal Control framework and the risk based provision made in the minimum level of General Fund balances then I (as the Director of Finance and E-Government) can state that **the budget for 2010/11 is robust**. This statement is in compliance with s25 of the Local Government Act 2003."

9.0 ADEQUACY OF RESERVES

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

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

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

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

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

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

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

	Risk	£000
Pay inflation Cushion: Pay awards have been set for 2009/10 and so there is no uncertainty about the extent to which the budget provision will meet the actual costs. The 0% assumption made in respect of the 2010/11 award is felt to be prudent in light of the Employers' offer but in order to mitigate risk an allowance equivalent to 0.5% should be retained in balances.	H	500
Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been set, this contingency assumes a 2.0% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.	M	600
Interest Cushion: Given the fact that the cost of borrowing budget reflects a baseline position in respect of interest rates and that borrowing will be locked in then risk in this area is felt to be on the up-side especially with short-term rates at an historic low.	M	100
Uncertainty of Income Cushion: Adequate provisions are made for bad debts, however, in	H	500

the past some income budgets have not been achieved and therefore it is prudent to provide a contingency for all non grant income.		
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	1,500
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	250
There are particular risks around the fact that no contribution has been made to provisions and so allowance must be made for unforeseen contingencies	M	100
Emergency Expenditure Cushion: Provision must be made for the cost of emergencies that by their very nature cannot be predicted and for any uninsured losses. The Government's "Bellwin Scheme" partially protects authorities from catastrophic costs of some emergencies, but costs up to the threshold of the Bellwin Scheme will still need to be covered by reserves:		
The Government will pay 85% of any disaster costs above the threshold. This contingency provides for the Council's contribution, assuming a major disaster costing £3.0m.	L	400
Contingency for smaller emergencies e.g. highway collapse.	L	400
TOTAL		4,350

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

	Risk Level	Likelihood	Provision £000	Max. Impact £000
Pay inflation cushion	H	100%	500	500
Non-pay inflation cushion	M	80%	600	480
Interest cushion	M	80%	100	80
Uncertainty of income	H	100%	500	500
Demand led expenditure cushion	H	100%	1,500	1,500
Budget strategy cushion – savings	M	80%	250	200

Budget strategy cushion – provisions	M	80%	100	80
Emergency expenditure cushion	L	60%	800	480
			4,350	3,820

9.7 This would set the minimum balance requirement for 2010/11 at **£3.820m**. The calculation made under the Golden Rules would lead to a minimum level of balances of £3.560m and it is recommended that Members agree to set the minimum level of balances at the higher level of **£3.800m** (rounded), this being an increase of £0.1m on the level agreed for the 2009/10 budget

9.8 The forecast position on the General Fund balance at 31st March 2010 is shown in the following table:

	£m
General Fund Balance 31 March 2009 per Accounts	6.755
Less: Amount used to fund 2008/09 pay award	-0.879
Re-forecast of balances at 1 April 2009	5.876
Less : Minimum balances to be retained in 2010/11	-3.800
Less: Potential revenue shortfall	-0.949
Available balances at 1 April 2010	1.127

9.9 Members are reminded that whilst reserves above the minimum level can be released to support expenditure or reduce taxation they can only be used once. Reserves are most effective when used to support one-off items of expenditure; they should not be used to support on-going expenditure levels and if they are, then Members are strongly advised to consider the implications for future years' budgets.

9.10 Of course Members are also reminded that there is an opportunity cost to maintaining balances. Whilst on the one hand the money retained will be available for investment (and at £3.8m, the balances will earn £61,000 in 2010/11 as part of the overall Treasury Management strategy), this is money tied up that could otherwise be invested into services or reducing the Council Tax (every £1m in balances equates to 1.3% off the necessary increase in Council Tax, on a one-off basis). However, utilising balances in this way would be contrary to the Golden Rules.

9.11 Finally, in terms of the authority's financial standing it is worth remembering that the General Fund balance is not the only available reserve. The Transformation Reserve, whilst rightly held for the purpose of modernizing the authority's ICT infrastructure, is available should circumstances dictate and all or any part of the uncommitted balance can be transferred into the General Fund by a resolution of Council. The forecast balance on the Reserve at 31 March 2010 is **£3.3m**.

10.0 OUTLOOK FOR FUTURE YEARS

- 10.1 The global financial crisis and resulting economic downturn have made reductions in UK public spending inevitable. Leaders of all of the major political parties have acknowledged that cuts are unavoidable and as a consequence it is clear that the forthcoming General Election will be fought in large part on the question of how reductions should be achieved and where they should fall.
- 10.2 The crisis means that the economy and the value of assets, financial and other, will be significantly and **permanently** smaller in cash terms than forecast by the Treasury. This will **permanently** reduce tax receipts and increase public spending as shares of national income, increasing the amount the UK has to borrow, **even after the economy has fully recovered**. Leaving this permanent increase in borrowing unaddressed would see debt explode to unsustainable levels.
- 10.3 It is important to realise that extra borrowing during the recession to fund bank bailouts and the fiscal stimulus package make no significant difference to the debt path or to the required tightening.
- 10.4 The Government has announced in the Queen's Speech that it intends to introduce a Fiscal Responsibility Bill that will provide a "firm and binding statutory basis" for the government's promise to halve its budget deficit within four years. The Bill will also give Parliament power to approve medium-term fiscal plans and it promises that businesses and investors will have "certainty" about the government's fiscal plans.
- 10.5 A number of potential scenarios flow from the above analysis and this makes forecasting particularly difficult so in the absence of 'official' plans is useful for now to examine scenarios suggested by the Institute of Fiscal Studies (IFS) and by a joint exercise undertaken between CIPFA and SOLACE (the Chief Executive's Association).
- 10.6 Over the life of CSR07 departmental spending has seen real growth of 2.7% per annum. IFS suggest that over the life of CSR10 there could be 2.9% real **cuts** in departmental spending. This would worsen to 4.9% if a Conservative government protected health and overseas aid as promised.
- 10.7 This latter scenario could mean:
- Department of Children, Schools and Families cut by 2.2% pa
 - CLG Communities cut by 5.6% pa
 - CLG Local Government cut by 2.1% pa
- 10.8 After CSR10 i.e. post 2014 then Treasury has identified fiscal tightening of 3.2% of national income, equivalent to £45bn over the coming four years. This would indicate a combination of tax increases and spending cuts.

10.9 CIPFA/SOLACE have identified two scenarios which can be summarised as follows:

Scenario A — a 7½% (real terms) cut in current public spending over the next three year spending round, 2011-14 (with the likelihood of cuts of a similar scale in the following spending round, 2014-17, as well).

Scenario B — a 15% (real terms) cut in current public spending over the next three year spending round, 2011-14 (with the possibility of further, probably less severe, cuts in the following spending round, 2014-17).

10.10 The headline figures of the two scenarios — 7½% and 15% cuts over three years — are potentially deceptive. In both cases Government are likely to try to protect or even grow some priority services. Proposals are likely to vary from manifesto to manifesto. Recent press reports suggest that some of the most likely candidates for protection include the NHS, schools, international development and 'front-line services'. Small activities with modest budgets may be protected with relatively little impact upon the bigger financial equation. In contrast, the price of protecting major budgets such as the NHS or schools will be a need to deliver deeper cuts in 'unprotected services'. It is difficult to envisage any scenario in which all 'front-line services' can be protected from spending cuts.

10.11 Trade-offs between protected and unprotected services will play out at the local as well as the national level. In effect this creates two levels of prioritisation and two levels of uncertainty. For example, funding which local authorities receive from Government may reduce by more or less than the 7½%/15% norm depending upon whether or not local government services are prioritised by Government. Local councils will then allocate those resources to individual service areas reflecting their own local view of priorities. They may, for example, wish to protect children's services or economic development activities. At each of the two decision points the range of possible outcomes for individual services will be expanded and the challenges facing unprotected services will become more daunting.

10.12 The effect of these two levels of prioritisation is illustrated in Table 1 below:

	Scenario A	Scenario B
Aggregate level of cuts over 3 years.	-7.5%	-15%
Annualised aggregate level of cuts.	-2.5%	-5%
Likely range of growth/cuts for individual services/sub sectors following national decisions about priorities (annualised).	0 to -5%	0 to -7.5%
Likely range of growth/cuts for individual services following local decisions about priorities (annualised).	0 to -7.5%	0 to -10%

10.13 Each, and any, of the scenarios is subject to changes in assumptions and so there are a number of risks which may arise:

- The recession may be longer and deeper than currently predicted.
- Recovery may be slower than currently predicted.
- Cuts in public spending may themselves have a damaging impact on recovery especially in areas where public expenditure represents a relatively higher proportion of local economic activity.
- Interest rates may rise adding significantly to the cost of funding Government debt.
- Post the General Election, Government may take the view that the greater part of the pain of rebalancing the public finances should be taken sooner rather than later. Instead of planning a relatively constant level of cuts over seven or eight years – the so-called ‘two Parliaments of Pain’ – Government may consciously plan for deeper cuts within the lifespan of a single Parliament.

10.14 A number of options will exist in order to address the agreed budget deficit. At a national/local level these can be summarised as being:

Option 1: Renegotiating the contract between the State and the Individual

Option 2: A significant de-layering of the public sector with many more decisions taken locally with minimal oversight

Option 3: A major initiative to maximise economies by much more effective collaboration between public bodies

10.15 In order to identify the right solution (s) for Bury it will be necessary to have a vision of the future role, function and form of the Council. The Management Board is drafting a ‘Fit for the Future’ action plan that will begin to address this vision (in line with the work that has begun following the Chester event).

10.16 In financial terms the revenue budget for the forthcoming three years has been examined and three scenarios have been adopted for the potential impact of public spending cuts on Formula Grant:

- Best case Cash standstill
- Worst case 10% cash reduction
- Assumed case 2.5% cash reduction

10.17 Working on the assumption of 1% pay rises in 2011/12 and onwards, no provision for general inflation and with Council Tax increases of 4.49% in each year then projected budget shortfalls for each of the three scenarios are shown in the table below:

	2011/12 £m	2012/13 £m	2013/14 £m
Best case	4	3	3
Worst case	12	11	11
Assumed case	6	5	5

10.18 It is imperative that Members and officers make an early start to identify the approach that they intend to adopt towards the achievement of these savings

10.19 The Financial Strategy, covering the coming 3 years, will continue to be refined, making more explicit links to other Council strategies and plans and making stronger links to the authority's risk management framework. The authority's priority-led approach to resource allocation will continue to be strengthened, involving a process for prioritising services and linking future resource allocation to community, corporate and service policies and priorities. This work will be heavily influenced by the authority's Service Assessment Framework.

10.20 Once the 2010/11 budget has been finalised the savings targets for the coming three years will be up-dated and Directors will be asked to prepare a medium-term savings plan aimed at meeting the revised targets.

10.21 It is intended that the results of all of this work will be presented to Members at the Forward Planning Event in July 2010.

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

COUNCILLOR IAIN GARTSIDE

EXECUTIVE MEMBER FOR RESOURCE

For further information on the contents of this report, please contact:

Mike Owen, Director of Finance and E-Government

Tel: 0161 253 5002

e-mail: M.A.Owen@bury.gov.uk

GLOSSARY OF TERMS

Area Based Grant

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

Budget requirement

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

Business rates

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

Capping

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

Council Tax

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

Council Tax base

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

Council Tax bands

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

Council Tax discounts and exemptions

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

Formula Grant

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

The Local Government Finance Settlement

The Local Government Finance Settlement is the annual determination of formula grant distribution as made by the Government and debated by Parliament. It includes:

- the totals of formula grant;
- how that grant will be distributed between local authorities; and
- the support given to certain other local government bodies.

Net Revenue Expenditure (NRE)

This represents an authority's budget requirement and use of reserves.

Non-Domestic Rates

See business rates.

Reserves

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

Revenue Expenditure

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

Revenue Support Grant (RSG)

The cash amount that the Government pays towards the general cost of Council services. The RSG is used to offset our general costs and this keeps down the level of the Council Tax.

Ring-fenced grant

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

Specific Grants

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

Targeted grant

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