

# Public Document Pack

## AGENDA FOR

## CABINET

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### **To: All Members of Cabinet**

**Councillors** : M C Connolly (Leader) (Chair), J Smith (Cabinet Member for Finance and Corporate Affairs), G Campbell (Cabinet Member for Children and Families), T Isherwood (Cabinet Member for Environment), J Lewis (Cabinet Member for Leisure, Tourism and Culture), R Shori (Cabinet Member for Adult Care, Health and Housing), S Walmsley (Cabinet Member for Communities and Community Safety), T Pickstone (Non portfolio holder) and I Gartside (Non portfolio holder)

Dear Member/Colleague

### **Cabinet**

You are invited to attend a meeting of the Cabinet which will be held as follows:-

<b>Date:</b>	Wednesday, 19 February 2014
<b>Place:</b>	Meeting Rooms A and B, Town Hall, Knowsley Street, Bury, BL9 0SW
<b>Time:</b>	5.30 pm
<b>Briefing Facilities:</b>	If Opposition Members and Co-opted Members require briefing on any particular item on the Agenda, the appropriate Director/Senior Officer originating the related report should be contacted.
<b>Notes:</b>	

## **AGENDA**

### **1 APOLOGIES FOR ABSENCE**

### **2 DECLARATIONS OF INTEREST**

Members of Cabinet are asked to consider whether they have an interest in any of the matters of the Agenda, and if so, to formally declare that interest.

### **3 PUBLIC QUESTION TIME**

Questions are invited from members of the public present at the meeting about the work of the Council and the Council's services.

Approximately 30 minutes will be set aside for Public Question Time, if required.

### **4 MINUTES** *(Pages 1 - 4)*

To approve as a correct record the Minutes of the meeting held on 5 February 2014.

### **5 CORPORATE FINANCIAL MONITORING REPORT - MONTH 9** *(Pages 5 - 36)*

A copy of the report will be circulated separately to all members of the Council.

### **6 DRAFT REVENUE BUDGET 2014-2015** *(Pages 37 - 108)*

A copy of the report will be circulated separately to all members of the Council.

### **7 HOUSING REVENUE ACCOUNT 2014-2015** *(Pages 109 - 130)*

A copy of the report will be circulated separately to all members of the Council.

### **8 TREASURY MANAGEMENT STRATEGY 2014-2015** *(Pages 131 - 158)*

A copy of the report will be circulated separately to all members of the Council.

### **9 URGENT BUSINESS**

Any other business which by reason of special circumstances the Chair agrees may be considered as a matter of urgency.

**Minutes of:** THE CABINET

**Date of Meeting:** 5 February 2014

**Present:** Councillor M Connolly (in the Chair)  
Councillors G Campbell, A Isherwood, J Lewis,  
T Pickstone, R Shori, J Smith and S Walmsley

**Apologies:** Councillor I Gartside

**Public attendance:** 2 members of the public were in attendance.

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**CA.01 DECLARATIONS OF INTEREST**

Councillor Connolly declared a personal interest in any matters relating to the fact that his partner is employed by Adult Care Services.

**CA.02 MAYORALTY 2014/2015**

Councillor Connolly announced that Councillor Michelle Wiseman would be proposed as the Mayor of Bury for 2014-2015.

**Recommendation to Council:**

That Councillor Michelle Wiseman be proposed as Mayor of Bury for 2014-2015.

**CA.03 MINUTES**

**Delegated decision:**

That the minutes of the meeting held on 18 December 2013 be approved and signed by the Chair as a correct record.

**CA.04 PUBLIC QUESTION TIME**

A period of thirty minutes was allocated for members of the public present at the meeting to ask questions about the work or performance of the Council or Council services.

**Topic:** Tree Removal

**Question:** Could the Council take action to remove an overgrown tree adjacent to 36 Wingate Drive, Whitefield for the reason that its roots had lifted pavement flag stones and the resident's driveway?

**Response:** The details of the resident will be taken by an officer will make contact and arrangements to visit the address.

**Topic:** Potholes

**Question:** In view of the decisions of some local councils to close roads instead of making repairs to the potholes because of the cost, is closing roads something that Bury Council could consider in order to reduce spending on pothole repairs?

Cabinet 5 February 2014

**Response:** The Council is not considering the closure of any roads as a cost saving measure. The use of new technology and materials has greatly improved the level of service the Council provides in repairing potholes.

## **CA.05 LOCAL GOVERNMENT ASSOCIATION PEER CHALLENGE - OUTCOME**

The Leader of the Council submitted a report presenting the findings of the Local Government Association (LGA) Peer Challenge review of the Council's corporate arrangements. The review took place in November 2013. The letter received from the LGA giving feedback and the draft Action Plan produced in order to address the areas of improvement identified in the letter were also submitted.

The review provided the opportunity to get an external view of the Council from qualified and experienced individuals from within local government. The scope of the review focussed on:-

- Understanding of the local context and priority setting;
- Financial planning and viability;
- Political and managerial leadership;
- Governance and decision-making;
- Organisational capacity to deliver your priorities.

The feedback letter received from the LGA team highlighted many positives arising from the exercise. The Council was also provided with suggestions to assist in the preparation for the organisational and financial challenges ahead. These suggestions were addressed in the Action Plan as a list of tasks to be undertaken.

### **Delegated decisions:**

1. That the report and findings in the Local Government Association response letter be received.
2. That approval be given to the Action Plan produced to the suggestions raised by the LGA in its feedback letter.
3. That the tasks listed in the Action Plan be taken forward and progress be reported to Cabinet at regular intervals.

### **Reasons for the decision:**

This decision acknowledges the findings of the external review and puts in place actions to help the Council with the challenges that are likely to be faced post 2015.

### **Other options considered and rejected:**

To reject the findings of the LGA Review Team.

## **CA.06 EXCLUSION OF PUBLIC**

### **Delegated decision:**

Cabinet 5 February 2014

That in accordance with Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following item of business as it involves the likely disclosure of information as detailed in the conditions of category 3.

**CA.07  
E ELMS BANK SPECIAL HIGH SCHOOL PROVISION OF ADDITIONAL  
TEACHING ACCOMMODATION – CAPITAL PROJECT STAGE TWO**

The Cabinet Member for Finance and Corporate Affairs and the Cabinet Member for Children and Families submitted a report setting out in financial terms the details of a project to provide replacement and additional teaching accommodation at Elms Bank Special High School. The scheme is to be funded from 2013/2014, 2014/2015 and 2015/16 Capital Programme and external grant funding.

**Delegated decision:**

That approval be given to the financial details set out in the report submitted.

**Reason for the decision:**

The decision will allow the project to progress.

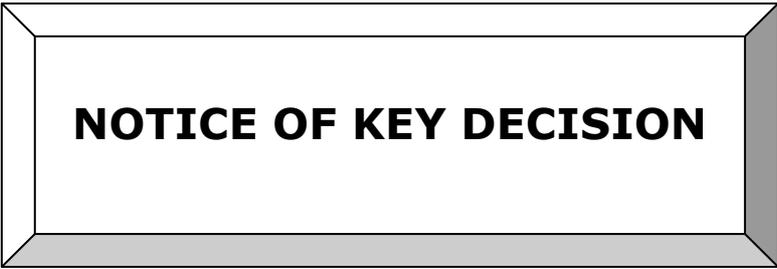
**Other option considered and rejected:**

To reject or amend the recommendation.

**COUNCILLOR M CONNOLLY**  
**Chair**

(Note: The meeting started at 6.00 pm and ended at 6:20 pm)

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**NOTICE OF KEY DECISION**



**MEETING:** **OVERVIEW & SCRUTINY COMMITTEE  
CABINET**

**DATE:** **12 FEBRUARY, 2014  
19 FEBRUARY, 2014**

**SUBJECT:** **CORPORATE FINANCIAL MONITORING REPORT –  
APRIL 2013 TO DECEMBER 2013**

**REPORT FROM:** **DEPUTY LEADER OF THE COUNCIL AND CABINET  
MEMBER FOR FINANCE & CORPORATE AFFAIRS**

**CONTACT OFFICER:** **STEVE KENYON, ASSISTANT DIRECTOR OF  
RESOURCES (FINANCE & EFFICIENCY)**

**TYPE OF DECISION:** **CABINET (KEY DECISION)**

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

**SUMMARY:** The report informs Members of the Council's financial position for the period to December 2013 and projects the likely outturn at the end of 2013/14.

The report also includes Prudential Indicators in accordance with CIPFA's Prudential Code.

**OPTIONS & RECOMMENDED OPTION** Members are asked to note the financial position of the Council as at 31 December 2013, and to approve the s151 officer's assessment of the minimum level of balances.

**IMPLICATIONS:**

**Corporate Aims/Policy Framework:** Do the proposals accord with Policy Framework? Yes.

**Statement by the s151 Officer:** The report has been prepared in accordance with all relevant Codes of Practice.

There may be risks arising from remedial action taken to address the budget position; these are identified by Directors at the quarterly Star Chamber meetings.

**Statement by Executive Director of Resources:**

Successful budget monitoring provides early warning of potential major overspends or underspends against budgets which Members need to be aware of.

This report draws attention to the fact that, based on the most prudent of forecasts, several budget hotspots exist which need remedial action.

Members and officers will be examining these areas in more detail at the Star Chambers.

This report is particularly significant as it informs Members of the baseline financial position from which the Council sets its 2014/15 budget.

**Equality/Diversity implications:**

No

**Considered by Monitoring Officer:**

Budget monitoring falls within the appropriate statutory duties and powers and is a requirement of the Council's Financial Regulations to which Financial Regulation B: Financial Planning 4.3. (Budget Monitoring and Control) relates. The report has been prepared in accordance with all relevant Codes of Practice.

**Are there any legal implications?**

Yes

**Wards Affected:**

All

**Scrutiny Interest:**

Overview & Scrutiny Committee

**TRACKING/PROCESS**

**ASSISTANT DIRECTOR: Steve Kenyon**

Chief Executive/ Strategic Leadership Team	Cabinet	Overview & Scrutiny Committee	Council	Ward Members	Partners
<b>03/02/14</b>	<b>12/02/14</b>	<b>12/02/14</b>			

## 1.0 INTRODUCTION

- 1.1 This report informs Members of the forecast outturn for 2013/14, based upon current spend for the period to 31 December 2013, in respect of the revenue budget, capital budget and the Housing Revenue Account.
- 1.2 Projections are based on current trends, information, and professional judgement from service managers and finance staff.
- 1.3 The revenue budget projections highlight the fact that budget pressures do still exist in some key areas and it will be necessary to continue to examine options for improving the situation further.

## 2.0 BUDGET MONITORING PROCESSES

- 2.1 Reports are presented quarterly to facilitate close monitoring of spend and implementation of action plans during the year.
- 2.2 Reports are also presented to the Strategic Leadership Team on a monthly basis. Detailed monitoring information is also discussed at Star Chamber meetings during the year.
- 2.3 It is intended that improvements will continue to be made to the budget monitoring process, building on the significant developments implemented over the past few years.

## 3.0 SUMMARY OF REVENUE BUDGET POSITION

- 3.1 The table below outlines the annual budget and forecast outturn based upon known factors and the professional views of service managers as at month 9:

Department	Budget £000	Forecast £000	Variance £000
Adult Care Services	53,087	53,227	+140
Chief Executives	4,502	5,079	+577
Children's Services	32,402	32,810	+408
Communities & Neighbourhoods	36,029	36,042	+13
Non-Service Specific	22,227	21,174	-1,053
<b>TOTAL</b>	<b>148,247</b>	<b>148,332</b>	<b>+85</b>

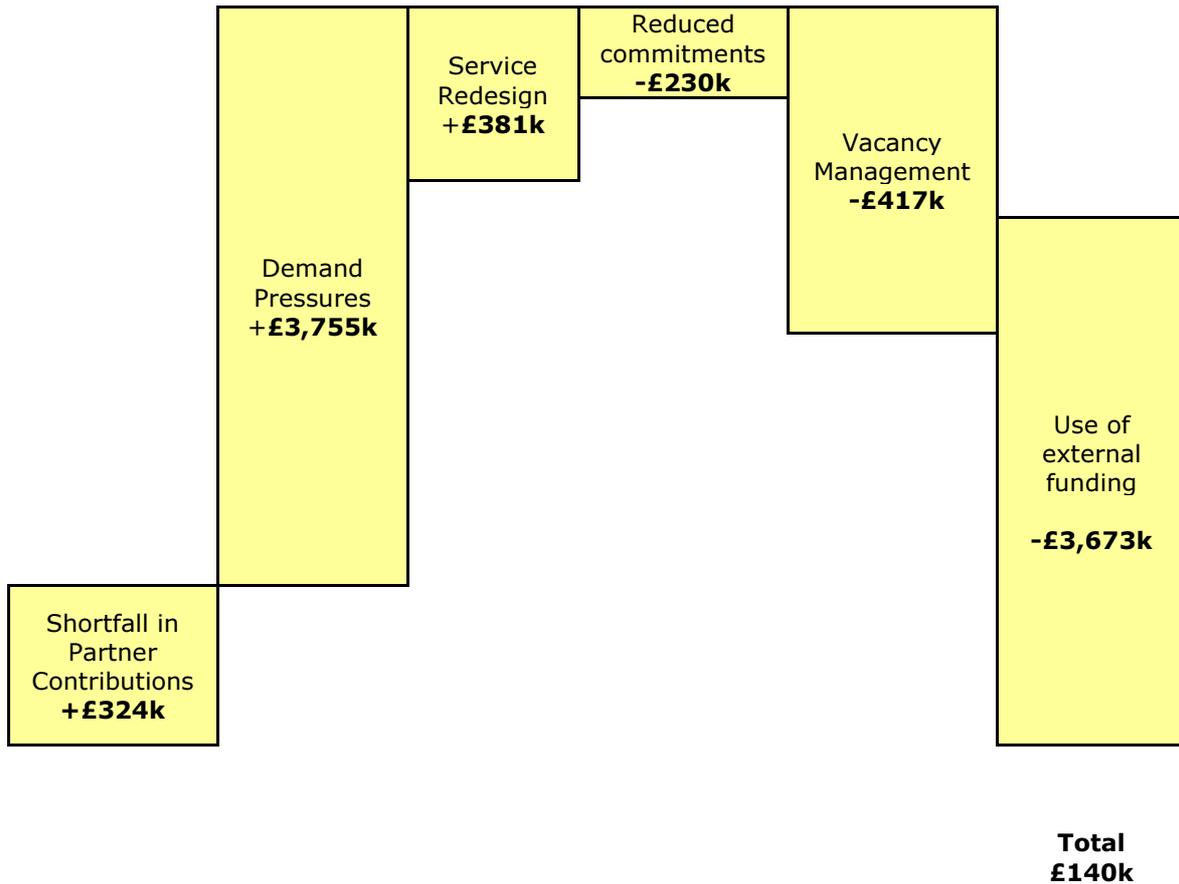
- 3.2 The projected overspend of **£0.085m** represents approximately **0.06%** of the total net budget of £148.247m.
- 3.3 Members need to be aware that financial reporting involves an element of judgement, and this particularly applies to the treatment of budget pressures. Often an area of overspending identified at an earlier point in the year will resolve itself before the end of the year following appropriate remedial action.
- 3.4 However it is felt appropriate to continue to alert Members to potential problems at this stage so that they can monitor the situation and take ownership of the necessary remedial action and this is the basis on which the report is written.

**4.0 SERVICE SPECIFIC FINANCIAL MONITORING**

**4.1 ADULT CARE SERVICES**

4.1.1 The current projected overspend for Adult Care Services is **£0.140 m**, which is 0.26% of the Department’s net budget of £53.087m. This is a similar position reported at month 6 (£0.141m projected overspend) and slightly higher than the outturn position for 2012/13, which was a £0.104 m overspend.

4.1.2 Reasons for major variations are illustrated in the chart below;



4.1.3 Further details by service area are outlined below, along with remedial action being taken.

Activity	Variance £'000	Reason	Action Being Taken
Shortfall in partner contributions	+324	Partner funding	A number of the services being reviewed will depend on contributions from Health and other partners to continue or increase. The rationale for this is that the outcomes from those services are significantly linked with health outcomes and therefore jointly or fully funded by Health. Negotiations are ongoing, still to be finalised.

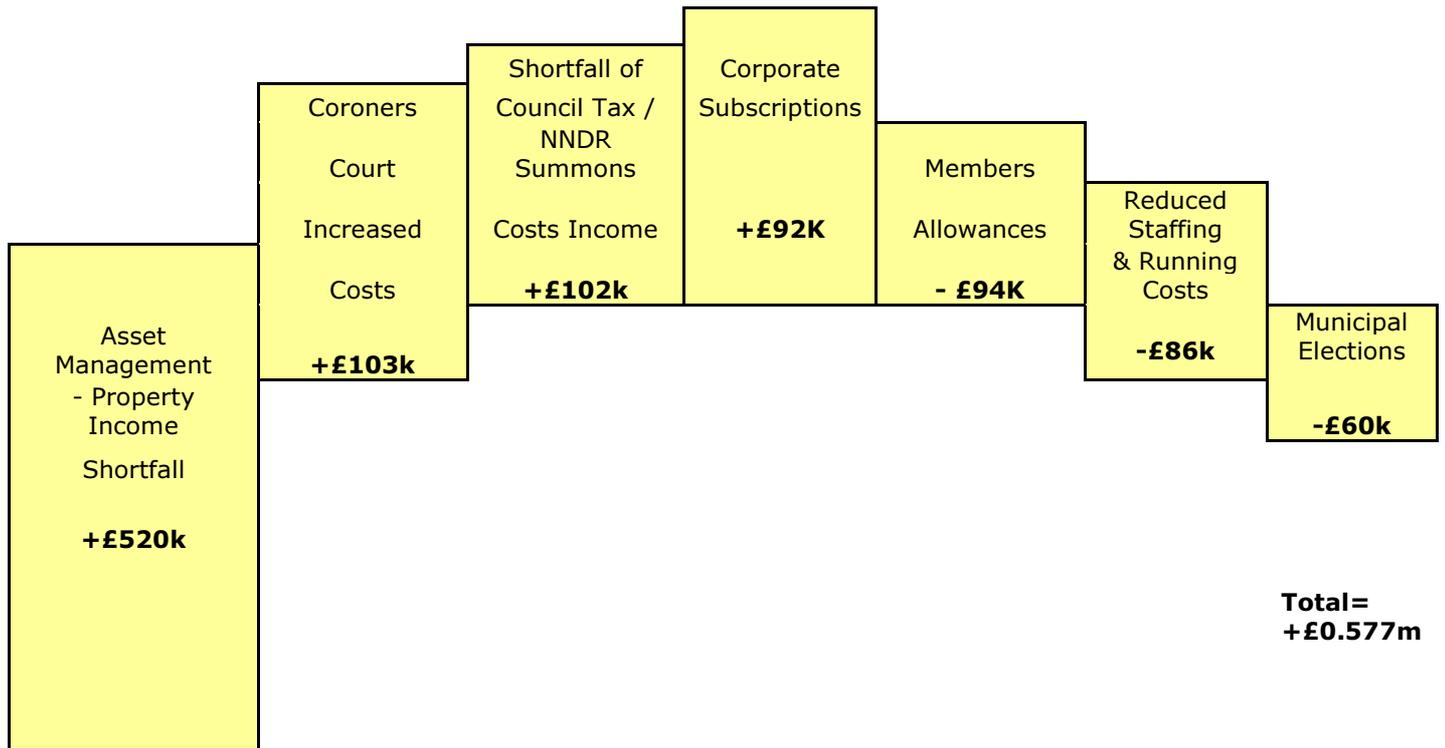
<p>Care in the Community:</p> <p>Older People</p> <p>Adults with Physical Disabilities</p> <p>Adults with Learning Disabilities</p> <p>Adults with Mental Health needs</p> <p>Adults with Substance Misuse needs</p>	<p>+3,755 in total, broken down as:</p> <p>+937</p> <p>+1,288</p> <p>+1,196</p> <p>+344</p> <p>-10</p>	<p>Demand Pressures, especially re: personal budgets/ supported living numbers (residential care numbers are reducing)</p>	<p>A range of preventative strategies continue to be introduced to manage this demand, such as reablement, triage, improved screening, 'signposting', and crisis response as well as a programme of training for front line staff around efficient support package planning. In addition, all existing high &amp; medium cost care packages are kept under regular review. Adult Care's Procurement Team efficiencies contribute significantly to keeping spending levels down. Non-recurring health funding is being used in initiatives that should help to reduce the rate of increase of demand, which will be monitored as part of the evaluation process. However, the full benefits of these measures will not appear until future years. 2013/14 shortfall being met by offsetting savings in other service areas.</p>
<p>Service Redesign</p> <p>Strategic Housing Unit</p> <p>Other</p>	<p>+381 in total, broken down as:</p> <p>+65</p> <p>+316</p>	<p>Historical shortfall in Partner Contribution</p> <p>Income shortfall; service redesigns not fully implemented during 2013/14</p>	<p>Options for addressing this are still under evaluation and should be implemented during 2012/13, to become effective during 2013/14.</p> <p>A full service review is underway for the Integrated Community Equipment Store, which will determine its future operating structure.</p> <p>The pressure in relation to Seedfield will remain until the full corporate review is completed. In the meantime, the overspend will be met temporarily from other areas.</p>
<p>Reduced commitments</p>	<p>-230</p>	<p>Reduced commitments</p>	<p>There are a number of areas where current projections of social care support are under budget, an example of this is the</p>

			take up of carers personal budgets. In future this commitment will be used to offset the carers support provided from within the community care budget.
Staff Vacancies	-417	Vacancy Management	Combination of gradual recruitment into services recently subject to major restructures, and deliberate holding back in recruiting into non-front line vacancies. There is no correlation between vacancy levels in services and sickness rates.
Use of Health monies and grant funding	-3,673	Funding from health monies and grant funding	<p>Utilisation of historic underspends from Adult Care Specific Grants and a contribution of the Health monies towards the demand pressures within Community Care are ensuring that the net expenditure is balanced in-year. Future actions around service redesign and invest to save initiatives will ensure that there is reduced reliance in future on grants and short term solutions to the ongoing issue of demand management.</p> <p>The Government has recognised that the reforms within the Health Service will impact significantly upon the activity of Adult Social Care, and future funding is earmarked to be transferred into Adult Social Care from 2015/16 to meet these future demands.</p>

## 4.2 CHIEF EXECUTIVE'S DEPARTMENT

4.2.1 The Chief Executive's Department is forecasting an overall overspend of **£0.577m**, or 12.8% of a net budget of £4.502m.

4.2.2 Reasons for major variations are illustrated in the chart below;



4.2.3 Further details by service area are outlined below, along with remedial action being taken.

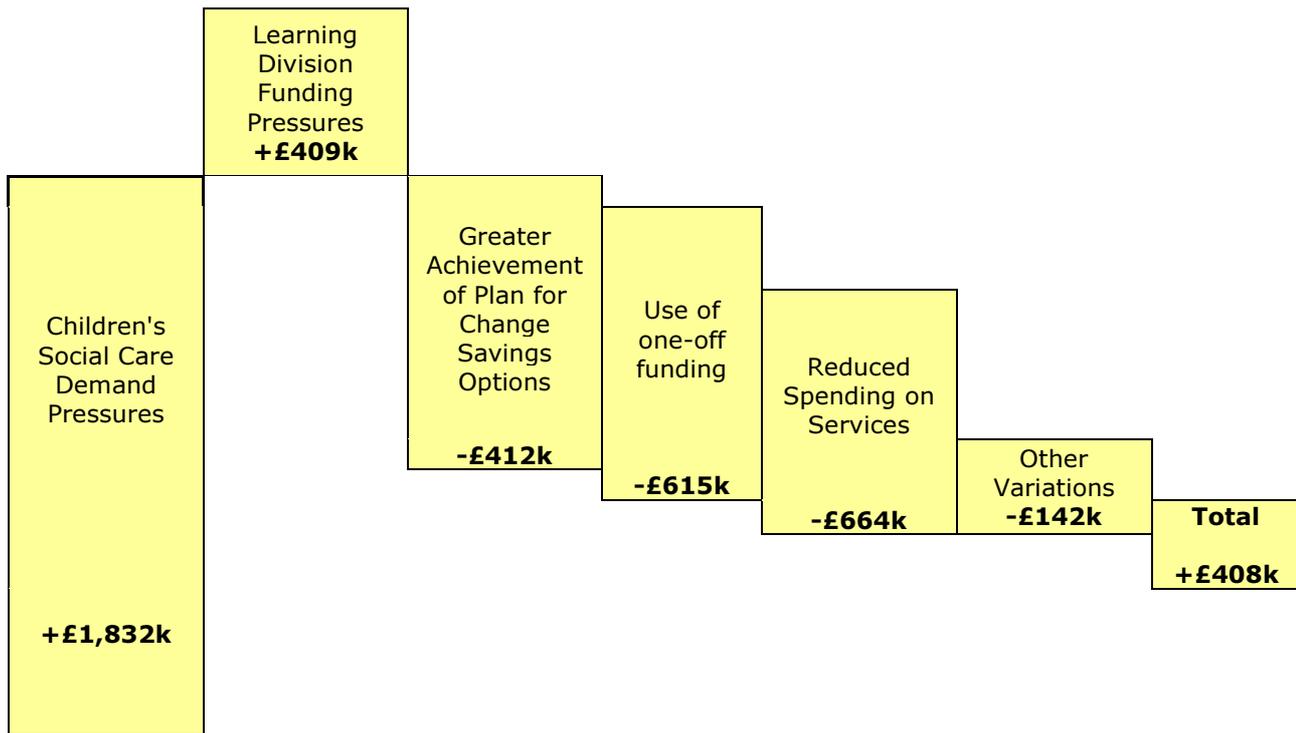
Activity	Variance £'000	Reason	Action Being Taken
Property Services	+520	Shortfall in income due to reduced occupancy levels.	<p>Although most of the units at Bradley Fold that were vacated in 2011/12 have now been re-let, rents are significantly lower than what were achieved before the economic downturn. A number of units which were previously let are in the process of being demolished owing to their poor condition.</p> <p>A business case for the construction of new accommodation is being developed.</p> <p>The accounts for the Mill Gate Centre have been scrutinised in detail to ensure that all monies properly due to the Council are being paid and this will be an ongoing process.</p>

Coroners Court Costs	+103	The increase in costs has arisen due to the number of inquests and staff cover as a result of long term sickness.	A joint review is being undertaken by Bury, Oldham and Rochdale to address these pressures with a view to returning the service to within budget for 2014/15.
Summons Costs	+102	Summons costs income for council tax and business rates are forecast to under-recover against historically high income budget targets.	Internal measures being taken to improve the income recovery rate.
Corporate Subscriptions	+92	Payments to AGMA are forecast to overspend by £90,000 in 2013/14 (compared with £70,000 in 2012/13) mainly due to an increase of £20,000 in respect of the "Public Sector Reform" element of the subscription. Additionally, the SIGOMA subscription has increased by £2,000 from £1,000 in 2012/13 to £3,000 in 2013/14.	Monitoring of the value obtained to the Council from the AGMA subscription compared with the cost.
Members Allowances	-94	Reductions in the level of Special Responsibility Allowances paid to Members continue to result in this forecasted underspend.	To be used to assist in reducing the estimated overspend within the department.
Reduced Staffing and Running Costs	-86	Vacant posts not filled and tightening of controllable expenditure.	To be used to assist in reducing the estimated overspend within the department.
Municipal Elections	-60	No local elections in 2013, a 'fallow' year.	Currently reviewing the underspend to reduce budgets in years that we have local elections.

### 4.3 CHILDREN'S SERVICES

4.3.1 The Children's Services budget is currently projecting an overspend of **£0.408m**, or 1.26% based on net budget of £32.402m.

4.3.2 Reasons for major variations are illustrated in the chart below;



4.3.3 Further details of the major variations are provided in the table below:

Activity	Variance £'000	Reason	Action Being Taken
Social Care Demand Pressures	+1,832		
	Made up of:		
Leaving Care	+510	Spending on housing and further education of 19+ students who have now left our care.	Spending on housing for children with complex needs and those living in semi-independent placements continues to increase. The semi-independent placements cost between £40,000 and £50,000 each for a full year.
Advice and Assessment	+275	Increased number of cases.	Requires the continued need for the contracts of 10 agency social workers to be extended from December 2013 until the end of the financial year.

<p>Demand pressures - Children's Agency Placements</p>	<p>+1,047</p>	<p>Continuing increased Demand</p>	<p>The continuing overspend has decreased from the projected £2+ million overspending during the corresponding period in 2012/13.</p> <p>A range of preventative strategies have/are being introduced to try to minimise future spending, with all high and medium cost care packages being rigorously reviewed. It is estimated that this overspend will continue to reduce the cost burden on this highly volatile budget. The reduction in spend compared to previous months is due to greater certainty over the contributions to be made by Health.</p> <p>However, there is no guarantee that the total expenditure will be reduced as unknown future demand pressures could have a significant impact on the budget. Children's Services constantly strive to minimise the costs of each placement, which are amongst the lowest in the north-west, but it is extremely difficult to contain a budget that is subject to such significant and variable demand pressures.</p> <p>The forecast overspend has been reduced by £100,000 due to greater certainty over the contributions to be made by Health.</p>
<p>Learning Division Funding Pressures</p>	<p>+409</p> <p>Made up of:</p>		
<p>SEN Home to School Transport</p>	<p>+231</p>	<p>Increased demand and slow take-up of a new service</p>	<p>Increased numbers of pupils with more complex needs require individual bespoke transport provision.</p>
<p>SEN Home to College</p>	<p>+112</p>	<p>Increased demand and</p>	<p>Increased numbers of students are attending local colleges on a</p>

Transport		loss of external funding	daily basis, rather than attending residential provision in other areas, thereby increasing transport costs paid for by the authority. Any savings in education costs benefit the Dedicated Schools Grant.
Youth Service	+66	There is an ongoing shortfall on the salary budget, an increase in the rates bill and computer software licences.	In addition, specific external funding became unavailable in the previous financial year  The 2013/14 overspending is being partially funded by savings from elsewhere within the Learning Division (see below)
Strategic Management	-412	Further maximisation of external grant funding as part of the Plan for Change arrangements	Financial arrangements have been put in place to ensure adequate funding is made available for children and young people with Special Educational Needs.
Use of Previous Year's Monies	-615	Previous years' underspending of external grant monies brought forward	During 2012/13 Children's Services took action to reduce spending in particular areas, including many supported by external grants as well as utilising underspendings on some externally funded schemes that now no longer exist. These unspent monies were brought forward into 2013/14 and are being used to offset some of the demand pressures afflicting the department.
Reduced Spending on Services	-664 Made up of:		

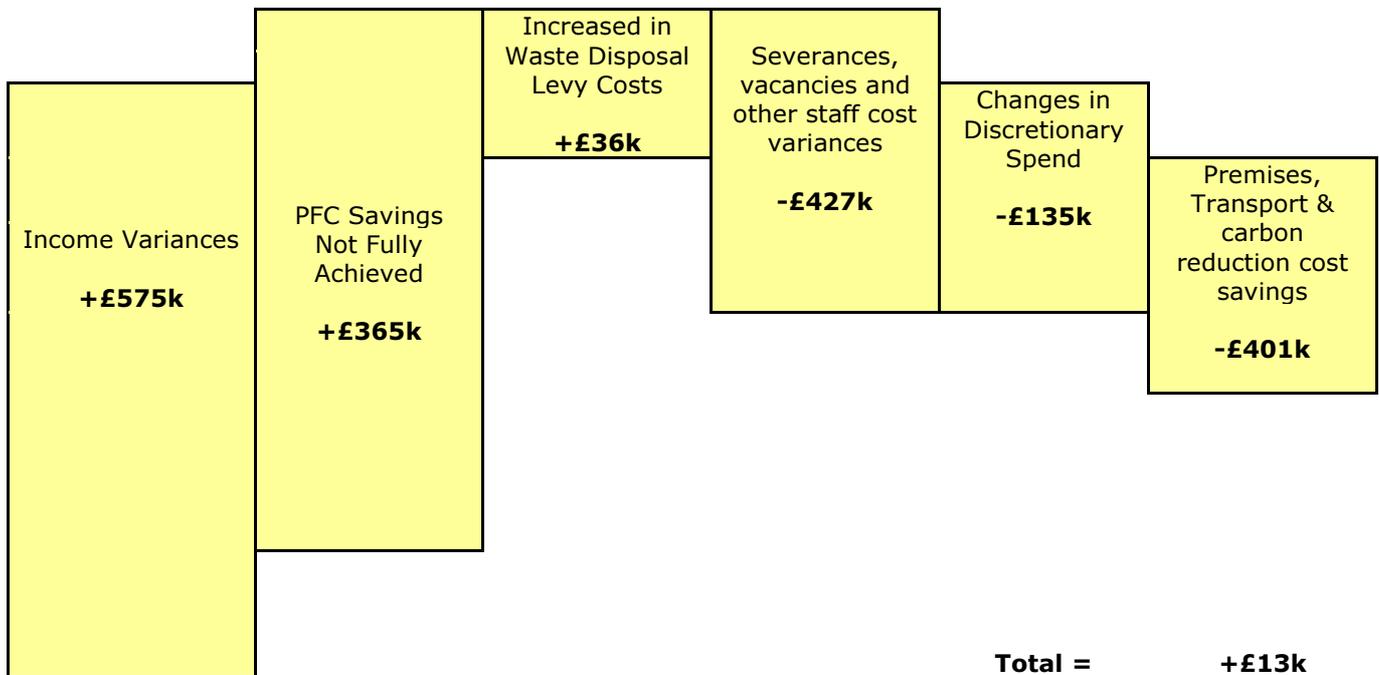
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Early Years including Children's Centres	-313	Non-filling of staff vacancies and reduced spending	The forecast underspend is based on 2012/13 spending levels and will require Early Years and associated children's centres to maintain this level of spending.
School Attendance	-100	Increased income and staff changes	Projecting an underspending in penalty notice income, additional buy-back income and delays in appointing staff.
Connexions	-42	Underspend due to maternity leave not being covered.	The reduced spending is being used to contribute to the forecasted overspending in the Youth Service.
Various other services inc. 16-19 Team, Victoria Family Centre, Safeguarding Unit, Domestic Violence team	-209	Non-filling of staff vacancies and reduced spending	Intentionally restricting spending and temporarily keeping non-critical posts vacant in order to financially contribute towards the demand pressures facing Children's Services.
Other Variations	-142	Various minor underspends	To be used to assist in reducing the estimated overspend within the department.

**4.4 COMMUNITIES AND NEIGHBOURHOODS**

4.41 The department is currently projecting an overspend of **£0.013m**, or 0.04% of the latest net expenditure budget of £36.029m.

4.4.2 Reasons for major variations are illustrated in the chart below;



4.4.3 Further details of the variances are provided in the table below;

Activity	Variance £'000	Reason	Action Being Taken
Income variances	+575	<p>Extra adult learning income from grants &amp; fees (£17k).</p> <p>Grant funding of arts salaries and savings from redeployment/vacancies (£52k).</p> <p>Library income shortfalls £98k.</p> <p>Shortfall in pest control &amp; licensing income £40k.</p> <p>Planning &amp; Building regulations income shortfall reduced to £8k following receipt of income for more applications.</p>	<p>Use to offset overspends.</p> <p>Use to offset overspends.</p> <p>Reduce spend levels (see below); cease school library service.</p> <p>Review costs &amp; fees; offset by other savings.</p> <p>Limit expenditure.</p>

		<p>Parking &amp; enforcement income shortfall decreased to £203k, but refund re Millgate car park reduced to (£53k) as a result of additional expenses included in their year end accounts.</p> <p>Shortfall on s38 and other highways income £34k.</p> <p>Reduced income at leisure centres and Civic Halls £200k, including loss of income during Radcliffe pool closure as a result of storm damage.</p> <p>Shortfalls on income for bulky waste £48k and trade waste £167k income.</p> <p>Emergency &amp; security service increased income/surplus (£50k)</p> <p>Income for Admin buildings (£43k).</p> <p>Other income variances on trading services &amp; depot (£8k).</p>	<p>Use any reductions in spend to limit impact on overall budget position.</p> <p>Monitor income levels and adjust expenditure &amp; targets where possible.</p> <p>Continue to market &amp; promote services, assess income from events and costs incurred. Use other underspends to meet shortfall.</p> <p>Offset by spend reductions (see below).</p> <p>Maintain income levels &amp; control spend.</p> <p>Use to offset overspends.</p> <p>Ongoing monitoring of the achievement of income levels and progress on completion of works assumed in budget forecasts; implementation of measures to improve efficiency.</p>
<p>PFC savings not fully achieved</p>	<p>+365</p>	<p>Libraries - phase 1 staff savings not fully implemented £36k.</p> <p>Highways - delay in management restructure £30k; unlikely to achieve school crossing patrol income target £50k.</p> <p>Shortfall on income from highways permits (GMRAPS) and coring £154k.</p> <p>Destination management - £42k from rescheduled introduction of proposals.</p>	<p>Offset by savings from vacancies and meet full PFC target in phase 2.</p> <p>Use savings from vacancies &amp; VERs to reduce overspend; examine alternative savings options; offset by other savings.</p> <p>Monitor income levels following implementation and review staff resources allocated to GMRAPS.</p> <p>Introduction of changes now underway; will meet savings targets in full year.</p>

		<p>Planning £15k from delays in implementing the planned changes.</p> <p>Shortfall on revised income target at CLC café £20k.</p> <p>Parks / grounds maintenance overspend from delays in implementing changes reduced to £18k by savings on seasonal staff.</p>	<p>Introduction of changes now underway.</p> <p>Monitor income levels and review options for improving net income.</p> <p>Introduction of changes now underway; restrict other expenditure to offset overspend.</p>
Increases in waste disposal levy costs	+36	Forecast extra waste disposal levy charges - residual & recycling waste tonnage not achieving targets and updated estimate from WDA of costs of disposing of non-key services waste.	Continue to promote recycling activity, including regulatory activity as approved by Cabinet in Sept ; reduce residual waste by introducing recycling bins for litter and encourage recycling for commercial waste customers & school kitchens.
Severance, vacancies and other staff cost variances	-427	<p>One off severance costs £259k, partly offset by provision in budget for severance costs (£200k).</p> <p>Reduction in adult learning service employee costs (£31k).</p> <p>Library posts held vacant in preparation for PFC savings (£132k).</p> <p>Salary savings in Environment (£53k) and Planning (£46k) from vacancies, VERs and maternity leave.</p> <p>Sports development staff costs funded from Women &amp; Girls project grant (£45k).</p> <p>Underspendings on Waste Management employees (£84k), Stores (£13k) and Transport services staff costs &amp; overtime (£50k).</p> <p>Grounds Maintenance staff cost over budget £35k due to cover for sickness.</p>	<p>Spend is one-off to achieve planned savings longer term.</p> <p>Use savings to offset overspends.</p> <p>Use savings to offset overspends.</p> <p>Use savings to reduce net loss of income.</p> <p>Carry forward to be used to fund any transitional costs needed to secure the longer term sustainability of the project.</p> <p>Use savings to offset overspends &amp; reduced income levels.</p> <p>Reduction in spend on grounds &amp; other areas to minimise impact.</p>

		<p>Savings on staff costs/overtime in Architectural Practice (£19k).</p> <p>Underspends on management &amp; administration staffing (£46k).</p> <p>Other minor variances (£2k).</p>	<p>Reduction in spend on grounds &amp; other areas to minimise impact.</p> <p>Reduced overheads chargeable to front line and trading services.</p>
<p>Reduced discretionary spend</p>	<p>-135</p>	<p>Adult Learning – overspends on exam fees, utility costs, supplies and ICT upgrades £54k.</p> <p>Underspend on library supplies to offset income shortfall (£23k).</p> <p>Additional costs for AGMA units £27k.</p> <p>Increase in cost of parking enforcement contract (based on RPI) £25k.</p> <p>Saving on traffic management costs (£20k).</p> <p>Asbestos works &amp; window replacement at Radcliffe Pool (not covered by insurance) £28k.</p> <p>Contribution to reserve to carry forward underspends on Women &amp; Girls project (see above) £45k.</p> <p>Underspend on caddy liners (£190k).</p> <p>Contribution to set up costs £71k for recycling improvement plan approved at Cabinet Sept 2013.</p> <p>Increase in anticipated leaf clear costs following recent tender and collection of higher tonnage £74k.</p> <p>Amended forecast of bulking up charges for garden waste (£50k).</p> <p>Underspends on supplies for grounds maintenance operations (£50k).</p> <p>Reduced office supplies &amp;</p>	<p>Partly offset by salary savings.</p> <p>Currently tendering for contract renewal from July 2014.</p> <p>Use savings to offset overspends.</p>

		<p>expenses (£57k) and underspend on unallocated budgets in DCN contingency account (£111k).</p> <p>Other minor variances £42k.</p>	
Premises, transport & CRC cost savings	-401	<p>Car parks underspend on rates and surface water drainage costs (£43k).</p> <p>Waste management transport &amp; fuel costs exceeding budget £35k.</p> <p>Cost of CRC allowances below budget provision (£103k).</p> <p>Increase in estimated part year saving from vacating Castle Buildings &amp; Athenaeum House as part of office accommodation moves (£112k).</p> <p>Part year savings from Fernhill move to Bradley Fold (£35k).</p> <p>Underspends on transport repairs, hire &amp; leasing costs (£177k).</p> <p>Other variances £34k.</p>	Use savings to offset overspends.

#### 4.4 NON-SERVICE SPECIFIC

4.5.1 There is a forecast net underspend of **£1.053m**, or 4.74% based on net budget of £22.227m. This relates primarily to the Council's Treasury Management activity (see section 8.0, page 20 for further details) and an increased dividend of £416,000 due to the revaluation of Manchester Airport on the acquisition of Stansted Airport.

#### 5.0 CAPITAL BUDGET

##### 5.1 Capital Programme

5.1.1 The revised budget for the financial year and the estimated working budget for the Capital Programme 2013/14 at the end of December are shown in the table below:

<b>2013/14</b>	<b>£m</b>
Original Capital Programme	16.483
Approved Slippage from 2012/13	13.772
In year additions and other contributions	7.946
<b>Revised Budget for Year 2013/14</b>	<b>38.201</b>
Re-profiled projects into 2014/15	(12.513)
<b>Estimated working Budget for Year at Quarter 3</b>	<b>25.688</b>

- 5.1.2 The expenditure and funding profile for the Capital Programme together with a detailed breakdown of the Original Approved Programme, the Revised Estimate, Forecast Outturn, Actual Spend up to end of Month 9 and the estimated under/over-spend of the capital programme for 2013/14 are shown in **Appendix A**.
- 5.1.3 Members should note that given the complexity and size of some of the larger schemes currently in the Council's Capital Programme the information received from budget holders can vary significantly from one quarterly report to the next and should be read in this context.
- 5.1.4 At the end of Quarter 3 a total of **£12.513m** of the 2013/14 Revised Budget has been identified for re-profiling into the 2014/15:

<b>Re-profiled schemes 2013/14</b>	<b>£m</b>	<b>Funding source</b>
<b>Chief Executives:</b> Radcliffe TC redevelopment, Opportunity purchases, Demolition of the Rock Fire Station	0.408	Council loan / Future Capital Receipt
<b>Children Services:</b> Modernisation, Devolved formula Capital, Early Education and 16-19 Demographic Growth Fund	9.601	Grant
<b>Adult Care Services:</b> Mental Health, Empty Properties	0.294	Grant / Council loan
<b>Adult Care Services:</b> GM Green Deal and Eco Deliver Partnership	1.200	Council loan
<b>Communities and Neighbourhoods:</b> Highways maintenance / Traffic management and road safety	0.720	Grant / Capital Receipts
<b>Communities and Neighbourhoods:</b> Environmental Planning and Recycling Action Plan	0.290	Grant / Loan
<b>Total re-profiled schemes at Quarter 3</b>	<b>12.513</b>	

- 5.1.5 This position may change by the end of the financial year as more information on the details of the actual progress of the schemes becomes available.

## 5.2 Expenditure

5.2.1 The Forecast Outturn at Month 9 is indicated to be **£25.749m** and Budget Managers have reported that they expect to spend up to this amount by 31 March 2014.

5.2.2 The actual expenditure realised by the end of Month 9 is reported at a total of **£13.747m**.

5.2.3 The main areas of expenditure from April to the end of the third quarter relate to:

• Property Redevelopment Schemes -	£1.798m
• Children's Services -	£4.520m
• Older People	£0.814m
• Planning Schemes -	£0.334m
• Highways Schemes -	£1.348m
• Leisure Services Projects -	£0.212m
• Disabled Facilities grants private sector -	£0.451m
• Operational Depots rationalisation	£0.511m
• Housing Public Sector schemes -	£2.575m
• Disabled Facilities Adaptations public sector -	£0.401m

5.2.4 Six Town Housing manage the Housing capital programme on behalf of the Council.

Throughout the year, assurances have been given by Six Town Housing that the programme will spend to budget, and this assurance has again been provided for the month 9 report (with a minor underspend).

Despite this assurance actual spend to date remains low at this point in the year, and achievement of the programme is heavily dependent upon schemes being progressed in the final three months of the year; this poses a number of issues, not least the risk of inclement weather.

The s151 Officer has now requested fortnightly progress monitoring meetings with Six Town Housing. Similarly, staff in Six Town Housing have initiated fortnightly progress meetings with the Council's Architectural Practice.

Ultimately, if the budget is not fully spent in the current year, there is provision to request approval for slippage; effectively carrying the budget and work in progress into the next financial year.

## 5.3 Variances

5.3.1 Appendix A gives details of variances for each scheme based on latest available information and at Month 9 it shows a small variance from the final working estimate for the year of **£0.060m**. The individual variances within this figure are mostly made out of timing differences and it is expected that they will be resolved as the programme progresses into the final quarter of the financial year.

5.3.2 Brief reasons for all variances are also provided in **Appendix A**.

## 5.4 Funding

5.4.1 The funding profile included in Appendix A shows the resources available to cover the capital programme during 2013/14.

- 5.4.2 The principal source of funding for Capital schemes approved for the 2013/14 programme consists of in year receipts from external grants and contributions. External resources (grants and contributions) were carried forward from previous years to finance re-profiled schemes and there is **£11m** on the Balance Sheet available for the revised final programme.
- 5.4.3 The Council and Cabinet have approved Invest to Save schemes that are supported by the Council's own resources of **£2.5m** for the year and Corporate Redevelopment Projects that rely on future capital receipts of **£1.9m**.
- 5.4.4 The updated position for capital receipts and borrowing required to support the programme as at the end of Quarter 3 of the year is reported below. The figures in the table show the funding requirement for the total revised capital programme and the expected resources from the Council if the programme was fully financed at year end.

<b>2013/14 Use of Council Resources for Capital Investment</b>	<b>£m</b>
Revised Capital Programme for the year	<b>38.201</b>
Less external funding and contributions	(30.892)
<b>Balance of programme relying on Council resources funded by</b>	<b>7.309</b>
Use of Capital receipts	0.762
Use of Prudential Borrowing for 2013/14 approved Invest to Save schemes	4.101
Use of Prudential Borrowing for schemes approved in 2013/14 from Capital receipts (not realised by March 2014)	1.382
Use of Prudential Borrowing for the 2012/13 schemes re-profiled and brought forward	1.064
<b>Total Council Resources required to support the Capital Budget for Year</b>	<b>7.309</b>

- 5.4.5 The actual amount of Council resources required to fund the estimated working budget and achieved expenditure at 31<sup>st</sup> March 2014 will be reduced in line with re-profiled schemes into 2014/15.
- 5.4.6 The total capital receipts needed to finance the revised working programme at Quarter 3 is estimated at **£0.202m** and Prudential borrowing at **£5.632m**.

## **5.5 Capital Programme Monitoring**

- 5.5.1 The programme will continue to be monitored closely during the last quarter to ensure that all schemes that aim to complete by the end of the financial year are delivered per agreed time and costs and that slippage into 2014/15 is at its minimum. Departmental representatives will examine and confirm any action necessary to ensure that effective use of resources and successful completion of schemes is achieved.

## 6.0 HOUSING REVENUE ACCOUNT

- 6.1 The Housing Revenue Account (HRA) relates to the operation of the Council's housing stock and can be viewed as a landlord account. It is required by statute to be accounted for separately within the General Fund and is therefore effectively ring-fenced.
- 6.2 The latest estimates show a projected surplus (working balance carried forward) of £1.000m at the end of 2013/14. The projected outturn shows a working balance carried forward of £1.366m. See Appendix B.
- 6.3 There are a number of variations that contribute to the projected outturn position however the only area where the variance exceeds 10% and £50k is the increase in the provision for Bad Debts; this is discussed in the next paragraph.
- 6.4 The two main impacts on the HRA year end balance are normally **void levels** and the **level of rent arrears**, but levels of **Right to Buy sales** can also be a major influence on the resources available.

### **Voids:**

The rent loss due to voids for April to December was on average 1.83% compared to a void target level set in the original budget of 1.8%. If this level continues for the rest of the year there would be a reduction in rental income of around £0.009m; the projection of rental income in Appendix B has been calculated on this basis.

Six Town Housing have established a 'Voids Team' which brings together existing staff to focus on improving performance.

### **Arrears:**

The rent arrears at the end of December totalled £0.861m, an increase of 5.6% since the end of March. Of this total £0.316m relates to former tenants and £0.545m relates to current tenants.

The Council is required to make a provision for potential bad debts. The contribution for the year is calculated with reference to the type of arrear, the amount outstanding on each individual case and the balance remaining in the provision following write off of debts.

The 2013/14 HRA estimates contain two provisions, £0.181m for uncollectable debts and £0.422m to reflect the potential impact that welfare benefit changes could have on the level of rent arrears.

Whilst the method of calculating the requirement is being reviewed it is now clear that the contribution required in the current year will be less than originally estimated; this has resulted from delays in the implementation of some welfare benefit changes whilst the effects of others have been mitigated through the actions of the Welfare Reform Group and close working with Partners in implementing the Corporate Debt Policy. The figures in Appendix B have been amended to reflect this.

**Right to Buy Sales:**

Sales of dwellings declined significantly in recent years, from a peak of 243 in 2003/04 to only 7 sales in 2009/10. There were 18 sales in 2010/11, 12 in 2011/12 and 13 last year.

The forecast for 2013/14 was set at 37, this being the level of sales assumed for Bury in the Government’s self-financing valuation.

From April 2012 the maximum Right to Buy discount increased from £26,000 to £75,000.

The number of sales has a direct effect on the resources available to the HRA – the average full year rent loss for each dwelling sold is around £3,700.

6.5 There have been 29 sales in the period April to December and it is now expected that the total number of sales for 2013/14 will be at or near the level forecast.

**7.0 PRUDENTIAL INDICATOR MONITORING**

7.1 It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. The authority’s approved Prudential Indicators (affordability limits) for 2013/14 is outlined in the approved Treasury Management Strategy Statement.

7.2 The authority continues to monitor the Prudential Indicators on a quarterly basis and Appendix C shows the original estimates for 2013/14 (approved by Council on 20 February 2013) with the revised projections as at 31<sup>st</sup> December 2013. The variances can be seen in the Appendix together with explanatory notes. The Prudential Indicators were not breached during the first three months of 2013/14.

**8.0 TREASURY MANAGEMENT**

**8.1 Investments:**

8.1.1 At the 31st December 2013 the Council’s investments totalled £55.4 million and comprised:-

Type of Investment	£ Million
Call Investments (Cash equivalents)	39.6
Fixed Investments (Short term investments)	15.8
<b>Total</b>	<b>55.4</b>

8.1.2 All investments were made in line with Sector’s suggested credit worthiness matrices and the approved limits within the Annual Investment Strategy were not breached during the first quarter of 2013/14.

8.1.3 The Council has earned the following return on investments:

- Quarter 1 0.95%
- Quarter 2 0.83%
- Quarter 3 0.67%

8.1.4 This figure is higher than Sector’s suggested budgeted investment earnings rate for returns on investments, placed for periods up to three months in 2013/14, of 0.50%

## 8.2 Borrowing:

8.2.1 External borrowing of £11.5 million was undertaken in the quarter to 31st December 2013.

8.2.2 3 loans were taken over 2.5 years, to take advantage of low interest rates. The loans are required to replace 2 more expensive longer term loans, which are due to mature in January/February.

At 31st December 2013 the Council's debts totalled £220.914 million and comprised:-

		31st December 2013		
		Principal		Avg. Rate
		£000	£000	
<b>Fixed rate funding</b>				
	PWLB Bury	153,862		
	PWLB Airport	4,549		
	Market Bury	57,500	215,911	
<b>Variable rate funding</b>				
	PWLB Bury	0		
	Market Bury	0	0	
<b>Temporary Loans / Bonds</b>		5,003	5,003	
<b>Total Debt</b>			<b>220,914</b>	<b>4.10%</b>

8.2.3 The comparative average rate for Debt for the year to 31<sup>st</sup> March 2013 was 4.43%

8.2.4 The overall strategy for 2013/14 is to finance capital expenditure by running down cash/investment balances and taking shorter term borrowing rather than more expensive longer term loans. With the reduction of cash balances the level of short term investments will fall. Given that investment returns are likely to remain low for the financial year 2013/14, then savings will be made by running down investments and taking shorter term loans rather than more expensive long term borrowing.

8.2.5 It is anticipated that no further borrowing will be undertaken during this financial year.

## 9.0 MINIMUM LEVEL OF BALANCES

9.1 The actual position on the General Fund balance is shown in the following table:

	£m
<b>General Fund Balance 31 March 2013 per Accounts</b>	<b>10.730</b>
Less : Minimum balances to be retained in 2013/14	-4.400
Less : Contribution towards cost of Equal Pay	-1.500
Less : Forecast overspend	-0.085
<b>Available balances at 1 April 2013</b>	<b>4.745</b>

9.2 Based on the information contained in this report, on the risk assessments that have been made at both corporate and strategic level, on the outturn position for 2013/14

and using information currently to hand on the likely achievement of savings options, it is clear that there is no reason to take the minimum level of balances above the existing level of £4.400m.

9.3 In light of the above assessment it is recommended that the minimum level of balances be retained at **£4.400m**.

9.4 Members are advised that using available balances to fund ongoing expenditure would be a breach of the Council's Golden Rules. Likewise, Members are advised that the Authority faces significant funding reductions in the future, and balances are likely to be required to fund one-off costs of service transformation.

## **10.0 EQUALITY AND DIVERSITY**

10.1 There are no specific equality and diversity implications.

## **11.0 FUTURE ACTIONS**

11.1 Budget monitoring reports continue to be presented to the Strategic Leadership Team on a monthly basis and on a quarterly basis to the Cabinet; Overview & Scrutiny Committee; and Audit Committee.

11.2 Star Chambers were held in August / early September 2013 for Quarter 1; November for Quarter 2 and January / early February 2014 for Quarter 3

**Councillor John Smith, Deputy Leader of the Council and Cabinet Member for Finance & Corporate Affairs**

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### **List of Background Papers:-**

Finance Working Papers, 2013/14 held by the Assistant Director of Resources (Finance & Efficiency).

### **Contact Details:-**

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Month 9 - 2013/14		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)		
		2013/14 Original Approved	Revised Capital Budget	Reprofiled to Future Years	Revised Working Budget	Forecast Outturn 2013/14	Month 09 Actual	Year End Variance / (Underspend) or Overspend Col.5-Col.4 £000's	Month 9 Variance / (Underspend) or Overspend Col.6-Col.5	Direction of Travel	Notes
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's		
<b>1) SCHEMES DELIVERED WITHIN THE FINANCIAL YEAR 2013/14</b>											
Chief Executive	Opportunity Land Purchase	-	114	(114)	-	0	0	0	-	J	
Chief Executive	Demolition of Former Police HQ, Irwell Street	300	300		300	340	328	40	(12)	J	
Chief Executive	Acquisition of former Fire Station	-	5	-	5	5	6	-	1	K	
Chief Executive	Demolition of the Rock Fire Station	-	131	(81)	50	50	27	-	(23)	K	Corporate project funded by capital receipt
Chief Executive	Bury Market - New Toilets	-	9		9	10	10	1	-	J	
Chief Executive	Bury Open Market extension to polycarbonate	-	17		17	17	17	-	-	K	
Chief Executive	Bradley Fold	-	127		127	110	76	(17)	(34)	L	
Chief Executive	Irwell Street Redevelopment	-	-		-	49	49	49	-	J	Fees expenditure only
Chief Executive	18 Haymarket Street	-	1,236	-	1,236	1,236	1,205	-	(31)	K	Completed
Chief Executive	Corporate ICT Projects (iTrent)	300	300		300	300	-	-	(300)	K	
Adult Care Services	Older People	439	1,277	-	1,277	1,329	814	52	(515)	J	
Adult Care Services	Learning Disabilities	-	151	-	151	145	2	(6)	(143)	L	
Adult Care Services	Mental Health	-	950	(84)	866	866	85	-	(781)	K	
Adult Care Services	Improving Info.Management	-	212	-	212	212	-	-	(212)	K	
Adult Care Services	Empty Property Strategy	199	425	(210)	215	124	10	(91)	(114)	L	
Adult Care Services	Disabled Facilities Grant	620	1,097	-	1,097	800	451	(297)	(349)	L	may be re-profiled depending on the rate of application approval success
Adult Care Services / Urban Renewal	GM Green Deal and ECO Deliver Partnership	1,200	1,200	(1,200)	-	-	-	-	-	K	
Children's Services	Support Services	-	24	-	24	29	29	5	-	J	
Children's Services	NDS Modernisation	-	10,521	(7,692)	2,829	2,831	2,339	2	(492)	J	
Children's Services	Access Initiative	-	77	(59)	18	19	13	1	(6)	J	
Children's Services	Derby High School Sport Hall	1,295	1,250	165	1,415	1,415	927	-	(488)	K	In progress
Children's Services	Short Break Allocation	-	179		179	179	155	-	(24)	K	
Children's Services	Early Education Fund	-	324	(300)	24	24	2	-	(22)	J	
Children's Services	16-19 Demographic Growth Fund	-	274	(174)	100	100	-	-	(100)	J	
DCN - Arts, Libraries & Adult Learning	Libraries co-location	5	-	-	5	5	5	0	0	J	
DCN - Arts, Libraries & Adult Learning	Radio Frequency ID	216	-	-	216	216	38	(0)	(177)	K	
DCN - Arts, Libraries & Adult Learning	Sculpture Gallery	75	(19)	-	56	56	10	-	(46)	K	
DCN - Highways	Highway Network Services	2,529	2,530	(376)	2,155	2,155	906	-	(1,249)	J	
DCN - Highways	Bridges	475	470	-	470	470	272	-	(198)	K	
DCN - Highways	Transportation & Parking	106	380	(28)	351	352	61	0	(291)	J	
DCN - Highways	Traffic Man't/Road Safety	250	466	(316)	150	150	109	-	(41)	K	
DCN - Planning	Development Group Projects	295	256	-	256	256	53	-	(203)	K	
DCN - Planning	ELR Trust	-	-	-	-	-	24	-	24	K	
DCN - Planning	Environmental Projects	320	661	(168)	493	492	252	(1)	(240)	L	HLF Bid
DCN - Leisure	Parks	-	2	-	2	7	7	5	-	J	
DCN - Leisure	Leisure and Sport Facilities	-	299	-	299	299	204	-	(94)	K	
DCN - Environmental Works	Contaminated Land	-	51	-	51	51	20	-	(31)	K	
DCN - Environmental Works	Air Quality	-	10	-	10	10	3	-	(7)	K	
DCN - Environmental Works	Public energy efficiency scheme replacement boiler	-	62	-	62	62	-	-	(62)	K	
DCN - Other	Waste Recycling Phase 2	-	13	-	13	13	13	-	-	K	
DCN - Other	Recycling Action Plan	-	168	(104)	65	65	35	-	(30)	J	
DCN - Operational Services	Operational Depots Rationalisation	228	634	-	634	634	511	-	(123)	K	
Six Town Housing / Adult Care Services	Disabled Facilities Adaptations	515	515	-	515	715	401	200	(314)	K	
Six Town Housing - Public Sector	Major Repairs Allowance Schemes	7,113	7,817	-	7,817	7,601	2,575	(216)	(5,026)	L	
<b>IN YEAR SCHEMES SUBTOTAL</b>		<b>16,183</b>	<b>34,829</b>	<b>(10,758)</b>	<b>24,071</b>	<b>23,798</b>	<b>12,046</b>	<b>(273)</b>	<b>(11,752)</b>		

2) LONGER TERM SCHEMES DELIVERED OVER SEVERAL FINANCIAL YEARS

Chief Executive	Townside Fields - Joint Venture	-	5	-	5	5	274	-	269	K	Budget allocation under review by Property Services.
Chief Executive	Radcliffe Town Centre Redevelopment / Bus	300	300	(210)	90	120	75	30	(45)	J	
Chief Executive	The Rock Fire Station Redevelopment		4	(4)	-	-	-	-	-	K	
Chief Executive	New Leisure Centre at Knowsley Street		-	-	-	79	79	79	-	J	Fees expenditure only, long term project
Chief Executive	Sale of Assets		-	-	-	224	221	224	(3)	K	Offset at year end against realised sales.
Children's Services	DFES - Devolved Formula	-	2,118	(1,147)	971	980	593	9	(386)	K	
Children's Services	Targetted Capital Funds	-	611	(91)	520	520	462	-	(58)	K	
Children's Services	Children Centres	-	44	(19)	25	25	-	-	(25)	K	
Children's Services	Extended Schools	-	285	(285)	0	-	-	-	-	K	
DCN - Environmental Svces	Pimhole Renewal Area	-	-	-	-	(9)	(9)	(9)	(0)	K	
Planning	Kirklees Trail - Wolfold	-	6		6	6	6	-	-	J	
<b>LONGER TERM SCHEMES SUBTOTAL</b>		<b>300</b>	<b>3,372</b>	<b>(1,755)</b>	<b>1,617</b>	<b>1,950</b>	<b>1,702</b>	<b>333</b>	<b>(249)</b>		
<b>TOTAL BURY MBC controlled programme</b>		<b>16,483</b>	<b>38,201</b>	<b>(12,513)</b>	<b>25,688</b>	<b>25,749</b>	<b>13,747</b>	<b>60</b>	<b>(12,001)</b>		

Funding position:

Capital Receipts	1,940	762	(560)	202	202
Reserve / Earmarked Capital Receipts	499	658	(168)	490	490
General Fund Revenue	305	288	-	288	288
Housing Revenue Account	-	-	-	-	-
Capital Grants/Contributions	3,558	21,021	(10,320)	10,701	10,757
HRA/MRA Schemes	7,628	8,313	-	8,313	8,317
Supported Borrowing / Other Loans	-	62	-	62	62
Unsupported Borrowing	2,554	7,098	(1,465)	5,632	5,633
	<b>16,483</b>	<b>38,201</b>	<b>(12,513)</b>	<b>25,688</b>	<b>25,749</b>

Key for budget monitoring reports

Projected Overspend (or Income Shortfall)

	a major problem with the budget	more than 10% and above £50,000
	a significant problem with the budget	more than 10% but less than £50,000
	expenditure/income in line with budget	
	a significant projected underspend (or income surplus)	more than 10% but less than £50,000
	a major projected underspend (or income surplus)	more than 10% and above £50,000

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## HOUSING REVENUE ACCOUNT

Appendix B

## April 2013 - December 2013 Monitor

	2013/14 Original Estimate	2013/14 Latest Estimate	2013/14 Projected Outturn	2013/14 Variation Over/(Under)
	£	£	£	£
<b>INCOME</b>				
Dwelling rents	29,603,900	29,603,900	29,603,700	200
Non-dwelling rents	219,300	219,300	220,800	(1,500)
Heating charges	73,400	73,400	72,400	1,000
Other charges for services and facilities	887,800	887,800	885,300	2,500
Contributions towards expenditure	54,600	54,600	53,900	700
<b>Total Income</b>	<b>30,839,000</b>	<b>30,839,000</b>	<b>30,836,100</b>	<b>2,900</b>
<b>EXPENDITURE</b>				
Repairs and Maintenance	0	0	0	0
General Management	773,500	773,500	720,900	(52,600)
Special Services	732,600	732,600	732,300	(300)
Rents, rates, taxes and other charges	88,100	88,100	95,000	6,900
Increase in provision for bad debts - uncollectable debts	180,900	180,900	191,800	10,900
Increase in provision for bad debts - impact of Benefit Reforms	422,100	422,100	100,000	(322,100)
Cost of Capital Charge	4,593,200	4,593,200	4,530,300	(62,900)
Depreciation/Impairment of fixed assets - council dwellings	7,112,500	7,112,500	7,112,500	0
Depreciation of fixed assets - other assets	38,800	38,800	40,500	1,700
Debt Management Expenses	45,400	45,400	40,700	(4,700)
Contribution to Business Plan Headroom Reserve	3,689,400	3,689,400	3,689,400	0
<b>Total Expenditure</b>	<b>17,676,500</b>	<b>17,676,500</b>	<b>17,253,400</b>	<b>(423,100)</b>
<b>Net cost of services</b>	<b>(13,162,500)</b>	<b>(13,162,500)</b>	<b>(13,582,700)</b>	<b>(420,200)</b>
Amortised premia / discounts	(14,600)	(14,600)	(14,600)	0
Interest receivable - on balances	(150,200)	(150,200)	(135,900)	14,300
Interest receivable - on loans (mortgages)	(2,600)	(2,600)	(1,900)	700
<b>Net operating expenditure</b>	<b>(13,329,900)</b>	<b>(13,329,900)</b>	<b>(13,735,100)</b>	<b>(405,200)</b>
<b>Appropriations</b>				
Appropriation relevant to Impairment	0	0	0	0
Appropriation relevant to depreciation and MRA	(38,800)	(38,800)	0	38,800
Revenue contributions to capital	515,400	515,400	515,400	0
<b>(Surplus) / Deficit before ALMO/SHU payments</b>	<b>(12,853,300)</b>	<b>(12,853,300)</b>	<b>(13,219,700)</b>	<b>(366,400)</b>
<b>Payments to Six Town Housing / Transfers re Strategic Housing Unit excluded from above</b>				
Six Town Housing Management Fee	12,718,600	12,718,600	12,718,600	0
Contribution to SHU Costs	320,000	320,000	320,000	0
<b>Total</b>	<b>13,038,600</b>	<b>13,038,600</b>	<b>13,038,600</b>	<b>0</b>
<b>(Surplus) / Deficit after ALMO/SHU payments</b>	<b>185,300</b>	<b>185,300</b>	<b>(181,100)</b>	<b>(366,400)</b>
<b>Working balance brought forward</b>	<b>(1,185,300)</b>	<b>(1,185,300)</b>	<b>(1,185,300)</b>	<b>0</b>
<b>Working balance carried forward</b>	<b>(1,000,000)</b>	<b>(1,000,000)</b>	<b>(1,366,400)</b>	<b>(366,400)</b>

**key for budget monitoring reports**

Projected Overspend (or Income Shortfall) of

	a major problem with the budget - more than 10% and above 50K
	a significant problem with the budget - more than 10% but less than 50K
	expenditure/income on line with budget
	a significant projected underspend (or income surplus) - more than 10% but under 50K
	a major projected underspend (or income surplus) - more than 10% and above 50K

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The table below shows the prudential indicators as derived from the Treasury Management Strategy Report for 2013/14 and the Original Budget for 2013/14 as approved at Council in February 2013. The Original Budget for 2013/14 is compared with the Forecast Outturn for 2013/14 as at 31st December 2013.

CAPITAL EXPENDITURE	Original Budget 2013/14	Forecast Outturn at 31 Dec 13	Variance	Notes
	£'000	£'000		
<b>Estimate of Capital Expenditure</b>				
Non-HRA	8,855	17,356	96.01%	1
HRA existing expenditure	7,628	8,332		
<b>TOTAL</b>	<b>16,483</b>	<b>25,688</b>		
<b>Estimate of Capital Financing Requirement (CFR)</b>				
Non-HRA	129,764	128,880	(0.68%)	3
HRA existing expenditure	40,107	40,531		
HRA reform settlement	78,253	78,253		
<b>TOTAL</b>	<b>248,124</b>	<b>247,664</b>		

AFFORDABILITY	Original Budget 2013/14	Forecast Outturn at 31 Dec 13	Variance	Notes
	£'000	£'000		
Estimate of incremental impact of capital investment decisions				
Increase in council tax (band D, per annum)	£0.85	£0.00	100.00%	4
Increase in housing rent per week	£0.00	£0.00		5
Ratio of Financing Costs to net revenue stream				
Non-HRA	2.95%	3.25%	10.02%	6
HRA	14.81%	14.81%	0.00%	6
Net External Borrowing only to support the CFR in Medium Term	<b>£'000</b>	<b>£'000</b>		
Net External borrowing over medium term	206,621	207,940		7
Total CFR over Medium Term	248,124	247,664		7
Net External Borrowing < Total CFR	TRUE	TRUE		

EXTERNAL DEBT	Original Budget 2013/14	Forecast Outturn at 31 Dec 13	Variance	Notes
	£'000	£'000		
Authorised limit of external debt				
Borrowing	214,500	214,500		8
Other long term liabilities	7,400	7,400		
HRA reform settlement	79,300	79,300		
<b>TOTAL</b>	<b>301,200</b>	<b>301,200</b>	0.00%	
Operational boundary				
Borrowing	189,400	189,400		8
Other long term liabilities	7,300	7,300		
HRA reform settlement	79,300	79,300		
<b>TOTAL</b>	<b>276,000</b>	<b>276,000</b>	0.00%	

TREASURY MANAGEMENT	Original	Forecast	Variance	Notes
	Budget 2013/14	Outturn at 31 Dec 13		
Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	140%	140%	0%	9
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	-40%	-40%	0%	9
Upper limit for total principal sums invested for	£10 m	£10 m		10
Maturity structure of fixed rate borrowing at 30 Sep	Upper/lower limit	Actual		
	Under 12 months	40% - 0%	7.02%	
	12 months and within 24 months	35% - 0%	2.89%	
	24 months and within 5 years	40% - 0%	8.29%	
	5 years and within 10 years	50% - 0%	6.70%	
	10 years and above	90% - 30%	75.10%	

## Notes to the Prudential Indicators:

1. The original budget shows the approved Capital Programme expenditure of £16,483,000. The forecast outturn of £25,688,000 is higher than budget because of slippage from 2012/13.
2. Following the Government announcement to reform the system of financing Council housing, the Authority had to pay the Department for Communities and Local Government £78.253m on the 28<sup>th</sup> March 2012. The Council financed this expenditure by PWLB loans.
3. Capital Financing Requirement relates to all capital expenditure – i.e. it includes relevant capital expenditure incurred in previous years. The Capital financing requirement reflects the authority's underlying need to borrow.
4. The finance costs related to the increases in capital expenditure impact upon Council tax. The increase in Council Tax reflects the level of borrowing to be taken in 2013/14 to finance previous years' capital expenditure.
5. There is no direct impact of capital expenditure on housing rents as the housing rent is set according to Government formula.
6. The ratios for financing costs to net revenue stream for both General Fund and HRA have remained relatively stable.
7. To ensure that borrowing is only for a capital purpose and therefore show that the authority is being prudent this indicator compares the level of borrowing and capital financing requirement (CFR) over the medium term. The level of borrowing will always be below the CFR.
8. The authorised limit and operational boundary are consistent with the authority's plans for capital expenditure and financing. The authorised limit is the maximum amount that the authority can borrow.

9. The variable and fixed limits together look at the whole portfolio and will therefore together always show 100% exposure. Variable interest rate limit can be positive or negative as investments under 364 days are classed as variable and are credit balances which are offset against debit variable loans. The smaller the balance of investments, the more likely the variable limit will be positive as the variable loan debit balance will be higher than the credit investment balance offset against it.
  
10. Principal sums invested for periods longer than 364 days have been set at £10 million. The investment balance is estimated to be cash flow driven, however if the opportunity arises that surplus investment balances are available then advantage will be taken of favourable rates.

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**REPORT FOR DECISION**

<b>Agenda Item</b>	
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**MEETING:** **OVERVIEW & SCRUTINY COMMITTEE  
CABINET  
COUNCIL**

**DATE:** **12 FEBRUARY 2014  
19 FEBRUARY 2014  
19 FEBRUARY 2014**

**SUBJECT:** **BUDGET 2014/15 to 2015/16**

**REPORT FROM:** **DEPUTY LEADER & CABINET MEMBER FOR  
FINANCE & CORPORATE AFFAIRS**

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

**TYPE OF DECISION:** **COUNCIL**

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

**SUMMARY:** The report provides Members with details of the Capital Programme for 2014/15 to 2016/17 (section A) and the Revenue Budget for 2014/15 to 2015/16 (section B) together with the Council’s strategy for tackling the range of challenges and opportunities it faces through the Plan for Change 3.

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

Section B addresses the revenue budget and also outlines;

- the final Local Government Finance Settlement for 2014/15
- Forecast outturn for 2013/14
- The budget strategy for 2014/15 and 2015/16 and the approach to balancing the budget as set out in the Plan for Change 3.

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

The report is prepared on the basis that the Bury element of the Council Tax will be frozen for 2014/15, to be funded (in part) by £0.772m of Central Government grant.

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

**OPTIONS &  
RECOMMENDED OPTION**

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

The Cabinet is recommended to note the report and request that the Council consider and determine all matters relating to the Budget, the Capital Programme and the level of the Council Tax for 2014/2015 at its meeting on 19 February 2014.

Council is recommended to:

**Section A – Capital Programme**

1. Approve, amend or reject the Capital Programme for 2014/15 and future years, shown in Appendix 1;
2. Approve, amend or reject the proposed financing of the Capital Programme;

**Section B – Revenue Budget**

3. Note the details of the Settlement Funding Allocation (SFA) for 2014/15, and indicative allocations for 2015/16;
4. Approve the level of repayment of principal on General Fund debt at the minimum of 4% in line with the current Minimum Revenue Provision policy;
5. Note that under delegated powers the Assistant Director of Resources (Finance) calculated the amount of 51,227.93 as the Council Tax base for the year 2014/15 in accordance with the Local Government Act 2003 and with regulations made under section 33(5) of the Local Government Finance Act 1992 and the Local Authority (Calculation of Council Tax Base) (England) Regulations 2012;
6. Note the forecast outturn position for 2013/14;
7. Approve that the actual minimum level of balances for 2014/15 be increased to £4,500,000 in view of the Council's risk profile;
8. Approve, amend or reject the draft Revenue Budget for 2014/15 as shown in the report;

9. Approve the programme of savings set out in the Plan for Change 3 (Appendix 4);
10. Note the recommendations of the Schools' Forum around education funding issues;
11. Endorse the statements by the Assistant Director of Resources (Finance and Efficiency) on the robustness of budget assumptions and on the minimum level of balances;
12. Determine the level of the Council Tax for 2014/15.

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**IMPLICATIONS:**

**Corporate Aims/Policy Framework:**

Do the proposals accord with Policy Framework? Yes.

**Statement by Section 151 Officer:**

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

**Statement by Executive Director of Resources:**

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

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

**Equality/Diversity implications:**

In taking financial decisions, the Council must have "due regard" to its duties under the Equality Act. 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. It is intended that if any proposals are identified as carrying any significant risks, further consultation and assessment will be undertaken if necessary.

**Considered by Monitoring Officer:**

Yes. The budget is prepared in accordance with statutory provisions and detailed guidance. It is timetabled to ensure that statutory requirements are met.

**Are there any legal implications?**

The Council has a legal obligation to pass its budget and Council Tax resolutions by March 2014. Legal issues are set out in Appendix 2.

**Wards Affected:**

All

**Scrutiny Interest:**

Overview & Scrutiny Committee

**TRACKING/PROCESS**

**EXECUTIVE DIRECTOR: Mike Owen**

<b>Chief Executive/ Senior Leadership Team</b>	<b>Cabinet Member/Chair</b>	<b>Ward Members</b>	<b>Partners</b>
3/2/14	Finance & Corporate Affairs		
<b>Scrutiny Committee</b>	<b>Cabinet</b>	<b>Committee</b>	<b>Council</b>
Overview & Scrutiny 12/2/2014	19/2/2014	Special JCCs	19/2/2014

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**SECTION A**  
**CAPITAL PROGRAMME**

DRAFT

## **1.0 BACKGROUND**

- 1.1 This report outlines the proposed approach in respect of the Capital Programme 2014/15 to 2016/17 and sets out a strategy recommended by the Strategic Leadership Team and endorsed previously by the Cabinet.

## **2.0 PROGRESS AGAINST THE 2013/14 PROGRAMME**

- 2.1 Details of spend against the 2013/14 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report presented to the Cabinet on 19th February 2014.

## **3.0 CAPITAL RESOURCES FOR 2014/15**

- 3.1 The Capital Programme can be funded from four main sources:

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

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

- 3.3 The Settlement for 2014/15 makes no allowance for any supported borrowing meaning that the full costs of any additional borrowing will fall against the authority's revenue budget. This follows the approach adopted by the Coalition Government since 2011/12 to limit borrowing by local authorities and encourage them to structure local needs and circumstances to their Councils' levels of affordability for borrowing.

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

- 3.5 The other main funding source is capital receipts generated from the sale of the authority's land and property. Whilst market conditions are challenging at the moment, the Council anticipates generating capital receipts from a number of sites in the future.

#### 4.0 PROPOSED CAPITAL PROGRAMME 2014/15

- 4.1 In line with last year's Capital Programme, and the Council's Medium Term Financial Strategy, it is recommended that the 2014/15 – 2016/17 Capital Programme is restricted to fully funded schemes / schemes which are self financing based upon a viable proven Business Case. The proposed Programme is outlined at Appendix 1. In the event that Grant allocations change, the specification of schemes will be reviewed to ensure no under / overspend.
- 4.2 Invest-to-save schemes will continue to be considered in year, and in line with the Golden Rules will be subject to a verifiable business case that clearly demonstrates that schemes will be self-financing – taking into account any associated borrowing costs.
- 4.3 Members are reminded that for budgeting purposes capital receipts can only be committed to schemes when the cash from the sale of assets has been received or there is a high level of certainty that the cash will materialise. The extent to which capital receipts are used will be determined to a large degree by property market conditions. This does not hinder development of future schemes, as preparatory work can commence on projects in advance of capital receipts being generated; see section 4.4
- 4.4 Members are advised that negotiations are also underway with Transport for Greater Manchester to secure funding to implement an agreed option for relocating Radcliffe bus station.

#### 5.0 FUNDING THE CAPITAL PROGRAMME

- 5.1 The draft programme is proposed to be financed as follows;

Source	2014/15 £	2015/16 £	2016/17 £	Total £
<b>Gross Cost</b>	<b>19,664,839</b>	<b>13,180,399</b>	<b>12,296,009</b>	<b>45,141,247</b>
<b>Financed by:</b>				
Grants / External Funding	17,675,239	12,095,799	12,296,009	42,067,047
Earmarked Reserves	905,000	0	0	905,000
S106 Reserves	199,000	199,000	0	398,000
Borrowing (Invest to Save Business Case)	885,600	885,600	0	1,771,200
<b>Total</b>	<b>19,664,839</b>	<b>13,180,399</b>	<b>12,296,009</b>	<b>45,141,247</b>

#### 6.0 RISKS

- 6.1 There are three main risks inherent in the capital strategy:

- **Capital receipts are not realised.** This risk has been addressed through prudent forecasting, in the light of current market conditions however there are no plans to use receipts to fund the Programme.
- **Schemes slip from one year to the next.** This is a normal feature of capital schemes and can occur for a large number of reasons. The risk

can be mitigated by slipping corresponding resources between years and is not felt to be high.

- **Scheme costs increase.** Again this is not unusual, but unlike slippage, increased costs are more than timing issues and this cannot be mitigated without an impact on other schemes within the Programme or an impact on future years' resources. The risk can be mitigated by the use of sound costing techniques, effective project management and monitoring schemes using a risk assessment approach.

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

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**SECTION B**  
**REVENUE BUDGET**

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## **1.0 INTRODUCTION**

- 1.1 This section of the report examines the position in respect of the Revenue Budget for the current and future years. The position in respect of the Housing Revenue Account is the subject of a separate paper.
- 1.2 The report begins by providing Members with details of the final Local Government Finance Settlement for 2014/15 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2013/14 and the draft Revenue Budget for 2014/15 and initial forecast for 2015/16. It provides details of the wide-spread consultation process that was undertaken and summarises responses received. Finally it summarises the options identified for meeting the anticipated shortfall on the draft budget.
- 1.3 Local Government finance is a complex subject and to assist Members a glossary of the main terms and acronyms is attached at Appendix 2.
- 1.4 A draft settlement was announced on 18th December 2013, outlining figures for 2014/15, and indicative allocations for 2015/16. At the time of writing, final settlement figures have not been confirmed for 2014/15.
- 1.5 Setting the budget for 2014/15 may be a difficult and contentious exercise and so to assist Members the Assistant Director (Legal and Democratic Services) has prepared a note (attached at Appendix 2) setting out in detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning personal and prejudicial interests and goes on to specify the responsibilities of the Assistant Director of Resources (Finance and Efficiency) / section 151 Officer. The paper concludes with specific legal advice over aspects of the budget which potentially may give rise to difficulties. **Members are strongly advised to give their best attention to this advice.**
- 1.6 Members should also be aware that the budget proposals have been drawn up after a widespread consultation exercise. Further details are given in section 7.

## **2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2014/15**

- 2.1 The Draft Local Government Finance Settlement for 2014/15 (the Settlement) was released on 18th December 2013 and is due to be confirmed in February 2014. The Settlement provides details of the authority's income from Central Government, and was subject to a number of fundamental changes which took effect on 1<sup>st</sup> April 2013.

### ***Local Retention of Business Rates***

- 2.2 Historically, Local Authorities collected Business Rates and paid them over to a Central Government "pool"; the Government then redistributed rates income using a formula based approach – relative to perceived need.
- 2.3 With effect from April 2013, a new approach was introduced whereby Central and Local Government share Business Rates income as follows;
  - Government 50%

- Local Authority 49%
- Fire Authority 1%

2.4 The Government has established a notional **baseline** (based upon average collections over the last 2 years); uplifted annually by the Retail Price Index.

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

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

- Losses on Appeals – now have to be funded 49% by the Council; this includes significant backdating as far back as 2005. In the 2013/14 Budget, it was assumed there would be losses on appeal of approximately **£3 million**. Monitoring throughout the year to date indicates this assumption is holding firm, however there is a risk of accelerated appeals as the Valuation Office Agency have undertaken to clear the bulk of the backlog by 2015.
- Reliefs – The Council is also now liable for 49% of the cost of charitable / empty reliefs. Monitoring throughout the year has highlighted an increased incidence of these (approx **£0.5 million**; of which the Council funds 49%). The impact of this is factored into the Council's estimated Business Rates yield.
- Impact on Business Cases – the consequences of reduced Business Rates yield now have to be factored in to any Business Cases the Council is developing around its own asset base – e.g. rationalisation of office accommodation
- Economic Conditions – make the new approach more of a challenge as any business failures lead to a potential loss of income to the Council
- Equally however, in addition to the obvious social / economic benefits, there is now a "budgetary" incentive for the Council to stimulate business growth in the Borough

### **Pooling**

2.7 Where Business Rates income grows above an upper threshold, the Government apply a "levy" to cap the growth available to Local Authorities. Equally, a "safety net" applies where income falls below a lower threshold. There is an opportunity for Local Authorities to "pool" business rates income and retain all Business Rates Growth at a local level. Alongside this however, is the risk that all losses are covered locally.

2.8 Creation of a "Pool" was actively considered by Greater Manchester Authorities. Given the uncertainty of income streams, and lack of clear accounting guidance in respect of appeals, this option will not be pursued for 2014/15. The option remains to revisit Pooling in future years.

**Localised Council Tax Benefit Scheme**

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

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

2.10 Whilst fully costed and affordable now, Members are reminded of the volatility of claimant numbers, and the risk of any increases rests with the Council going forward.

**Overview of Settlement**

2.11 Bury's 2014/15 "Settlement Funding Allocation" (SFA), and 2015/16 Indicative SFA compare to the equivalent settlement figures for 2013/14 as follows;

	<b>SUFA £m</b>	<b>Change %</b>
2013/14	78.741	
2014/15	70.950	-9.89%
2015/16	60.934	-14.12%

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

	<b>2014/15 %</b>	<b>2015/16 %</b>
<b>Bury</b>	<b>-9.89%</b>	<b>-14.12%</b>
Met districts	-9.98%	-14.28%
London boroughs	-8.52%	-11.44%
Counties / Districts	-9.54%	-13.38%
England	-9.42%	-13.17%

*Figures now include rolling in of 2013/14 Council Tax Freeze Grant*

2.13 More significantly, the reductions for Bury are on top of what is already a very low funding base. The amount of Government support (SFA) per head of population is significantly lower than that of all classes of Authority;

	2014/15 £	2015/16 £
<b>Bury</b>	<b>£381.04</b>	<b>£327.25</b>
Met districts	£552.42	£473.54
London boroughs	£663.22	£587.38
Counties / Districts	£554.82	£480.59
England	£444.58	£386.04

### ***Rolled in Grants***

- 2.14 The settlement has once again seen the “rolling in” of former specific grants – meaning these are now part of the mainstream funding settlement.
- 2.15 This offers the Council more freedom in terms of how grants are applied as ringfencing is relaxed once a grant is “rolled in”.
- 2.16 A critical consideration however is the level at which grants are rolled in; the table below highlights an overall reduction of **£0.430m** (3.93%) for 2014/15; this is in addition to cuts of **£2.3 million** (17.67%) in 2013/14.

Grant	2013/14 £'000	2014/15 £'000	Change	
			£'000	%
Early Intervention Grant	5,965	5,502	-463	-7.76
Homelessness Prevention Grant	463	456	-7	-1.51
Lead Local Flood Authority Grant	122	120	-2	-1.64
Learning Disability / PH Reform	4,390	4,432	+42	+0.96
	10,940	10,510	-430	-3.93

- 2.17 The draft budget has been structured such that grants are preserved at historic levels – recognising the fact that in most cases staffing and other contractual commitments are in place. Whilst this protects services from notional grant reductions, it also means however that any notional increases are not passported on to services. This policy will need to be kept under annual review.

### ***Other Specific Grants***

- 2.18 In addition to the overall Settlement, a number of specific grants are made available. The number of these grants reduces every year as they continue to be rolled into the overall funding settlement.
- 2.19 The Settlement gave details of specific grants as follows;

Grant	2013/14 £'000	2014/15 £'000	Change £'000
Community Right to Bid	8	8	0
Community Right to Challenge	9	9	0
Council Tax Support – New Burdens	119	118	-1
Housing Benefit Admin Subsidy Grant	1,365	1,217	-148
Local Reform / Community Voice Grant	143	148	+5
Social Fund	692	681	-11
	2,336	2,181	-155

2.20 By their nature, these are specific grants, each with their own terms and conditions; they are therefore not available to support the wider Council budget, and any reductions must be absorbed by the service.

### 3.0 FORECAST OUTTURN 2013/14

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

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

3.3 The table below shows a summary of the forecast outturn based on information available at 31 December 2013 (i.e. month 9):

	<b>£m</b>
Adult Care Services	+0.140
Chief Executive's	+0.577
Children's Services	+0.408
Communities & Neighbourhoods	+0.013
Non Service Specific	-1.053
<b>TOTAL PROJECTED OVERSPENDING</b>	<b>+0.085</b>

3.4 The forecast shows a net overspend of £85,000 (0.06%) against the current budget. Behind this figure, a number of hot-spots remain within specific service areas, particularly around reduced income for some services in light of the prevailing economic conditions e.g. Property Services, Planning Fees, Car Parking, and demand pressures in respect of Looked After Children and Vulnerable Adults.

3.5 The overall budget is supported by the continued strong performance of the Council's Treasury Management function, and increased dividends from the newly restructured Manchester Airport Group. A number of budget savings have also been delivered ahead of target through "invest to save" initiatives e.g. Fostering & Adoption; all of which is supporting the overall position.

3.6 Star Chambers have continued to pay close attention to the situation as have the Overview & Scrutiny and Audit Committees.

3.7 Members should note that many of these pressures are on-going in nature, particularly in respect of income targets. The effect in 2013/14 has been mitigated through one-off / temporary measures e.g. holding vacant posts.

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

### 4.0 DRAFT REVENUE BUDGET 2014/15 to 2015/16

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

- The three year budget forecast
- "Golden Rules" supporting the budget strategy
- Assumptions behind the draft 2014/15 budget
- The potential Council Tax position for 2014/15
- The detailed draft budget for 2014/15 and outline position for 2015/16

4.2 The report then goes on to consider the Schools' position, options for balancing the budget, the "Plan for Change 3" consultation process and the robustness of the estimates behind the draft budget. This in turn leads to an assessment of the adequacy of the Council's minimum level of balances which is then linked to an evaluation of the financial implications of the risks that are faced by the Council in relation to it delivering on its priorities and in relation to the budget strategy and assumptions.

### 4.3 Medium Term Budget Forecast

4.3.1 The Council has consistently and successfully taken a medium-term view of it's financial position. In doing this it recognises that assumptions and estimates become less reliable further into the future but it is felt that remains a prudent and sensible approach to take. Of course the ability to do this is limited by the availability of Settlement figures.

4.3.2 The table below shows the current forecast savings anticipated under the "Plan for Change 3", and highlights further savings required as a result of;

- An assumed 0% increase in Council Tax in light of the continuation of the Council Tax Freeze
- Reductions in "rolled in" Grants identified in the Settlement totalling
- Ongoing spend pressures within the current Budget
- Provision for losses as a result of Business Rate Appeals (49% to be borne by the Council wef 1<sup>st</sup> April 2013, plus back-dating)
- Mitigated (in part) by the continued strong performance of the Council's successful Treasury Management function.

	<b>Initial Savings Requirement</b>	<b>Further Savings Requirement</b>	<b>Total Savings Requirement</b>
	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
2014/15	7.432	2.220	9.652
2015/16	15.807	0	15.807
2016/17	15.554	0	15.554
<b>Total</b>	<b>38.793</b>	<b>2.220</b>	<b>41.013</b>

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

4.3.4 It is already very clear that the 2014/15 budget will present a significant challenge following the Chancellor's Budget which announced a further reduction of 1% in Local Government funding.

4.3.5 Coupled with the risks inherent in the new finance system (localisation of Business Rates & Council Tax Support), ongoing cost / demand pressures,

and pressures around staff pay it is clear that future budget rounds will be very challenging.

## 4.4 Golden Rules

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

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

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

4.4.3 The Golden Rules are now enshrined in the Council's financial policies and it is clear that they have had a positive influence on the Council's financial standing; this was recognised by the recent LGA review.

4.4.4 It is equally important to recognise that the Golden Rules offer flexibility, particularly in respect of major capital developments such as Knowsley Place, the proposed Irwell Street development, Redbank Extra Care scheme, and adoption of a number of innovative "invest to save" schemes. Balances are available "invest to save" and "one-off" schemes. Equally, land banking and up front development can take place to optimize asset values and investment returns without breaching the rules.

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

## 4.5 Assumptions

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

- Adding the effects of contractually binding inflation and other allowable cost increases to the current year's budget;
- Determining the effects of "rolled in" grants;

- Assessing unavoidable pressures that must be met to maintain a robust and balanced standstill budget;
- Calculating the resources that will be available in light of the Government’s announcements on Council Tax.
- In exceptional cases, building in to the process the revenue affects of Members’ long-term decisions;
- Determining options for addressing the budget deficit, balancing income with expenditure.

4.5.2 The forecast is based around a standstill budget, one which reflects the current level of service up-rated for contractually binding inflation and other unavoidable pressures. The Council continues to operate a “cash ceiling” scheme, and as such departments will be required to absorb the impact of demographic, demand and other pressures from within their respective service resources, as well as contributing towards the corporate savings targets set for them.

4.5.3 This will be extremely challenging and the risks associated with such a strategy have been reflected in the calculation of the minimum level of balances.

4.5.4 In determining the assumptions to be used to underpin the 2014/15 budget the following considerations have been taken into account:

	Note	2014/15
Pay	1	1.0%
Pensions (increase in employers’ contribution rate)	2	0.7%
Prices	3	0.0%
Waste levy	4	cash rise
Transport levy	5	cash rise
Rise in income from fees and charges	6	1.0%
Council Tax base (no. of Band Ds)	7	51,227.93
Council Tax rate rise	8	0%

**Notes:**

**1. Pay** - the current budget forecast makes a 1% provision for pay inflation in line with the 1% ceiling for public sector pay increases; although it is recognised that this is a ceiling not a target and also that local government pay awards are subject to separate national negotiations independent of the Government.

**The budget reflects the recommendation of the Leader and Cabinet / Deputy Cabinet Member for Finance and Corporate Affairs that the Council should reinstate annual increments for staff, following a three year “freeze”.**

**2. Pensions** – based on the latest 3-year actuarial review of the GM Pension Fund the rate at which Bury Council as an employer is required to contribute (as a % of pensionable pay) is forecast to rise from 17.8% to 19.8% between 1 April 2014 and 31 March 2017. Working on a number of technical assumptions around the reduction in the total pay

bill and the level of early/ill health retirements it has been agreed with the Fund that this increase can be allocated equally over the three years.

- 3. Prices** – whilst it is recognised that inflation is increasing it is felt that the Council's financial position is such that it would be imprudent to make a general provision for non-pay inflation although Directors have been invited to bid for funding towards unavoidable/contractual inflationary cost increases.
- 4. Waste Levy** – Bury's waste levy is set to rise by £0.114m in 2014/15. Alongside this, the Council operates a "smoothing reserve" which aims to equalise the annual budget requirement for the levy. Ultimately, when recycling targets are achieved (or even exceeded), then the pressure of the waste levy will be greatly reduced. The Council has recognised that this strategy will entail high costs initially, and reduced costs in future years. This is in line with the Golden Rules.
- 5. Transport levy** – the levy comprises two distinct elements. Firstly there is the amount required to fund transport infrastructure improvements across the Greater Manchester area which has been set at an average annual rise of +3.0% pa.

Secondly there is the amount required to meet the rise in the Integrated Transport Authority's general costs. This is forecast to be -3.0%; giving a net levy increase of 0% (-£26k in Bury's case).

This has been achieved following robust scrutiny of the ITA's budget by Members and officers from Bury, Trafford and Wigan.

- 6. Income** - this is a further general assumption and Directors are free to decide how to meet the requirement depending on their individual circumstances, and the market sensitivity of prices.
- 7. Council Tax** - acting under delegated powers, the Assistant Director of Resources (Finance) has calculated the amount of 51,227.93 (Band D equivalent) as the Council Tax base for the year 2014/15 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This figure is the same as 2013/14.
- 8. Council Tax rate** – this report is drafted on the basis of a 0% Council Tax rise which would also trigger payment of a Freeze Grant. Members are asked to note that the proposed 2014/15 Freeze Grant only compensates the Council at a rate equivalent to around a 1% rise in Council Tax. Members should be aware that a freeze is not mandatory although a rise of any level will mean that the grant is foregone.

Members are advised of that each additional 1% rise in the Council Tax would generate income of £0.668m but the Freeze Grant would be lost.

Members must be mindful of the fiduciary duty of the Council to the Council Tax payers of the borough and the need to consider the consequences to Council Tax payers of the level of expenditure set within the budget. In future years they will also be advised to consider carefully the increase in the tax rate in the light of any possible capping

criteria and in the light of legislation to allow a community challenge to the proposed increase.

For 2014/15 referendum rules are still unknown as relevant legislation has yet to be passed.

4.5.5 Borrowing costs/investment income budgets will be up-rated in line with the Annual Treasury Management Strategy and with the borrowing assumptions, however Members attention is drawn to the fact that the low level of interest rates, coupled with the uncertainties in the financial markets, means that the authority's ability to generate investment returns has been weakened considerably.

4.5.6 Members' attention is also particularly drawn to towards:

- Ongoing and historical demand led pressures in excess of nominal inflation
- Bury's high VFM rating and comparatively low costs
- A non-transparent methodology of distributing grant to local areas
- The impact of economic conditions on income levels
- The endeavours of the "Plan for Change 3" in allocating resources in line with residents' wishes and Council Choices.

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

### **4.6 The Draft Budget 2014/15**

4.6.1 Budgets reflecting cost increases identified between 2013/14 and 2014/15 have been drawn up in conjunction with the Heads of Finance and other staff within the Council's Departments.

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

4.6.3 The budget also preserves "rolled in" grants at their 2013/14 levels as outlined at 2.14.

4.6.4 The table overleaf summarises the initial draft 'standstill' budget for 2014/15:

	<b>2014/15 £000</b>
<b>Opening Budget</b>	<b>145,535</b>
Add: one-off cuts from previous year	0
Add: losses on grants now rolled in to settlement	430
Add: provision for Business Rate Appeals	350
Less: New Homes Bonus previously top-sliced from RSG	-486
Less: Funding of Small Business Rates Relief Scheme	-954
Inflation:	
Pay	862
Contractual Commitments	1,240
Energy Costs	43
Income	-208
Staffing costs:	
Increase in employers' pension contribution	683
Increase in National Insurance	0
Increments	500
Levies:	
Integrated Transport Authority	-26
Waste Disposal Authority (net of smoothing reserve)	1,112
Additional Dividend – Manchester Airport	-400
<b>Estimated Budget</b>	<b>148,681</b>
Less:	
Settlement Funding Assessment	-70,950
Council Tax:	
Council Tax (@ 0% rise)	-66,793
Council Tax Freeze Grant (equiv 1.2% rise)	-772
<b>Estimated Resources</b>	<b>-138,515</b>
<b>TOTAL CUTS REQUIRED</b>	<b>10,166</b>
Cuts already approved through Plan for Change 2 (Feb 13)	7,432
Headroom from 2013/14 Council Tax Increase	514
"Top Up" Cuts Required	2,220
<b>Total Cuts 2014/15</b>	<b>10,166</b>

#### 4.7 The Draft Budget 2015/16

- 4.7.1 Analysis of the draft Settlement for 2015/16 indicates that the Council will have to find a further **£15.807m** of cuts in that year, on top of the cuts already made/agreed for previous years. This position was outlined in the Medium Term Financial Strategy approved by Cabinet in December 2013. Total cuts from 2011/12 are summarised overleaf;

2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Total £'000
9,575	8,656	9,871	9,652	15,807	15,554	69,115

This equates to approximately £370 per head of population

- 4.7.2 Members are reminded that the Settlement figures are provisional, as are the assumptions behind the budget forecast for 2015/16, and so the cuts target may change in either direction over the coming 12 months.
- 4.7.3 A priority led budget model has been developed for 2015/16 which seeks to allocate **initial** cuts targets between services according to the following factors;
- Link to "Plan for Change" Priorities
  - Cost of Doing Business
  - Mandatory Provision
  - Local Political Priority
- 4.7.4 In examining ways of achieving cuts targets Cabinet Members and Directors have been asked to question:
- The number of services that they provide
  - The quantity of each service
  - The quality of each service
  - Alternative ways of delivering each service including the use of volunteers
  - Options for increasing income
- 4.7.5 Directors and Cabinet Members have also been asked to be mindful of the strategic overview to budget setting for 2015/16 agreed by the Cabinet in December 2013 which suggested that the Council will need to:
- Change the public's expectations about what the Council can deliver
  - Work more closely with individuals and communities to deliver services
  - Provide a stronger focus on demand reduction
  - Undertake an examination of alternative ways of delivering remaining Council services
  - Change the way residents access services
- 4.7.6 It must be stressed that the targets above are **indicative** at this stage, options are currently being considered, and the draft cuts programme will be developed over the coming months, before moving into a consultation phase.
- 4.7.7 Given the scale of cuts anticipated for 2015/16, it is recommended that preparations commence earlier than normal, to allow all options to be considered, and sufficient time for consultation.

## 5.0 SCHOOLS' ISSUES

### 5.1 Dedicated Schools Grant (DSG)

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

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

- Schools
- Early Years
- High Needs

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

5.1.4 The DSG financial analysis provided by the Department for Education (DfE) shows that the 2014/15 per pupil funding is £4,229.64 per pupil of statutory school age in maintained Primary and Secondary schools and academies. In per pupil funding terms, Bury is ranked 122<sup>nd</sup> out of 150 local authorities in England.

5.1.5 The DSG financial analysis provided by the Department for Education (DfE) for those children in the Early Years block shows that the 2014/15 per pupil funding is £3,123.19 per pupil. In per pupil funding terms, Bury is ranked 149<sup>th</sup> out of 150 local authorities in England.

5.1.6 The following table shows the amounts for all the Greater Manchester authorities and our northern neighbours.

Authority	Schools Fun ding (per pupil)	Early Years Fun ding (per pupil)
	£	£
England	4,550.54	4,282.41
Blackburn with Darwen	4,688.62	4,425.83
Bolton	4,535.72	4,430.47
<b>Bury</b>	<b>4,229.64</b>	<b>3,123.19</b>
Lancashire	4,486.05	4,351.74
Manchester	5,088.30	5,822.91
Oldham	4,778.47	4,190.67
Rochdale	4,689.88	4,217.21
Salford	4,551.24	6,378.84
Stockport	4,206.18	4,342.90
Tameside	4,717.42	3,210.78

Trafford	4,232.12	4,054.63
Wigan	4,526.53	3,385.94

5.1.7 The overall funding is based on the amount per pupil times by the number of pupils on specific census dates and these are:

- √ DSG funding announcement made by the DfE on 19/12/2013
- √ DSG settlement, net of academy recoupment, to be notified in March 2014
- √ Final DSG for 2014/15 (excluding Early Years) announcement to be made by the DfE in June/July 2014
- √ Final 2014/15 DSG for all blocks announcement to be made by the DfE in June 2015 based on the Early Years numbers for January 2015
- √ Early Years census – 16/01/2014
- √ June 2014 DfE confirm Early Years block based on January 2014 numbers
- √ Submitted SEN place numbers on 23/12/13 in accordance with DfE timescales – DfE will announce High Needs block in February 2014
- √ Post-16 information not available from the DfE until early March 2014 at the earliest

## 5.2 Pupil Premium

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

5.2.2 In 2011/12, the Pupil Premium grant was introduced at an amount of £430 for each pupil eligible for a free school meal and those Looked After Children on the register for six months or more.

5.2.3 In subsequent years the amount per pupil has increased by stepped amounts and the eligibility criteria have been extended to include a pupil that has been eligible for a free school meal during the past six years.

5.2.4 For 2013/14, the DfE increased the Pupil Premium to £900 per pupil eligible for a free school meal and being a Looked After Child.

5.2.5 Recently, the DfE increased the Pupil Premium for pupils in Primary schools to £954 per pupil, while keeping the Pupil Premium for pupils in Secondary schools at £900 per pupil.

5.2.6 The Pupil Premium for 2014/15 will further increase to £1,300 for pupils in Primary schools and to £935 for pupils in Secondary schools. The Minister for Schools announced in Autumn 2013 that the differential amount for Primary schools “is to help them raise their attainment levels and ensure that every child is ready for the move to Secondary school”.

5.2.7 The arrangements for Looked After Children have been increased to £1,900 per pupil and the eligibility has been extended to include any child that has been “looked after” in the past 6 years.

5.3 Grant Funding

5.3.1 The funding amounts that will be available for Bury schools compared to 2013/14 are summarised overleaf:

5.3.2 Pupil Numbers in Schools and Academies based on the October 2013 census

<b>Pupil Numbers</b>	13/14	14/15	Variance
Primary schools	14,605	14,929	324
Secondary schools	10,781	10,687	-94
Academy	614	660	46
<b>Totals</b>	<b>26,000</b>	<b>26,276</b>	<b>276</b>

*The large drop in Secondary numbers is mainly due to Radcliffe Riverside and Manchester Mesivta, plus smaller numbers at some other schools.*

5.3.3 Total external grants for schools and academies:

<b>Grant Funding</b>	13/14	14/15	Variance
	£M	£M	£M
DSG Schools Block	110.0	111.1	1.1
Carbon Reduction Allowances		-0.2	-0.2
2 Year Old Funding (full year effect)	1.8	3.0	1.2
Pupil Premium Grant	6.1	7.9	1.8

5.4 Bury Schools’ Financial Position

5.4.1 The Central Spend elements of the Dedicated Schools Grant for 2012/13 were overspent by £664,000. The main areas of overspending were “in-year Statements” and “Maternity, Paternity, Suspensions and Public Duties Supply Cover”. Both of these areas resulted in more money being transferred into schools’ delegated budgets than was originally allocated.

5.4.2 In addition, the Education Funding Agency (part of the Department for Education) only provided £1.1 million to fund the local authority’s increased responsibility for 16-25 year old Learners with Learning Difficulties and/or Disabilities (LLDD). Bury’s estimated spend for these students in 2013/14 is almost £1¾ million, creating a budget shortfall of £640,000. The Chief

Executive of the EFA has said that any shortfall in funding can be met by the Dedicated Schools Grant.

5.4.3 It is expected that both of these issues will continue and unless action is taken then there could be an accumulated shortfall by the end of 2014/15 of more than £3 million. This can only be met by adjusting the schools' funding formula from 2014/15 onwards.

5.4.4 The Schools sub-block is subject to the national funding formula framework and the local authority, in conjunction with the Schools Forum, can determine the values of each of the formula factor components.

5.4.5 At their meeting held on 28<sup>th</sup> January 2014, following a vote by the relevant sectors, the Schools Forum agreed the following changes to the 2014/15 schools' funding formula components:

- √ Increasing the Basic Entitlement for Primary schools by £50 per pupil
- √ Reducing Primary schools' deprivation factors by between £100 and £800 per eligible pupil
- √ Reducing the Secondary schools' funding per pupil by £70 per pupil
- √ Increased the Minimum Funding Guarantee to over £1¼ million to help alleviate the impact of these changes for schools affected by the changes

5.4.6 Applying these values until 2017/18 will ensure that the Dedicated Schools Grant will be in balance.

### 5.5 Universal Free School Meals for Infants

5.5.1 The DfE have announced that, from September 2014, they will provide funding to enable schools to offer a free lunch to every Primary school child in Reception, Year 1 and Year 2 classes.

5.5.2 On 23<sup>rd</sup> January 2014, the DfE announced additional capital funding to help provide increased capacity in schools and Bury's share for 2014/15 is £356,034 for local authority schools and £168,924 for our Voluntary Aided schools. Academies will receive a separate notification of their allocation.

5.5.3 Details of any additional revenue funding for the potential increased take-up are yet to be announced, but initial indications are that the funding will be based on £2.30 per meal taken, based on the actual take-up by newly eligible infant pupils. Bury's current amount is £1.95 per meal.

## 6.0 **OPTIONS FOR BALANCING THE BUDGET / PLAN FOR CHANGE 3**

6.1 Forecasts in the original Plan for Change highlighted that the Council had to make cuts of £7.432 million for 2014/15.

- 6.2 Additional cuts of £2.2 million were subsequently required as outlined at 4.6; taking the total to £10.166 million (£9.652 million net of 2013/14 Council Tax headroom).
- 6.3 Proposals for the initial £7.432 million cuts requirement were approved by Council in February 2013.
- 6.4 Departments and Portfolio Holders were required to develop options to fulfil the additional cuts requirement of £2.220 million; these formed the basis of the public / stakeholder consultation exercise outlined at Section 7.0 and specific cuts are detailed at Appendix 4.
- 6.5 The total proposed cuts for 2014/15 are summarised in the table overleaf:

<b>Department</b>	<b>Initial 2014/15 Plan for Change 2 Cuts (Approved Feb 2013)</b>	<b>Additional Plan for Change 3 Cuts (Appendix 4)</b>	<b>Total Cuts</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult Care Services	2.757	0.777	3.534
Childrens Services	1.914	0.533	2.447
Communities & Neighbourhoods	2.236	0.710	2.946
Chief Executives	0.525	0.200	725
<b>Total</b>	<b>7.432</b>	<b>2.200</b>	<b>9.652</b>

- 6.6 Additional cuts have been sourced from a range of areas, summarised in the table below (full details at Appendix 4);

<b>Area</b>	<b>Amount £m</b>
Buildings / Accommodation	0.170
Deletion of Vacant Posts	0.073
External Funding Optimisation	0.850
Income Generation	0.095
Procurement Savings	0.143
Staff Restructurings	0.592
Payments to Third Sector	0.075
Other Efficiencies	0.222
	<b>2.220</b>

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

## **7.0 THE "PLAN FOR CHANGE 3" / CONSULTATION**

7.1 The Plan for Change, was originally approved in June 2011, and set out how the council intends to manage the challenges it faces over a three-year financial period from 2012/13 to 2014/15. At the same time the Plan for Change 3 programme intends to identify opportunities for the council to pro-actively improve both the efficiency and effectiveness of services to ensure continued value for money.

7.2 The Plan for Change 3 allows us to change and adapt what we do to ensure we continue to meet statutory requirements and that we can respond to the needs of our changing customer base, increased demand for services and also manage the expectations of service users in a climate of much reduced resources.

7.3 The Plan for Change three-year Programme of Savings was formally approved by Council in February 2012 after two large-scale consultation exercises which identified a number of priority areas for the council. The choices consultation received input from 3,678 individuals.

7.4 The results of the choices consultation indicated the following in terms of priority areas:

- Supporting vulnerable people
- A strong local economy
- Decent place to live
- Maintain opportunities for high quality education and training
- Managing roads and the transport network
- Keep Bury clean and green
- Promoting healthier lives
- Leisure and cultural opportunities
- Encourage strong and vibrant communities
- Better informed and engaged communities.

7.5 In light of the requirement for additional savings, proposals for the additional £2.220 million cuts were formally launched in a user friendly document in November 2013 and have been subject to a period of public consultation until January 2014.

7.6 Residents and other stakeholders were invited to submit comments as follows;

- Participation via the Council website
- In writing
- By email
- Over the phone
- At township forums meetings
- At a staff briefings prior to public launch of the consultation
- Via meetings with union reps and at JCC meetings

- 7.7 In addition a business briefing event and a focus group session with members of Youth Cabinet took place.
- 7.8 In total this consultation has received 152 comments /correspondence.
- 7.9 A number of comments were received regarding a proposal to reduce the grants to voluntary organisations (29 comments or correspondence). In addition 22 comments on the proposed changes to mental health services were received.
- 7.10 The Council is proud of its record on consultation and has transformed the way it has engaged with the public and services users. The results of the consultation exercise have been analysed and Members must give the "product" of consultation conscientious consideration when taking a decision. However, these suggestions have not resulted in any changes being proposed to the Programme of Savings prior to the meeting of full council for approval.
- 7.11 The council's ongoing commitment to an open and transparent decision making process and consultation has allowed the council to involve the local community from the very start of the budget setting process and this approach supports the value of the Plan for Change to 'put residents first'.
- 7.12 A summary of consultation responses received is attached at Appendix 5.

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

- 8.1 In line with the provisions of s25 of the Local Government Act 2003, the Assistant Director of Resources (Finance and Efficiency) as section 151 officer is required to make a statement about the robustness of the estimates made when setting the Council's budget.
- 8.2 In doing this, the section 151 officer must consider the risk that is inherent in the budget strategy and the extent to which these risks are mitigated or accommodated by the Council's planning and control mechanisms. This is done by examining four particular issues:
1. The degree to which the budget (and the Council's reserves) are linked to the risks facing the Council
  2. The level of risk implicit in the individual elements of the Council's budget
  3. Risks inherent in the budget strategy itself
  4. The strength of the Council's internal control framework

## **8.3 Corporate risks**

- 8.3.1 The Council has a robust risk management process that determines, assesses, manages, monitors and reviews risks that are both cross-cutting (corporate) and departmental in nature. For the purposes of corporate budget setting and management it is felt appropriate to utilise the corporate risks, given that there are explicit links between departmental and corporate risks. Departmental risk assessments are used in the management of individual Department's budgets.
- 8.3.2 A Member-level Corporate Risk Management Group has been established to monitor the corporate risks and to assess the effectiveness of the mitigation action that has been identified. Provision has been made in the draft Budget to

address these risks, or allowance has been made within balances to cover possible events that are out with of the Council's control.

#### **8.4 Risk implicit in specific areas of the budget**

- 8.4.1 As far as income to the Council is concerned there are a number of key sources including Formula Grant, Specific Grants, Council tax and fees and charges, and significantly the recent addition of locally retained Business Rates. In respect of Formula Grant, the income stream is known for the coming year, and indicative figures have been provided for 2015/16, however there is no indication of resources for future years. It is clear that there are going to be severe reductions in public spending over the course of the current Parliament, and increasingly likely beyond. It is essential that the Council acts to prepare for the implications on public spending cuts on local government.
- 8.4.2 As far as expenditure is concerned, the areas of greatest risk in the budget are those that are subject to demand fluctuations.
- 8.4.3 Although the Council's financial procedure rules require that no expenditure is incurred without the identification of a budget there are some budgets where variable demand, cost and statutory obligations make it extremely difficult for Services to manage within the resources that have been voted. Such budgets include care packages (both residential and home based support) for adults with learning and physical difficulties and mental health issues, care costs associated with an increasingly older population, independent special school fees, learning support services and the external placement of children.
- 8.4.4 The approach to managing the issues faced by the Children's Services and Adult Care Services budget has been strengthened in recent years with the relevant Star Chambers focussing on the current budgetary position / strategy, and also future developments that are aimed at reducing costs, managing risks and restructuring services and care packages.
- 8.4.5 A recent initiative has been to utilise one-off sources of funding to pay for promotional / awareness raising campaigns in respect of fostering & adoption; the business case being that ultimately this investment would lead to sustainable and ongoing reductions in the number of children being placed with costly external providers. Early indications are that this initiative is proving successful.
- 8.4.7 However it is clear that pressures in these areas are unlikely to diminish due to increasing demands arising from an ageing population, from increasing client expectations and from transitional cases from Children's Services. However in recognition of the problems associated with managing such budgets provision has been made within the minimum balances calculation that is shown in the next section of the report.
- 8.4.8 Turning to income budgets, ring-fenced and other grants are properly allocated and accounted for in accordance with the relevant Government department rules and subject to rigorous external audit checking.
- 8.4.9 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2014/15 is 97%, based on past, current and projected performance, and the heightened risk of collecting from empty properties and

second homes. Collection rates will continue to be rigorously monitored, with particular emphasis on these areas.

8.4.10 Legislation relating to referendum criteria has yet to be finalised under the Local Audit & Accountability Bill.

8.4.11 Fees and charges (excluding Council House rents) are budgeted to raise over £50m of income in 2014/15 from almost a thousand sources. Of all the funding sources this is the area where there is greatest risk of under achievement. To assess the risk it is necessary to understand how relevant income budgets are constructed, fee levels determined, how the charges are made, income collected and recovery procedures applied.

8.4.12 Although the budget, through the operation of the cash ceiling scheme, makes a universal assumption that income generated from fees and charges will increase by 1% compared to the previous income budget, the increase in actual fee charging levels, is more responsive and policy-led. As a result, depending on the current income being achieved, market conditions and the particular activity, fees can be increased by more or less than 1%.

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

8.4.14 It is clear from monitoring that has taken place during 2013/14 that the difficult economic climate continues to have a downward effect on various charging streams such as property services income, car park fees, planning charges etc. It is important that this is considered by Members and Directors when the budget is set. There is provision within the minimum level of balances calculation to reflect this risk.

8.4.15 In terms of general expenditure budgets the single largest area of expenditure is on staff pay. There remains a clear indication from the Government that Local Authorities should continue to exercise pay restraint, and the 2014/15 proposed budget makes a 1% provision for a pay award. The actual outcome of national pay negotiations remains to be seen, however every 1% rise equates to approximately £0.9m additional cost for the Council. Members should note that there is a £0.9m provision within the Minimum Level of Balances (albeit on a one-off basis) to mitigate the impact in the event of a higher pay award.

8.4.16 An allowance has been built into the budget to fund the on-going cost of the pay and grading review based on detailed pay modelling of the results. In view of this it is felt that the risk inherent in this element of the budget is low.

8.4.17 Staff accounts for a majority the Council's expenditure budget and the next significant areas of budget, in descending order of significance are:

- Supplies, services transport and contract payments
- Housing and Council Tax benefits
- Debt charges

- Levies (ITA/Waste/Environment Agency)

8.4.18 Supplies and services etc. account for 33% of the gross budget and the majority of this is subject to contractual provision. These contracts provide for food, oil, building and highway materials, IT equipment, stationery and external residential and supported accommodation for children, the elderly and people with learning and physical disabilities. The draft budget assumes a cash freeze on the individual budgets for such items although Directors have been encouraged to bid for support to meet inflationary costs where it is unavoidable (e.g. contractual commitments) or where it impacts on business-critical services.

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

8.4.20 The Council exercises sound Treasury Management practices and has a reasonable volatility ratio. Interest rate predictions are up-dated regularly and action taken to mitigate any negative effects, wherever possible. The present downward trend in interest rates was anticipated and both investments and borrowing have been locked-in long-term (as far as prudence allows) at optimal market rates, so minimising risk. Members should note the increasing difficulty in securing a satisfactory interest yield as the number of institutions the Council can safely invest with is reducing.

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

## **8.5 Risks inherent in the budget strategy**

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

- Many changes have converged simultaneously, and within a very compressed timescale. Interpreting the impact and inter-action of these changes has been a significant challenge.
- The risk of raising and collecting business rates is now borne (49%) by the Council, and the local business rates yield now has a direct budgetary consequence. A prudent approach to the estimated yield has been adopted.
- Similarly, the Council must now stand 49% of the cost of business rate appeals; this applies to appeals already lodged, and any that may be lodged in the future. Clearly the outcome of appeals is unknown, and cannot be estimated. The liability also has the potential to be backdated as far back as 2005. Provision has been made within the budget to contribute to the cost of appeals.

- The localisation of Council Tax Support brings significant risks in the event that claimant numbers rise beyond the levels expected. A prudent approach has been taken in designing the Local Council Tax Support scheme.
- Collection rates may suffer under the proposed scheme as the Council seeks to collect Council Tax from Second Homes and Empty Properties. Prudent collection rates have been factored in to the calculation of the Council Tax base.

### 8.5.2 In addition, other more general risks still apply

- The capacity of the Council to respond to the level of savings required whilst maintaining essential services could be compromised. Over 420 staff have left the organisation since 2010. This risk cannot be eliminated, however can be mitigated by the Council's proven track record on performance management.
- Savings targets may not be achieved. This risk is mitigated by rigorous financial control / budget monitoring. The Council has a strong record of delivering a balanced budget and achieving a favourable outturn position. This approach includes the use of Star Chambers which ensure both Portfolio Holders and managers has clear understanding and ownership of the budget and pressures in their area.
- Budgets may overspend during the year as a result of unforeseen pressures, or demand outstripping the levels originally anticipated. The budgetary control framework will give early warning of this, allowing remedial action to be taken where possible.
- Assumptions may prove to be inaccurate due to external influences, e.g. national economic conditions

8.5.3 Given the robust nature of the budget strategy, the Council's strong record of performance and the strength of the budget monitoring process these risks are felt to be at a medium level for 2014/15. However it is important that this level of risk is mitigated and provision has therefore been made within balances to cover these items.

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

## **8.6 System of Internal Control**

8.6.1 The Council has adopted a Governance Statement that concluded that there are no weaknesses in the authority's overall control framework and the Audit Commission has commented favourably on the framework. The Governance Statement and the control framework have been regularly reviewed, most recently by the Audit Committee on 3 December 2013, and no major changes have been identified.

## 8.7 Conclusion

8.7.1 In light of the above the Assistant Director of Resources (Finance and Efficiency) has made the following comment on the robustness of the estimates:

"There can be no guarantee that expenditure will be contained within each and every budget. The nature of the Council's business means that varying demands will be faced during the year and under and over achievement will occur.

However, the aim should be that the budget in total is sustainable and, subject to recessionary pressures/impacts being adequately assessed and resourced, then indications suggest that this is the case.

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

Close monitoring of the budget, together with responsive management action, will be necessary to ensure that income and expenditure remain within budget. However significant improvements have been seen in monitoring processes, particularly around the continued development of the Agresso system.

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

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

**Members should note that some of the detailed guidance around Business Rates Retention / Small Business Rate Relief has yet to be finalised and issued.**

**Likewise the final methodology for Council Tax Referendum Calculations has yet to be published – pending enactment of Local Accountability and Audit Bill.**

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

Finally, experience of past years has highlighted that a number of budgets face considerable pressure, particularly services reliant upon income generation, services for people with physical and learning Disabilities and out-of borough placements for children. It is essential that Members support the work of Star Chambers and that Members and management continue to implement the measures that have so far been identified.

In the light of the risk assessment, the details of the budget as set out in this report, the strength of the Council’s Internal Control framework and the risk based provision made in the minimum level of General Fund balances then I as the section 151 Officer can state that **the budget for 2014/15 is robust.** This statement is in compliance with s25 of the Local Government Act 2003.”

**9.0 ADEQUACY OF RESERVES**

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

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

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

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

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

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

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

	<b>Risk</b>	<b>£000</b>
<b>Pay inflation Cushion:</b> This represents a sum equivalent to 1%; over and above the level provided for in the 2014/15 draft budget. It should be noted that Pay Awards represent an ongoing cost, whereas use of reserves is only a one-off measure.	H	900

<p><b>Non-Pay inflation Cushion:</b> Should inflation suddenly rise after the budget has been set, this contingency assumes a 3.0% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.</p>	M	900
<p><b>Interest Cushion:</b> Given the fact that the cost of borrowing budget reflects a baseline position in respect of interest rates, that borrowing has been locked in and that the Capital Programme requires no new borrowing then risk in this area is felt to be on the up-side especially with short-term investment rates at an historic low.</p>	M	100
<p><b>Uncertainty of Income Cushion:</b> Adequate provisions are made for bad debts, however, in the past some income budgets have not been achieved and therefore it is prudent to provide a contingency for all non grant income.</p>	H	400
<p><b>Business Rate Volatility Cushion:</b> The Council now bears the risk for 49% of any changes in Business Rates yield (either through appeals, reliefs, or economic conditions). Historical analysis highlights the volatility of this income stream, and it is therefore prudent to provide a contingency.</p>	H	100
<p><b>Unpredictable and Demand Led Expenditure Cushion:</b> The Council's budgets have had to be kept to a minimum level for a number of years. As a result, the flexibility to compensate for overspends, by reducing spending in other areas is limited. Conversely, significant investment has been made into 'high risk' budgets and this has helped to mitigate this risk. This contingency is now based upon 2.0% of all "demand led" expenditure largely in the areas of Children's and Adult Care Services.</p>	H	1,200
<p><b>Budget Strategy Risk Cushion:</b> There is always likely to be a level of uncertainty around the authority's ability to achieve savings options and this contingency is based around 8% of the on-going savings options.</p>	M	750

<b>Emergency Expenditure Cushion:</b> Provision must be made for the cost of emergencies that by their very nature cannot be predicted and for any uninsured losses. The Government's "Bellwin Scheme" partially protects authorities from catastrophic costs of some emergencies, but costs up to the threshold of the Bellwin Scheme will still need to be covered by reserves. The Government will pay 85% of any disaster costs above the threshold. This contingency provides for the Council's contribution, assuming a major disaster costing £3.0m.	L	400
Contingency for smaller emergencies e.g. highway collapse.	L	400
<b>TOTAL</b>		<b>5,150</b>

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

	<b>Risk Level</b>	<b>Likelihood</b>	<b>Provision £000</b>	<b>Max. Impact £000</b>
Pay inflation cushion	H	100%	900	900
Non-pay inflation cushion	M	80%	900	720
Interest cushion	M	80%	100	80
Uncertainty of income	H	100%	400	400
Business Rate Volatility	H	100%	100	100
Demand led expenditure cushion	H	100%	1,200	1,200
Budget strategy cushion – savings	M	80%	750	600
Emergency expenditure cushion	L	60%	800	480
			<b>5,150</b>	<b>4,480</b>

9.7 This would set the minimum balance requirement for 2014/15 at **£4.480m**. The calculation made under the Golden Rules would lead to a minimum level of balances of £3.7m and it is recommended that Members agree to retain the minimum level of balances at the higher level of **£4.500m** (rounded), this being an increase of £0.100 million from 2013/14.

9.8 The forecast position on the General Fund balance at 1 April 2014 is shown in the following table:

	£m
<b>General Fund Balance 31 March 2013 per Accounts</b>	<b>10.730</b>
Less : Minimum balances to be retained in 2014/15	-4.500
Less : Forecast overspend 2013/14	-0.085

Less : Earmarked to fund Equal Pay Settlements	-1.500
<b>Forecast Available balances at 1 April 2014</b>	<b>4.645</b>

- 9.9 Members are reminded that whilst reserves above the minimum level can be released to support expenditure or reduce taxation they can only be used once. Reserves are most effective when used to support one-off items of expenditure; they should not be used to support on-going expenditure levels and if they are, then Members are strongly advised to consider the implications for future years' budgets.
- 9.10 Of course Members are also reminded that there is an opportunity cost to maintaining balances. Whilst on the one hand the money retained will potentially be available for investment (and at £4.5m, the balances will earn approximately £90,000 in 2014/15 as part of the overall Treasury Management strategy), this is money tied up that could otherwise be invested into services or reducing the Council Tax. However, utilising balances in this way would be contrary to the Golden Rules.

## **10. FUTURE YEARS**

- 10.1 Announcements from the Government suggest that the deficit reduction plan will continue for a number of years, and there will be sustained pressure on Public Service budgets, coupled with increasing demand pressures.
- 10.2 Forecasting the potential impact is extremely difficult, and compounded by non-controllable factors such as;
- Business Rate yield
  - Business Rate appeals
  - Incidence of Council Tax Benefit Claims
  - Inflation (Pay & Prices)
  - Interest Rates
  - Demand led cost pressures
- 10.3 The Council's Medium Term Financial Strategy suggest savings in the order of £30 million will be required over 2015/16 and 2016/17.
- 10.4 Members are requested to be mindful of this challenge ahead, when considering the 2014/15 Budget.

**COUNCILLOR JOHN SMITH**

**DEPUTY LEADER & CABINET MEMBER FOR FINANCE & CORPORATE AFFAIRS**

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**ADVICE FROM THE ASSISTANT DIRECTORS OF LEGAL & DEMOCRATIC SERVICES AND FINANCE & EFFICIENCY****1. INTRODUCTION**

This note sets out in some detail Members' individual responsibilities to set a legal budget and how Members should approach the task.

It also reminds Members about the rules concerning personal and prejudicial interests.

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

**2. WHEN THE BUDGET MUST BE SET**

Under Section 32 of the Local Government Finance Act 1992, budget calculations have to be made before 11th March, but they are not invalid merely because they are made on or after 11th March. The Localism Act 2011 includes amendments to the 1992 Act and requires the Council to calculate a Council Tax Requirement for the year, due to the referendum provisions if the Council Tax is increased above a prescribed level. However, delay in setting the Council Tax will have very serious financial consequences. It will render the Council vulnerable to legal proceedings requiring it to set the tax.

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

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

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

**3. NOTICE**

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

**4. COUNCIL TAX REFERENDUM**

Under the provisions of the Local Audit & Accountability Bill, The Secretary of State has the power to require any billing or precepting Authority which sets an excessive Council Tax increase to hold a public referendum.

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

The legislation will require the authority proposing the excessive increase ('the relevant authority') to prepare supporting factual material setting out the proposed council tax increase and budget, the comparative non-excessive

council tax rise and shadow budget, and the estimated cost of holding the referendum. At the same time that bills are sent to council taxpayers, the billing authority will send this information, together with polling cards, to every registered local elector. Local councillors would of course be free to make the case for any excessive increase, but the relevant authority would be prohibited from campaigning on the issue.

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

### **5. MEMBERS' FIDUCIARY DUTIES**

The obligation to set a balanced budget at the start of every year is shared equally by each individual Member. In discharging that obligation, Members owe a fiduciary duty to the Council Taxpayer.

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

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

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

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

Under the Code of Conduct, members are required, when reaching decisions, to have regard to relevant advice from the Chief Finance Officer and the Monitoring Officer. If the Council should fail to set a budget at all or fail to set a lawful budget, contrary to the advice of these two officers there may be a

breach of the Code by individual members if it can be demonstrated that they have not had proper regard to the advice given.

## **6. ARREARS OF COUNCIL TAX AND VOTING**

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

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

Members should note the following points:

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

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

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

## **7. Disclosable Pecuniary Interests,**

Members are reminded that a dispensation was granted to all Members under allowing them to participate and vote on setting the Council Tax or precepts under the Local Government Finance Act, notwithstanding that they may have

a disclosable pecuniary interest by reason of having any beneficial interest in land within the Borough.

### **Personal and Prejudicial Interests**

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

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

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

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

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

If a member does have a prejudicial interest then the Member concerned must withdraw from the meeting and leave the room.

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

### **Dispensations**

Dispensations are available in respect of prejudicial interests under the Code of Conduct but only in very limited circumstance and only from the Standards Committee. The Standards Committee can only meet on 5 clear days notice and, unless certified as urgent, business can only be transacted if 5 clear days notice of it has been given. There is no Standards Committee meeting currently fixed before the budget setting meeting.

## **8. RESPONSIBILITIES OF CHIEF FINANCIAL OFFICER AND AUDITORS' POWERS**

### **Chief Financial Officer and Monitoring Officer**

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

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

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

### **External Auditors' Powers**

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

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

## **9. SPECIFIC BUDGET ADVICE**

### **Balances and Other Budget Calculations**

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

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

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

### **Alternative Proposals**

If alternative proposals to those contained in this report are moved at the budget setting meeting, the Chief Financial Officer will need to consider if the estimates or proposed financial reserves contained in this report are affected and whether a further report (which may be oral) is required under section 25 of the Local Government Act 2003. If the Chief Financial Officer is unable to report on the estimates or the reserves because of the lateness of the alternative proposals then he will not be able to comply with this statutory requirement. The Act does not say what happens if this duty is not fulfilled and nor does it say whether the Council can set the budget without that advice. It follows from this then that there is no express statutory prohibition. However, the authority is at risk of a Judicial Review by an interested person e.g. a resident or the Audit Commission if the Council has failed to have regard to a report of the Chief Financial Officer on the estimates and reserves used for its budget calculations.

### **Capital Programme**

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

### **Expenditure Charged to the Housing Revenue Account**

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

**GLOSSARY OF TERMS****Budget requirement**

This is the amount each authority estimates as its planned spending, after deducting any funding from reserves and any income it expects to raise (other than from the Council Tax and general funding from the Government). 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 income is now shared 50:50 between Government and Local Authorities.

**Council Tax**

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

**Council Tax base**

The Council Tax base of an area is equal to the number of band D equivalent properties. To work this out, the Government counts the number of properties in each band and works out an equivalent number of band D properties. For example, one band H property is equivalent to two band D properties, because it pays twice as much tax. The amount of revenue which could be raised by Council Tax in an area is calculated allowing for discounts, exemptions and the Local Council Tax Support scheme.

**Council Tax bands**

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

**Council Tax discounts and exemptions**

Discounts are available to people who live alone and owners of homes that are not anyone's main home. Council Tax is not charged for certain properties, known as exempt properties, such as those lived in only by students.

**Council Tax Referendum**

Under the provisions of the Local Audit & Accountability Bill, The Secretary of State has the power to require any billing or precepting Authority which sets an excessive Council Tax increase to hold a public referendum (see Appendix 2).

**Net Revenue Expenditure (NRE)**

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

**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 grant, locally retained business rates, 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.

**Settlement Funding Allocation**

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

**Specific Grants**

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

**Spending Power**

The combined income for the Council - includes Settlement Funding Assessment, Council Tax income, and other specific grants. It should be noted that Specific Grants are conditional, and not available to support the wider Council Budget.

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Project Title	3 YEAR TOTALS	2014/2015			2015/2016			2016/2017		
	Gross Cost £	Gross Cost £	External £	BC Cost £	Gross Cost £	External £	BC Cost £	Gross Cost £	External £	BC Cost £
<b>CHIEF EXECUTIVES / RESOURCES</b>										
Radcliffe Market Redevelopment	700,000	700,000	0	700,000	0	0	0	0	0	0
Radcliffe Bus Station Redevelopment	1,000,000	1,000,000	1,000,000	0	0	0	0	0	0	0
<b>CHIEF EXECUTIVES / RESOURCES</b>	<b>1,700,000</b>	<b>1,700,000</b>	<b>1,000,000</b>	<b>700,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CHILDRENS SERVICES</b>										
Basic need	5,768,680	1,303,372	1,303,372	0	2,178,199	2,178,199	0	2,287,109	2,287,109	0
Devolved Formula Non-VA schools	499,554	499,554	499,554	0	0	0	0	0	0	0
Demographic Growth Fund 16-19 (Elms Bank)	273,737	273,737	273,737	0	0	0	0	0	0	0
Capital Maintenance	2,622,382	2,622,382	2,622,382	0	0	0	0	0	0	0
Universal infant free school meals capital 2014-15	356,034	356,034	356,034	0	0	0	0	0	0	0
Derby High School - Sports Hall	321,000	321,000	321,000	0	0	0	0	0	0	0
<b>CHILDRENS SERVICES</b>	<b>9,841,387</b>	<b>5,376,079</b>	<b>5,376,079</b>	<b>0</b>	<b>2,178,199</b>	<b>2,178,199</b>	<b>0</b>	<b>2,287,109</b>	<b>2,287,109</b>	<b>0</b>
<b>ADULT CARE SERVICES</b>										
Adult Personal Social Services Capital Allocation - Community Capacity Grant	448,054	448,054	448,054	0	0	0	0	0	0	0
Grant Funded Major Adaptations - Private Housing -Disabled Facilities Grant	652,106	652,106	652,106	0	0	0	0	0	0	0
Radcliffe Empty Properties Pilot	398,000	199,000	0	199,000	199,000	0	199,000	0	0	0
<b>ADULT CARE SERVICES</b>	<b>1,498,160</b>	<b>1,299,160</b>	<b>1,100,160</b>	<b>199,000</b>	<b>199,000</b>	<b>0</b>	<b>199,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>DCN</b>										
20mph Speed Limits on streets within residential areas	205,000	205,000	0	205,000	0	0	0	0	0	0
LTP H/ways Capital Maintenance	4,578,000	1,526,000	1,526,000	0	1,526,000	1,526,000	0	1,526,000	1,526,000	0
Additional Highways Maintenance Funding	175,000	175,000	175,000	0	0	0	0	0	0	0
Radcliffe Heritage Phase 2	206,100	206,100	206,100	0	0	0	0	0	0	0
Cycle City Ambition Grant - Routes to Prestwich Metrolink	195,000	195,000	195,000	0	0	0	0	0	0	0
Kirklees Valley LNR - WIG	128,100	42,000	42,000	0	60,400	60,400	0	25,700	25,700	0
<b>ENV &amp; DEV SERVICES</b>	<b>5,487,200</b>	<b>2,349,100</b>	<b>2,144,100</b>	<b>205,000</b>	<b>1,586,400</b>	<b>1,586,400</b>	<b>0</b>	<b>1,551,700</b>	<b>1,551,700</b>	<b>0</b>
<b>SIX TOWN HOUSING</b>										
Housing programme Major works (HRA funded)	22,866,200	7,361,400	7,361,400	0	7,619,100	7,619,100	0	7,885,700	7,885,700	0
Disabled Facilities Adaptations - Housing Stock (HRA funded)	1,657,100	533,500	533,500	0	552,100	552,100	0	571,500	571,500	0
<b>SIX TOWN HOUSING</b>	<b>24,523,300</b>	<b>7,894,900</b>	<b>7,894,900</b>	<b>0</b>	<b>8,171,200</b>	<b>8,171,200</b>	<b>0</b>	<b>8,457,200</b>	<b>8,457,200</b>	<b>0</b>
<b>FULLY FUNDED SCHEMES TOTAL</b>	<b>43,050,047</b>	<b>18,619,239</b>	<b>17,515,239</b>	<b>1,104,000</b>	<b>12,134,799</b>	<b>11,935,799</b>	<b>199,000</b>	<b>12,296,009</b>	<b>12,296,009</b>	<b>0</b>
<b>INVEST TO SAVE SCHEMES</b>										
<b>ENV &amp; DEV SERVICES</b>										
Street Lighting I2S	2,091,200	1,045,600	160,000	885,600	1,045,600	160,000	885,600	0	0	0
<b>I2S SCHEMES TOTAL</b>	<b>2,091,200</b>	<b>1,045,600</b>	<b>160,000</b>	<b>885,600</b>	<b>1,045,600</b>	<b>160,000</b>	<b>885,600</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>PROPOSED CAPITAL PROGRAMME TOTAL</b>	<b>45,141,247</b>	<b>19,664,839</b>	<b>17,675,239</b>	<b>1,989,600</b>	<b>13,180,399</b>	<b>12,095,799</b>	<b>1,084,600</b>	<b>12,296,009</b>	<b>12,296,009</b>	<b>0</b>

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# Draft Programme of Savings 2014-15 Information Pack

APPENDIX 4

Published November 2013



## Introduction

Welcome to our Draft Programme of Savings 2014-15 Information Pack which provides more information about our savings proposals. It provides answers to a series of questions and helps you to consider the different options in more detail.

We have split this document into different sections so you can look at all or some of the sections to allow you to find out more:

- Frequently Asked Questions
- Internal Efficiencies
- Proposals for Savings

You can also log on to [www.bury.gov.uk/planforchange](http://www.bury.gov.uk/planforchange) and download our 'Plan for Change: Draft Programme of Savings 2014/15' which provides information about the consultation process and how we have developed these proposals.

Please let us know your views by:

- ➔ Attending a public meeting (full details of meetings are online at [www.bury.gov.uk/townshipforums](http://www.bury.gov.uk/townshipforums) ).
-  Viewing the proposals online and submitting feedback at [www.bury.gov.uk/planforchange](http://www.bury.gov.uk/planforchange)
-  Emailing [planforchange@bury.gov.uk](mailto:planforchange@bury.gov.uk)
-  Writing to us at Plan for Change, Bury Council, Knowsley Street, Bury BL9 0SW
-  Calling us on 0161 253 5696

Please let us have your views by **17<sup>th</sup> January 2014**. Final proposals for savings will be published prior to the Council meeting on **19<sup>th</sup> February 2014**.

We hope that you find the information in this document useful.



**Councillor Mike Connolly**  
Leader of the Council



**Councillor John Smith**  
Deputy Leader of the Council  
Cabinet Member  
for Corporate Affairs

## **Frequently Asked Questions**

### **Why are you publishing further savings?**

This is the most financially challenging time for Local Authorities across the country in our history. Bury, unfortunately, is no exception and we have already made massive savings year on year. We are trying our hardest to protect front line services, and identify more efficient ways of working but as the cuts increase, this is becoming increasingly difficult.

Last year when we wrote the Plan for Change and designed the Programme of Savings, we worked on our best forecasts at that time. Unfortunately, it has become apparent over the past few weeks that the overall financial support that we receive from government is likely to be cut by a far higher amount than we expected. We are now in a position where we will have to make more savings than we thought in 2014/15.

I would also stress that the position for 2014/15 will not be finalised until we know the outcome of the Local Government Finance Settlement; which we have been warned will not be until early 2014.

### **How much more money does the council have to find?**

The Plan for Change Programme of Savings has already identified savings of £7.4 million for 2014/15.

Following a further 1% cut announced by the Chancellor, and factoring in unavoidable service pressures, we estimate that we will face a further £2.2 million cut, and need to update the Plan for Change to reflect this.

It should be noted that for the period 2011/12 to 2014/15, the Council will have faced cuts totalling £38.4 million, out of a controllable budget of approximately £100 million.

### **I thought there was a three year plan in place – is this no longer the case?**

Yes, we originally set a three year plan covering 2012/13, 2013/14, and 2014/15, and we still firmly believe that taking a longer term view is the right thing to do. Unfortunately, the goalposts have moved a number of times during these 3 years; this led to us having to find additional savings for 2013/14, and we find ourselves in the same position again – with an additional £2.2 million cuts in 2014/15.

### **How is work progressing towards achieving savings for Internal Efficiencies?**

We have spent some time examining all the detail of these savings and are confident that they can be delivered.

### **What is the difference between back office and front office services?**

We use these terms to show the difference between those services which directly work with or relate to our residents (front office), for example children's centres or leisure centres, and those

which are needed to make sure the organisation works well (back office), for example financial management. Front office services are also sometimes referred to as front-line services.

## **How are you supporting staff through this process?**

We have put in place a range of support for staff including:

- Now and Next – we have a dedicated resource area on the intranet where employees can find out more information about training opportunities, CV skills, interview techniques and apply for jobs.
- Redeployment – staff who are facing redundancy are prioritised and either matched with suitable vacancies or given the opportunity to apply for vacant posts across the council when they occur. This takes place before jobs are advertised internally.
- Voluntary Severance, Voluntary Early Retirement and Flexible Retirement – we have offered staff a range of options to allow us to make efficiencies and changes to the organisation.

## **How can I get involved in the consultation?**

- Attend a public meeting – dates are on the website [www.bury.gov.uk/townshipforums](http://www.bury.gov.uk/townshipforums)
- Read the proposals and comment online at [www.bury.gov.uk/planforchange](http://www.bury.gov.uk/planforchange)
- Read the information at your local library and send in your comments
- Call us 0161 253 5696
- Email [planforchange@bury.gov.uk](mailto:planforchange@bury.gov.uk)

## **What are the next steps in the budget consultation process?**

We are consulting on all the proposals until **17<sup>th</sup> January 2014**. The comments and feedback will then be analysed before final proposals are taken to Budget Council on **19<sup>th</sup> February 2014**. The Budget Council is a public meeting which members of the public can attend. It takes place in the Council Chamber at Bury Town Hall.

# Internal Efficiencies

## Internal efficiencies: Office Accommodation

<b>Proposal:</b> Reduction in Town Centre buildings creating savings on utilities and rent.	<b>Saving:</b> £100,000
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### Why are we proposing these savings?

The Council is seeking to make more efficient use of its assets, including rationalising its office buildings and introducing agile working practices. The closure of Athenaeum House and Castle Buildings in the summer of 2013 has resulted in savings higher than assumed in the original Plan For Change.

### What changes are we undertaking to allow us to reach this savings targets?

A substantial part of the saving will be achieved as a result of premises cost savings from the office moves that have taken place, but there will also be a review of staffing levels in the service to examine if further savings can be achieved.

### Will front line services be affected – what changes will residents see and when will this take place?

Residents will continue to access services at Bury Town Hall and Knowsley Place rather than at Athenaeum House and Castle Buildings.

### Will any geographical area be particularly affected by this proposal?

No

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

The office accommodation changes are primarily back office changes and there should be no further frontline impact.

### Does this mean additional charges for this service?

Not applicable

### Does this budget proposal result in redundancies?

This will depend on the outcome of the review of staffing levels, but every effort would be made to facilitate redeployment should reductions be necessary.

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Not applicable

## Internal Efficiencies: Buildings and Accommodation

**Proposal:**

Reduction in Repairs and Maintenance for Buildings and Land.

**Saving:** £70,000

**Why are we proposing these savings?**

Restricting expenditure whilst maintaining service provision

**What changes are we undertaking to allow us to reach this savings targets?**

Reduction in spend on repairs & maintenance of buildings and land

**Will front line services be affected – what changes will residents see and when will this take place?**

It would restrict the ability of all service areas within DCN to keep buildings maintained

**Will any geographical area be particularly affected by this proposal?**

Savings will be made across services in all geographical areas

**What back of office changes are proposed to achieve this target and minimise impact on front line services?**

Improve procurement to minimise front-line impact

**Does this mean additional charges for this service?**

No

**Does this budget proposal result in redundancies?**

No

**Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Yes

## Internal Efficiencies: Deletion of Vacant posts

**Proposal:**

Posts across the Council that are currently vacant will not be filled.

**Saving: £73,000**

**Why are we proposing these savings?**

Deletion of vacant posts will enable us to limit spend without impacting on jobs

**What changes are we undertaking to allow us to reach this savings targets?**

Non filling of a range of support service posts and one post in Environmental Services which are currently vacant

**Will front line services be affected – what changes will residents see and when will this take place?**

The deletion of the vacant Environment post will impact on environmental protection work the section is able to do

**Will any geographical area be particularly affected by this proposal?**

No

**What back of office changes are proposed to achieve this target and minimise impact on front line services?**

Non filling of vacant support service posts

**Does this mean additional charges for this service?**

No

**Does this budget proposal result in redundancies?**

No

**Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Yes

## Internal Efficiencies: External Funding Optimisation

**Proposal:**

Savings on contracts for traffic management and traffic signals.

**Saving:** £20,000

**Why are we proposing these savings?**

The majority of work on traffic management and signals is now undertaken by Transport for Greater Manchester, resulting in an underspend on the highways budget to contribute to the savings target

**What changes are we undertaking to allow us to reach this savings targets?**

The arrangements are currently in place

**Will front line services be affected – what changes will residents see and when will this take place?**

No

**Will any geographical area be particularly affected by this proposal?**

No

**What back of office changes are proposed to achieve this target and minimise impact on front line services?**

Not applicable

**Does this mean additional charges for this service?**

No

**Does this budget proposal result in redundancies?**

No

**Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Not applicable

## Internal Efficiencies: External Funding Optimisation

### Proposal:

Better use of specific grants to fund services across Adult Care, rather than being reliant on funding from Council Tax.

**Saving:** £317,000

### Why are we proposing these savings?

To ensure that the grants available to the department are optimized and to review the work undertaken on behalf of other partner agencies to ensure that it is appropriately funded.

### What changes are we undertaking to allow us to reach this savings targets?

Review the use of existing grants and the outcomes being achieved. Look at the services which we currently provide and consider new ways of achieving income, through charges made to other organisations.

### Will front line services be affected – what changes will residents see and when will this take place?

No changes to front line services anticipated.

### Will any geographical area be particularly affected by this proposal?

At this point this is unclear.

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

It is proposed that we generate income using some of our back office function to provide services to partner organisations.

### Does this mean additional charges for this service?

No

### Does this budget proposal result in redundancies?

Not envisaged at this stage.

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Yes services will continue - any changes to services will include consultation with staff and customers.

## Internal Efficiencies: External Funding Optimisation

<b>Proposal:</b> Better use of specific grants to support services across Children's Services, rather than being reliant on funding from Council Tax.	<b>Saving:</b> £513,000
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### Why are we proposing these savings?

We plan to use money from external grants to support our existing core activities.

### What changes are we undertaking to allow us to reach this savings targets?

We are changing the way we allocate external resources to core activities.

### Will front line services be affected – what changes will residents see and when will this take place?

Front-line services will benefit from the protection provided by these funds, rather than having to make savings on their provision.

### Will any geographical area be particularly affected by this proposal?

No

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

None

### Does this mean additional charges for this service?

No

### Does this budget proposal result in redundancies?

No

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Not applicable

## Internal efficiencies: Income Generation

<b>Proposal:</b> Additional income already being generated	<b>Saving:</b> £55,000
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**Why are we proposing these savings?**

Existing income levels exceed the budget and can be used to contribute to the savings target

**What changes are we undertaking to allow us to reach this savings targets?**

The extra income will not be available to support other areas of the budget

**Will front line services be affected – what changes will residents see and when will this take place?**

None

**Will any geographical area be particularly affected by this proposal?**

No

**What back of office changes are proposed to achieve this target and minimise impact on front line services?**

Not applicable

**Does this mean additional charges for this service?**

No – charges will only be subject to change as part of the annual review to reflect the inflation targets assumed in the Council’s budget forecasts

**Does this budget proposal result in redundancies?**

No

**Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Not applicable

## Internal efficiencies: Income generation

### Proposal:

Carelink to become a self financing service from April 1<sup>st</sup> 2014, subject to consultation which will reduce Council subsidy of the service.

**Saving: £40,000**

### Why are we proposing these savings?

To protect other statutory services that the Council is obliged to provide.

### What changes are we undertaking to allow us to reach this savings targets?

The savings can be achieved through a combination of reducing costs and reviewing fees and charges.

### Will front line services be affected – what changes will residents see and when will this take place?

If the proposals are accepted, consultation will take place on prices for the service.

### Will any geographical area be particularly affected by this proposal?

No – Borough wide

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

Some reductions in operating costs have been identified and will contribute to the savings. Cost reductions will be insufficient on their own to achieve the target reduction and maintain a safe service.

### Does this mean additional charges for this service?

Yes, subject to consultation on the proposals as outlined above.

### Does this budget proposal result in redundancies?

No

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Yes. Future pricing levels will be consulted upon before any decision is taken to implement the changes

## Internal efficiencies: Procurement Savings

<b>Proposal:</b>	<b>Saving:</b> £100,000
Less demand for liners for food caddies than initially forecast.	

### Why are we proposing these savings?

When food waste collections were introduced an estimated cost for the usage of caddy liners was included in the budget. Experience has been that fewer bags are used/requested than originally envisaged, allowing a saving to be realised whilst still continuing with the service.

### What changes are we undertaking to allow us to reach this savings targets?

Continue to monitor usage of food caddy liners to ensure reduced budget not exceeded

### Will front line services be affected – what changes will residents see and when will this take place?

It is possible to reduce this budget without impacting on service provision

### Will any geographical area be particularly affected by this proposal?

No

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

None

### Does this mean additional charges for this service?

No

### Does this budget proposal result in redundancies?

No

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Not applicable

## Internal efficiencies: Procurement

<b>Proposal:</b> Reduction in departmental budgets for Training, IT and Stationery.	<b>Saving:</b> £43,000
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### Why are we proposing these savings?

We want to ensure that we continue to get maximum value for money from back-office functions. We have consolidated budgets so that we can get economies of scale which will allow us to achieve this saving.

### What changes are we undertaking to allow us to reach this savings targets?

We are reviewing and holding back on all of these budgets

### Will front line services be affected – what changes will residents see and when will this take place?

No

### Will any geographical area be particularly affected by this proposal?

No

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

There are no specific changes although budget management arrangements will be reviewed

### Does this mean additional charges for this service?

No

### Does this budget proposal result in redundancies?

No

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Not applicable

## Internal efficiencies: Staff Restructuring

<b>Proposal:</b> Restructures and reorganisations in various services across the Council.	<b>Saving:</b> £462,000
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### Why are we proposing these savings?

We want to reduce the costs of management and support services in order that we can maximize spend on front-line services. However this will mean that there is a further reduction in management capacity across the Council.

### What changes are we undertaking to allow us to reach this savings targets?

There are a number of changes being adopted in various service areas such as approving flexible retirement applications, removing posts from management structures and reviewing operational activities to maximize efficiency, such as area based working.

### Will front line services be affected – what changes will residents see and when will this take place?

Improved efficiency across the services is expected to maintain current standards. If there were any concerns that front line services would be affected, consultation with customers would take place.

### Will any geographical area be particularly affected by this proposal?

No

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

There will be a range of back office changes across the Council to facilitate these restructures such as all resource functions in the Chief executives department will be brought together as one service. However, none of these will have impact on front line services. The focus is to reduce bureaucracy and aid smarter working.

### Does this mean additional charges for this service?

Not applicable

### Does this budget proposal result in redundancies?

Yes, there will be at least two voluntary redundancies following these restructures.

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Not applicable

## Internal efficiencies: Staff Restructuring

<b>Proposal:</b> Changes to Mental Health Services.	<b>Saving:</b> £130,000
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### **Why are we proposing these savings?**

The service needs to be reconfigured to provide a greater emphasis on recovery, whilst still supporting people who have complex needs.

### **What changes are we undertaking to allow us to reach this savings targets?**

Review of partnership agreement currently in place, restructure existing service and bring closer alignment to Assessment and Care Management services.

### **Will front line services be affected – what changes will residents see and when will this take place?**

Better initial response to people who need Mental Health support at Connect and Direct, other services including Social Work and Community Psychiatric services will remain the same.

### **Will any geographical area be particularly affected by this proposal?**

No

### **What back of office changes are proposed to achieve this target and minimise impact on front line services?**

As part of this reconfiguration we will be proposing changes to administration staff and reviewing office accommodation.

### **Does this mean additional charges for this service?**

No

### **Does this budget proposal result in redundancies?**

Possibly, some staff have already expressed interest in VER/ VES

### **Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Contact points will remain the same, if not improved by these changes

## Internal efficiencies: Other

<b>Proposal:</b>	<b>Saving:</b> £122,000
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Reduction in overtime and other budgets

### **Why are we proposing these savings?**

To contribute to the Council's savings targets cost reductions will need to be made by reducing overtime this will allow the Council to protect other jobs without having an impact on statutory functions.

### **What changes are we undertaking to allow us to reach this savings targets?**

Restricting overtime so that extra costs are only incurred for essential duties, or where costs are rechargeable and funded outside the Council's General Fund budgets. Where there is surplus in budgets, this will contribute towards overall savings targets.

### **Will front line services be affected – what changes will residents see and when will this take place?**

No front line services should be affected detrimentally.

### **Will any geographical area be particularly affected by this proposal?**

No

### **What back of office changes are proposed to achieve this target and minimise impact on front line services?**

Not applicable

### **Does this mean additional charges for this service?**

No

### **Does this budget proposal result in redundancies?**

No reducing overtime will help to protect other jobs

### **Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Not applicable

## Internal efficiencies: Other

<b>Proposal:</b> Catering and Cleaning cost savings	<b>Saving:</b> £40,000
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### **Why are we proposing these savings?**

To contribute to the Council's savings targets cost reductions will need to be found

### **What changes are we undertaking to allow us to reach this savings targets?**

A review of costs in the cleaning & catering services will allow us to make savings

### **Will front line services be affected – what changes will residents see and when will this take place?**

No

### **Will any geographical area be particularly affected by this proposal?**

No

### **What back of office changes are proposed to achieve this target and minimise impact on front line services?**

Revised procurement, amended administrative procedures and reduction in overheads

### **Does this mean additional charges for this service?**

No

### **Does this budget proposal result in redundancies?**

No

### **Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Not applicable

## Internal efficiencies: Other

<b>Proposal:</b> Reduction in Grounds Maintenance Standards.	<b>Saving:</b> £20,000
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### Why are we proposing these savings?

Cost reductions are required to meet budget savings targets

### What changes are we undertaking to allow us to reach this savings targets?

Grounds Maintenance standards will be reduced across the borough.

### Will front line services be affected – what changes will residents see and when will this take place?

There will be a reduction in grounds maintenance standards which will affect grass cutting frequencies, winter and summer maintenance to parks and planted areas.

### Will any geographical area be particularly affected by this proposal?

There is likely to be a reduction across all areas

### What back of office changes are proposed to achieve this target and minimise impact on front line services?

Not applicable

### Does this mean additional charges for this service?

No

### Does this budget proposal result in redundancies?

There is likely to be a reduction required in grounds staff as a result of this proposal but every effort would be made to facilitate redeployment should reductions be necessary

### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Not applicable

## Internal Efficiencies: Other

<b>Proposal:</b> Reduction in monies set aside for invest to save bids that promote healthier lives.	<b>Saving:</b> £40,000
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**Why are we proposing these savings?**

These monies are currently not committed to spend

**What changes are we undertaking to allow us to reach this savings targets?**

We will not spend monies allocated to invest to save development opportunities.

**Will front line services be affected – what changes will residents see and when will this take place?**

None

**Will any geographical area be particularly affected by this proposal?**

No

**What back of office changes are proposed to achieve this target and minimise impact on front line services?**

None

**Does this mean additional charges for this service?**

No

**Does this budget proposal result in redundancies?**

No

**Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?**

Yes, no consultation required.

## New proposals

### Reduction in Payments to External Organisations: Review of Grant allocations

<b>Proposal:</b> Reduction in grants to voluntary organisations. Individual grant awards will be reviewed in line with priority spending areas and delivery against outcomes.	<b>Saving: £75,000</b>
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#### Why are we proposing these savings?

Restrictions on the Council's funding means that the resources available to provide grants to other organisations will be restricted

#### What changes are we undertaking to allow us to reach this savings targets?

A review of existing grants will be undertaken and options for reductions will be considered and consulted on with the organisations affected

#### Will front line services be affected – what changes will residents see and when will this take place?

Reductions of grants will impact on voluntary organisations in the Borough. The saving represents a reduction of approx 10%. Individual reductions will be determined on a priority led approach taking account of outputs delivered and achievement of local priorities.

#### Will any geographical area be particularly affected by this proposal?

The areas affected will depend on the outcome of the review of grants

#### What back of office changes are proposed to achieve this target and minimise impact on front line services?

Not applicable

#### Does this mean additional charges for this service?

No

#### Does this budget proposal result in redundancies?

Not directly, though there may be some impact on staff in the organisations receiving less grant income

#### Can I still make contact face -to-face or over the phone about these problems/ will I be consulted to see how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Not applicable

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**APPENDIX 5**

The table below shows the total number of comments (152) split by the specific area of saving they relate to. In some areas comments received have a reoccurring theme if so these have been mentioned.

<b>Proposed savings</b>	<b>Number of comments</b>	<b>Themes of comments</b>
Reduction in Town centre buildings	8	<ul style="list-style-type: none"> <li>• Share buildings.</li> <li>• Offer reduced rents</li> <li>• Increase income rather than cutting buildings.</li> </ul>
Reduction in repair & maintenance budget for buildings & land	11	<ul style="list-style-type: none"> <li>• Minor/low /no maintenance in certain areas.</li> <li>• Review of inspection frequencies.</li> </ul>
Savings on traffic management & signals	4	<ul style="list-style-type: none"> <li>• Reduce signage</li> <li>• Don't replace street furniture</li> </ul>
Better use of specific grants to fund services across Adult care rather than relying on funding for Council Tax	4	<ul style="list-style-type: none"> <li>• Comments were mainly questions asking for clarity around the funding</li> </ul>
Better use of specific grants to fund services across Children's services rather than relying on funding for Council Tax	1	<ul style="list-style-type: none"> <li>• Comment was to highlight that this approach has been successful in other Authorities</li> </ul>
Carelink to become self financing from 1 <sup>st</sup> April 2014	1	<ul style="list-style-type: none"> <li>• Carelink is a valued service</li> </ul>
Restructures and reorganizations across Council departments	16	<ul style="list-style-type: none"> <li>• More shared services e.g. only one HR, one finance etc</li> </ul>
Changes in mental health services	22	<ul style="list-style-type: none"> <li>• Personal stories of what Big means to the people that use it and pleas not to change or close the service</li> </ul>
Reduction in overtime & budgets	1	<ul style="list-style-type: none"> <li>• First 3 hours of overtime to be TOIL</li> </ul>
Reduction in grounds maintenance standards	4	<ul style="list-style-type: none"> <li>• Look at longevity solutions.</li> </ul>
Reduction in grants to voluntary organisations	29	<ul style="list-style-type: none"> <li>• Comments from various organizations urging the Council to re-think the proposed changes in grants</li> </ul>
Reductions in training It and stationary budgets	3	<ul style="list-style-type: none"> <li>• More in house training.</li> <li>• Look at how we purchase items and training.</li> </ul>
Special leave	3	<ul style="list-style-type: none"> <li>• Reduce or remove special leave under some circumstances</li> </ul>
Street lighting	3	<ul style="list-style-type: none"> <li>• Turn off/reduce lighting in certain areas</li> </ul>
Vulnerable adults	3	<ul style="list-style-type: none"> <li>• Concerns that vulnerable people would feel the cuts the worst</li> </ul>
Christmas lights	2	<ul style="list-style-type: none"> <li>• Turn Christmas lights on later in December</li> </ul>
Funding for Bury	17	<ul style="list-style-type: none"> <li>• Comments mainly were questions</li> </ul>

		<p>asking for clarity around funding given and why Bury felt it should get more.</p> <ul style="list-style-type: none"> <li>• Questions also around if Council was confident it could save the money.</li> </ul>
Cut staff	2	<ul style="list-style-type: none"> <li>• Reduce staff</li> <li>• Cuts have negative effect on staff morale</li> </ul>
Administrative changes	3	<ul style="list-style-type: none"> <li>• Consider making more admin charges e.g. section 80 building Act</li> </ul>
Other comments	15	<ul style="list-style-type: none"> <li>• A mixture of comments</li> </ul>
	<b>152</b>	



**REPORT FOR DECISION**

<b>MEETING:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE CABINET COUNCIL</b>
<b>DATE:</b>	<b>12 FEBRUARY 2014 19 FEBRUARY 2014 19 FEBRUARY 2014</b>
<b>SUBJECT:</b>	<b>DRAFT HOUSING REVENUE ACCOUNT 2014/15</b>
<b>REPORT FROM:</b>	<b>DEPUTY LEADER and CABINET MEMBER FOR FINANCE AND CORPORATE AFFAIRS and CABINET MEMBER FOR ADULT CARE, HEALTH AND HOUSING</b>
<b>CONTACT OFFICER:</b>	<b>MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES</b>  <b>STEPHEN KENYON, ASSISTANT DIRECTOR OF RESOURCES (FINANCE AND EFFICIENCY)</b>
<b>TYPE OF DECISION:</b>	<b>COUNCIL</b>
<b>FREEDOM OF INFORMATION/STATUS:</b>	This paper is within the public domain
<b>SUMMARY:</b>	The report details the proposed Housing Revenue Account for 2014/15 and proposals for Dwelling and Garage rents, Sheltered Support, Management, Amenities and Heating charges and Furnished Tenancy charges.
<b>OPTIONS &amp; RECOMMENDED OPTION</b>	The report is prepared on the basis of the Government's guideline rent increase of 3.7% but without any further move towards convergence. Members are reminded that any increase below the guideline would result in a reduction in rental income compared to that shown in the appendices.  Cabinet is recommended to note the report and request that the Council should consider all matters relating to the Housing Revenue Account 2014/15, the increase in

	<p>Council House and garage rents and changes to other charges.</p> <p>Council is recommended to:</p> <p>(a) approve the Housing Revenue Account estimates set out in Appendix 1 subject to later amendment to reflect the agreed Management Fee payable to Six Town Housing.</p> <p>(b) set a rent level for Council houses in 2014/15, recognising that the draft HRA is based on a rent increase of 3.7% from the first rent week in April.</p> <p>(c) increase Garage rents from the first rent week in April by the same level that Council house rents are increased.</p> <p>(d) increase Sheltered amenity charges by 3.2% from the first rent week in April.</p> <p>(e) continue the scheme of protection for the Sheltered Support Charges.</p> <p>(f) approve that Sheltered management, support and heating charges and Furnished Tenancy charges remain unchanged from the first rent week in April.</p>
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<b>IMPLICATIONS:</b>	
<b>Corporate Aims/Policy Framework:</b>	The proposals accord with the Policy Framework
<b>Statement by Section 151 Officer:</b>	Financial and risk implications are detailed in the report.
<b>Statement by Executive Director of Resources:</b>	<p>The report fully details the Housing Revenue Account for 2014/15.</p> <p>There are no other direct resource implications although the extent of the contribution into the Headroom Reserve may influence asset management issues relating to the housing stock.</p>
<b>Equality/Diversity implications:</b>	
<b>Considered by Monitoring Officer:</b>	
<b>Are there any legal implications?</b>	No
<b>Staffing/ICT/Property:</b>	There are no direct staffing, ICT or property implications arising from this report although the HRA budget impacts on these areas.
<b>Wards Affected:</b>	All
<b>Scrutiny Interest:</b>	Overview and Scrutiny Committee

**TRACKING/PROCESS****DIRECTOR: MIKE OWEN**

Chief Executive/ Management Board	Executive Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
12 February 2014	19 February 2014		19 February 2014

**1.0 INTRODUCTION**

- 1.1 The Housing Revenue Account (HRA) is primarily a 'landlord account', recording revenue expenditure and income relating to the authority's own housing stock.
- 1.2 The HRA is a ring-fenced account i.e. the authority does not have any general discretion to transfer sums out of the HRA, or to support the HRA with contributions from the General Fund, (there are certain circumstances where transfers are permitted or prescribed but these are exceptions).
- 1.3 From April 2012 the Government introduced a self-financing funding system whereby the HRA now retains its rental income locally and uses this to provide for management, maintenance and major works to the housing stock. To effect this change in funding each authority had their housing 'business' valued and this required us to take on £78.3m of HRA debt
- 1.4 The Government's calculation of our Self-Financing valuation was made on the assumption that we will adhere to the rent policy and the timetable for convergence; if rents are not increased in line with this then resources will be lost from the HRA which may impact on the longer term business plan.
- 1.5 In April 2005 Six Town Housing was established as an Arms Length Management Organisation (ALMO) to manage and maintain the authority's housing stock and related assets. A Management Agreement was signed between Six Town Housing and Bury Council which details the responsibilities that are delegated to the ALMO.
- 1.6 Bury Council agrees the level of Management Fee payable from the Housing Revenue Account to Six Town Housing for the provision of the delegated responsibilities; the fee being paid for 2013/14 is £12,718,600.
- 1.7 For 2014/15 the HRA is expected to have an average stock of 8,120 dwellings. The self-financing valuation was based on assumed levels of Right to Buy Sales for each authority. Our settlement assumed that we will have 42 RTBs in 2014/15, which given the current level of activity would seem to be a reasonable assumption, so the HRA estimates have been prepared on this basis. If the level of sales is above or below this figure then this will result in less or more rental income to the HRA than has been assumed.
- 1.8 As a result of the HRA being a ringfenced account, any surplus or deficit on the HRA is carried forward into the next financial year and is called the working

balance. Section 5 of this report contains an assessment of the minimum level of balances to be held.

- 1.9 The implementation of the Government's Welfare Reforms will have an increasing impact on the Housing Revenue Account and on the approximately 70% of tenants who are entitled to support with their rent and charges. The biggest impact in 2013/14 has been from the introduction of the under occupation 'charge' (the so-called Bedroom Tax).
- 1.10 The introduction of the Universal Credit, which will see benefits paid directly to the majority of claimants, as opposed to a simple transfer from the Council into rent accounts, is expected to have a huge impact on collection rates for rents and other charges. Currently around 68% of HRA rental income comes directly from Housing Benefit meaning that once the current welfare reforms have been fully implemented £20.8m of HRA income will have to be collected from tenants, presenting a large risk to income streams (based on the total assumed rental income for 2014/15).
- 1.11 The timetable for the implementation and roll out of Universal Credit has changed and currently we are not expecting any roll out to Bury until October 2014 at the earliest and even then it is likely to be on a limited basis in terms of client groups affected.
- 1.12 The introduction of Universal Credit and direct payments will also impact on costs incurred by the Council and Six Town Housing, for example, increased 'cash' transaction costs.

## **2.0 RENT INCREASE 2014/15**

- 2.1 In December 2000 the government issued a policy statement entitled 'The Way Forward for Housing' which proposed that rent setting in social housing should be brought onto a common system based upon relative property values and local earnings levels. The aim is that rents on similar properties in the same area should be the same no matter who is the landlord.
- 2.2 In order to achieve the objectives set out in the policy statement there is now a common formula for both Local Authority (LA) rents and those of Registered Social Landlords (RSL). Restructuring and convergence of LA and RSL rents was originally intended to be completed over 10 years i.e. April 2002 to March 2012. The target date for completion was revised by the government on more than one occasion but it has now been confirmed that the government's rent policy for 2015/16 onwards assumes that convergence has been completed in 2014/15.
- 2.3 Under the current system a Target Rent is calculated for each dwelling. The target rent increases each year in line with the government's guideline which is currently the Retail Price Index (RPI) for the previous September plus 0.5%; from 2015/16 guideline increases will be on the basis of the Consumer Price Index (CPI) plus 1%. For 2014/15 the guideline rent increase calculation is based on 3.2% (being the RPI for September 2013) and a convergence date of 2015/16. Individual rent increases should be capped at 3.2% + 0.5% + £2.08 per week (on a 50 week basis).

- 2.4 At the Council meeting in February of last year an average increase of 5.0% was recommended, this being in line with the rent setting policy and convergence timetable, however a subsequent amendment was agreed that increased the rents by a lower average figure of 4.1%.
- 2.5 For 2014/15 it is proposed that rents are increased by 3.7% (being RPI plus 0.5%) with no further adjustment towards convergence.
- 2.6 The Government has set a weekly average limit rent for Bury of £80.32 (50 week basis). If average rents were to rise above this limit rent then Subsidy on Rent Rebates will be restricted. There appears to be little danger of this limit being reached and so the figure is provided for information only.
- 2.7 The introduction of the self financing system does mean that the Council has more freedom regarding the level of rents that it sets (although the national rent policy continues and the calculation of the debt taken on by Bury assumed the achievement of rent convergence by 2015/16). Increases lower than that indicated by applying the national rent policy result in a lower rental income base within the HRA for current and future years.
- 2.8 Bury's rents are currently collected on a 50 week basis with 2 non-collection weeks in December.
- 2.9 Currently Housing Benefit for our HRA tenants is paid in line with the 50 week collection basis. However the introduction of Universal Credit will see claimants receiving payments monthly in arrears on the basis of a 52 week year. This means that there is a risk that tenants in receipt of Universal Credit could fall into arrears as the weekly rent due on a 50 week basis will be higher than the amount included in their direct payment. A review of the collection basis is underway and consultation will be undertaken with customers and stakeholders. The delay in implementing Universal Credit means that there is unlikely to be any significant impact from retaining a 50 week collection basis for 2014/15.

2.10 The following table shows the difference between the current and proposed rents on the basis of an increase of 3.7% applied across the board. The rents shown in the table are all on a 50 week basis.

TYPE	NUMBER OF BEDROOMS	VALUATION AT JAN' 1999 VALUES	RENT 2013/14	PROPOSED RENT 2014/15	INCREASE OVER ACTUAL 2013/14 RENT	
		£	£	£	£	%
Bed-sit	0	23,235	58.13	60.29	2.16	3.7
Bungalow	1	30,706	67.26	69.75	2.49	3.7
Flat	1	28,326	66.26	68.71	2.45	3.7
House	1	29,410	67.70	70.20	2.50	3.7
Bungalow	2	39,487	79.31	82.24	2.93	3.7
Flat	2	29,560	73.19	75.90	2.71	3.7
House	2	34,641	75.88	78.69	2.81	3.7
Maisonette	2	32,132	74.97	77.74	2.77	3.7
Flat	3	29,702	78.47	81.37	2.90	3.7
House	3	37,564	83.42	86.50	3.08	3.7
Maisonette	3	33,843	81.90	84.93	3.03	3.7
House	4/6	38,477	90.68	94.03	3.35	3.7
		<b>32,551</b>	<b>73.88</b>	<b>76.61</b>	<b>2.73</b>	<b>3.7</b>

2.11 There are currently 325 HRA owned garages (of which 218 are currently let). Garages are charged for at the rate of £6.31 per week (50 weeks). The last increase was in April 2013 when the charges rose in line with the percentage increase in council house rents; increases for 2014/15 in line with the proposed rent increase of 3.7% would result in a weekly increase of £0.23 giving a rate of £6.54 per week (over 50 weeks);

### 3.0 SHELTERED AND FURNISHED TENANCIES CHARGES

#### 3.1 Supporting People

3.1.1 New funding arrangements for supported accommodation were introduced from April 2003 which had a major impact on the way Sheltered Accommodation is funded; charges for support costs are no longer eligible for Housing Benefit but instead a subsidy is paid for eligible tenants from a locally administered Supporting People 'pot' that also funds other supported accommodation in the Borough.

3.1.2 The costs associated with Sheltered communal areas are not eligible as support costs and therefore from April 2003 a separate amenity charge was levied for tenants in affected schemes.

### **3.2 Sheltered Management and Support Charges**

3.2.1 The management and provision of Sheltered support services are provided by Adult Care Services for which they receive payment from the Housing Revenue Account.

3.2.2 With effect from April 2008 all Sheltered tenants have been charged the same weekly charge. Charging in this way is a much fairer system as all tenants receive the same level of service.

3.2.3 Following a review of the costs of the services provided by Adult Care Services, to ensure that the costs of management and support were charged for appropriately, a Sheltered Management charge was introduced in 2012/13. This charge covers additional housing management costs that should not be funded through Supporting People funding.

3.2.4 It is proposed that the current Sheltered Management charges remain unchanged for 2014/15:

Standard weekly charge per unit (on a 50 week basis):

Sheltered schemes (other than Extra Care)	£10.18
Extra Care schemes (Falcon House/Griffin House)	£14.17

3.2.5 These charges will be eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.

3.2.6 Following the review of the charging structure and the introduction of the Sheltered Management charge the standard weekly Support Charge per unit was reduced to £8.33 (on a 50 week basis) for 2012/13 and remained unchanged for 2013/14.

It is proposed that this charge remains unchanged for 2014/15. This charge applies at all Sheltered schemes other than the Extra Care schemes at Falcon House and Griffin House and is eligible for Supporting People funding for eligible tenants.

3.2.7 There are currently 2 remaining tenants receiving protection as they were existing tenants, not in receipt of housing benefit, who would have been unduly affected by the introduction of the standard weekly charge in April 2008. It is proposed that this protection should be continued; the proposed reductions in the weekly charge are:

- Elms Close      £2.96
- Maple Grove    £2.21

The total cost to the HRA of the protections proposed is £258 in 2014/15.

3.2.8 An Extra Care Sheltered Scheme has been established covering the Falcon House and Griffin House schemes. There are different support charges which reflect different levels of support offered dependant on the assessed needs of

the individual tenants; this support is provided by Adult Care Services and they will be reviewing the charges for 2014/15.

### 3.3 Sheltered Amenity Charges

3.3.1 The current Sheltered Amenity Charges have remained unchanged since 2012/13 but in order to cover current costs it is proposed that they are increased in 2014/15 in line with the September RPI figure of 3.2%.

The current and proposed charges per unit per week (over 50 weeks) will be as shown in the table below with Appendix 4 detailing the total Sheltered Management, Support and Amenity Charges for each scheme:-

	<b>Current Charge</b>	<b>Proposed Charge</b>
	<b>£</b>	<b>2014/15</b>
		<b>£</b>
Clarkshill	15.45	15.94
Elms Close	1.80	1.86
Falcon House	9.03	9.32
Griffin House	8.76	9.04
Harwood House	17.53	18.09
Moorfield	20.06	20.70
Mosses House	15.91	16.42
Stanhope Court	8.07	8.33
Taylor House	17.90	18.47
Top O'th Fields 1	17.27	17.82
Waverley Place	18.97	19.58
Wellington House	25.66	26.48

3.3.2 Amenity charges are eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.

3.3.3 The proposed amenity charges generally reflect an assumed void level of 12%. Void levels can vary considerably between schemes and over time therefore there are likely to be gains or losses in terms of the amount of income collectable. Should there be a significant increase in the actual level of voids above the estimate then the income target assumed within the HRA will not be achieved.

### 3.4 Sheltered Heating Charges

3.4.1 Heating charges are only levied at Sheltered schemes where there is a communal heating system with no separate metering of individual consumption; the aim of the charges is to recover the actual energy costs incurred at each scheme.

3.4.2 The schemes are part of the Council's overall procurement of energy and the charges are based on expected contract prices and estimated levels of consumption. On this basis it is expected that the current level of charges are sufficient to cover the expected heating costs at the schemes and therefore it is proposed that the charges remain unchanged for 2014/15.

3.4.3 The current and proposed charges per unit per week, (exclusive of VAT), are:-

Taylor House	£17.29
Clarks Hill	£11.67
Waverley Place	£16.80
Harwood House	£16.22

3.4.4 Heating Charges are not eligible for Housing Benefit however most Sheltered Tenants should be eligible for Winter Fuel Payments; for winter 2013/14 the rates for these are £200 per household for those born on or before 5 January 1952, rising to £300 per household for those aged 80 or over at 22 September 2013.

### **3.5 Furnished Tenancies Charges**

3.5.1 A Furnished Tenancy Scheme was introduced during 2005/06. The scheme provides furniture packages for which an additional weekly charge is payable.

3.5.2 There are currently 235 furnished tenancies. The scheme has been expanding on a self funding basis with increases of 20% per annum in the number of furnished tenancies. Six Town Housing manage the furnished tenancies and have indicated that they do not have the staffing capacity to support further expansion of the scheme from within their existing resources.

3.5.3 Furnished Tenancy charges are eligible for Housing Benefit purposes and therefore benefits should be payable to accepted claimants. The introduction of Universal Credit and direct payments will mean that there is an increased risk of non-payment of these charges.

3.5.4 Increases in charges to cover inflation in the costs of the scheme e.g. costs of replacement furniture and fittings are normally implemented from the first rent week in April of each year.

However it is proposed that the current charges remain unchanged for 2014/15 as efficient procurement continues to deliver stability in replacement costs. The current weekly charges, (on a 50 week basis), are:

- 1 bed property £17.92
- 2 bed property £21.10
- 3 bed property £24.28

## **4.0 HOUSING REVENUE ACCOUNT PERFORMANCE**

### **4.1 Voids**

4.1.1 The rent lost on empty properties is projected to be 1.83% over the course of 2013/14; this will mean a reduction in rent income of approximately £9,000 as the original budget allowed for a void level of 1.8%.

4.1.2 The level of void loss for 2014/15 has been assumed at 1.8% which should be an achievable target given current performance but recognises that there may be an impact on void levels from the implementation of welfare benefit changes; if the target is not achieved then there would be a reduction in rental

income to the HRA. The assessed level of minimum HRA balances for 2014/15 allows for this possibility as discussed in section 5.

4.1.3 If the target was to be exceeded then this would result in an increase in rental income to the HRA which could either be carried forward into 2015/16 or targeted during the coming financial year for service developments.

4.1.4 Appendix 2 details the loss or increase in rental income at different void levels if the 1.8% is not achieved in 2014/15.

**4.2 Rent Arrears**

4.2.1 The opening arrears and current levels for 2013/14 are shown in the following table. The figures reflect the fact that around £131,000 of Former Tenant Arrears has been written off during 2013/14. Write offs totalling £14,500 are awaiting approval and it is anticipated that a further £24,000 could be written off before the end of 2013/14. All write offs are done in accordance with the Corporate Debt Write Off Policy as approved by the then Executive.

	Opening Arrears 2013/14 £	Current Position £	Increase/ (Reduction) in arrears £
Current Arrears	522,200	538,900	16,700
Former Tenant Arrears	293,100	331,800	38,700
	815,300	870,700	55,400

4.2.2 Authorities are required to make suitable provision, in accordance with proper accounting practices, to cover the write-off of rent and service charge arrears.

4.2.3 The Bad Debt Provision for rent arrears, which is held on the Authority’s Balance Sheet, stood at £588,900 at the beginning of this financial year. The requirement for the year is calculated with reference to the type of arrear and the amount outstanding on each individual case.

4.2.4 The original budget for 2013/14 allowed for additional contributions to the provision totalling £603,000; £180,900 for uncollectable debts and £422,100 for the impact of benefit reforms. Looking at the arrears position, it is now estimated that the additional provision can be reduced to £291,800 in 2013/14. All things being equal this suggests that the Provision will stand at £711,200 at the end of 2013/14 against arrears of £870,700. The reduced requirement has resulted from delays in the implementation of some welfare benefit changes whilst the effects of others have been mitigated through the actions of the Welfare Reform Group and close working with Partners in implementing the Corporate Debt Policy.

4.2.5 The 2014/15 estimates allow for additional contributions to the provision, totalling £622,000:

- For uncollectable debts £186,600  
This figure represents 0.6% of the rent roll and is an increase over the expected contribution in the current year; this is to reflect the volatility in arrears levels and the higher rent levels assumed for 2014/15.

- For the impact of benefit reforms £435,400  
This figure represents 1.4% of the rent roll and has been included as an additional contribution to the Bad Debt Provision to reflect the potential impact that welfare benefit changes could have on the level of rent arrears, including the reassessment of cases currently in receipt of Discretionary Housing Payments.

4.2.6 If the arrears position is not as severely impacted upon as has been estimated then a lower contribution may be required which would release additional resources in the HRA; conversely if the arrears position should deteriorate more significantly then additional contributions to the Bad Debt Provision could be required and these would need to be found from the HRA balances. The position is kept under regular review and reported to members in the quarterly Finance and Performance Monitoring Report.

### **4.3 Rechargeable Repairs**

4.3.1 The amount due from tenants for rechargeable repairs currently stands at around £433,700 of which £376,000 is debt over 1 year old. Of the debt over 1 year old around £276,400 appears to be static debt i.e. there have been no payments received at all. Accounts totalling £72,000 have been written off so far in the current year with a further £74,700 identified as potential write offs.

4.3.2 The Bad Debt Provision for rechargeable repairs, which is held on the Authority's Balance Sheet, currently stands at £481,200. The HRA estimates for 2013/14 allowed for a £50,000 contribution to this provision therefore, taking into account the expected write offs, at the end of 2014/15 the provision will stand at £384,500; this amount will be reduced by the amount of any further write-offs done before the end of 2014/15. Given the level of Bad Debt Provision that has now been built up the HRA will not need to make a contribution to the provision for 2014/15; the balance on the Bad Debt Provision will be monitored to ensure that it provides adequate cover.

4.3.3 Accounts raised are subject to established recovery procedures with reminders/final notices being routinely issued and accounts passed to collection agencies (for debts under £750) where payment is not received or instalment arrangements agreed. Billing and recovery arrangements will be continually reviewed to ensure effective recovery.

## **5.0 2014/15 HOUSING REVENUE ACCOUNT (HRA), HRA CAPITAL RESOURCES AND THE HRA WORKING BALANCE**

### **5.1 2014/15 Housing Revenue Account**

5.1.1 The Housing Revenue Account Estimates are set out in Appendix 1. These estimates are subject to the final agreement of the Management Fee payable to Six Town Housing for 2014/15.

5.1.2 The most significant impact on the HRA for the coming year and in future years will continue to be from the implementation of welfare reforms; this is a key factor in the determination of the HRA working balance.

5.1.3 Other areas worthy of note that have not been covered in other sections of this report are:

§ The Housing Revenue Account pays a Management Fee to Six Town Housing to provide the services delegated under the ALMO Management Agreement. The level of this Management Fee for 2014/15 is currently being finalised between Six Town Housing and the Council. The HRA Estimates for 2014/15 assume the Management Fee to be £12,875,000 this being the current year's figure uplifted for inflation only; any changes to this figure during negotiations will impact on the level of HRA balances.

§ Under the self-financing regulations, the Council no longer has to pay Housing Subsidy to the Government (approx. £6 million pa), however the Council inherited housing debt calculated by the Government (£78m). In simple terms, due to effective treasury management the saving on subsidy more than pays for the servicing of both the existing and the newly acquired HRA debt and so this leaves a degree of "headroom" within the 30 year Business Plan.

The headroom means that additional funds are potentially available to support investment in the Housing Stock and/or any other Council housing priorities, including a revised rent strategy. It is important that any investment is undertaken prudently and on a sustainable basis and for this reason headroom monies are currently being set aside in a reserve pending the completion of key studies; the new Housing Strategy 2014-24 is currently in draft form and is scheduled to be presented to Cabinet on 5 March.

§ Springs Tenant Management Co-operative (TMO) have undertaken a tenant-led Stock Options feasibility study to look at the potential for a small scale voluntary transfer of the properties covered by their Management Agreement. Further work to update the feasibility study and understand the full impact of any potential transfer on the HRA Business Plan and on Springs' own business model is nearing completion and it is intended to bring this to Cabinet in April. No provision has currently been made within the HRA for any additional costs that may arise.

§ The Government has announced further proposals around the Right to Buy including higher maximum discount percentages for houses, the appointment of RTB Agents and the establishment of a capital fund to improve access to mortgage finance. The impact of these proposals on the numbers of applications and sales in 2014/15 will be reported to members in the quarterly Finance and Performance Monitoring Report.

5.1.4 The detailed Housing Revenue Account shown in Appendix 1 assumes an increase in rents of **3.7%**.

## **5.2 HRA Capital Resources**

5.2.1 The introduction of a self-financing HRA system means that major works to the housing stock are now funded from rental income. The identification and timing of future major works are key factors in the development of the 30 Year HRA Business Plan.

- 5.2.2 As discussed in 5.1.3 any investment needs to be undertaken on a sustainable basis and in line with the Council’s overarching Housing Strategy.
- 5.2.3 At this stage therefore it is proposed that for 2014/15 the resources made available initially from the HRA for capital expenditure should be set at the level assumed in the self-financing determination; the HRA estimates for 2014/15 have been prepared on this basis:

Major Works	£7,361,500
Disabled Facilities Adaptations	£533,500
Total capital resources 2014/15	£7,895,000

- 5.2.4 These proposed resources will maintain Decent Homes and tackle some of the current investment needs of the stock and the surrounding environment.
- 5.2.5 Approval of the Capital Programme will form part of the consideration of the overall Council budget so should there be any change to the assumed level of resources this will impact on the amount contributed to the HRA Business Plan Headroom Reserve.

### 5.3 The HRA Working Balance

- 5.3.1 The HRA needs to have a certain level of balances in order to finance occurrences that cannot be predicted and to mitigate against material inaccuracies in the assumptions underlying the budget.
- 5.3.2 The ending of the Housing Subsidy system removed the unpredictability associated with awaiting an annual determination but the introduction of a self-financing HRA has brought new risks particularly in relation to interest rate changes and any factors that impact on the level of rental income assumed. The implementation of welfare reforms has been identified throughout this report as bringing significant risks relating to the level of rent that will be collectable in future years.
- 5.3.3 There is no statutory definition of the minimum level however as part of a longer-term approach to HRA finances the Council have established a Golden Rule regarding the minimum level of HRA balances. Using his judgement and experience, the Executive Director of Resources has previously recommended that the HRA balances should not be allowed to fall below £100 per property. However the actual minimum level of balances to be retained still needs to be reviewed each year based on a risk assessment of the major issues that could affect the financial position of the HRA.
- 5.3.4 Applying the above rule would require the minimum HRA working balance to be:

Financial Year	Average no of Properties	Balance at year end £
2013/14	8,159	815,900
2014/15	8,120	812,000
2015/16	8,077	807,700

5.3.5 Appendix 4 details a risk assessment of the major issues that could affect the financial position of the HRA, including the sensitivity of the voids and arrears targets. This shows that on a risk assessed basis, the minimum level of HRA balances shown above may not be adequate given the need to provide for the increased risks associated with the new self-financing system and the implementation of welfare reforms. Therefore the Executive Director of Resources and the Council's s151 Officer are now recommending that for 2014/15 the HRA balances should not be allowed to fall below **£1,000,000**.

**Councillor John Smith,  
Deputy Leader and Cabinet Member for Finance and Corporate Affairs**

**Councillor Rishi Shori,  
Cabinet Member for Adult Care, Health and Housing**

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**Contact Details:-**

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**HOUSING REVENUE ACCOUNT**

	<b>2013/14</b>		<b>2014/15</b>
	Original Estimate	Revised Estimate	Original Estimate
	£	£	£
<b>INCOME</b>			
Dwelling rents	29,603,900	29,596,800	30,542,300
Non-dwelling rents	219,300	220,800	220,800
Heating charges	73,400	72,400	71,600
Other charges for services and facilities	887,800	885,300	904,100
Contributions towards expenditure	54,600	53,900	53,900
<b>Total Income</b>	<b>30,839,000</b>	<b>30,829,200</b>	<b>31,792,700</b>
<b>EXPENDITURE</b>			
Repairs and Maintenance	6,805,000	6,805,000	6,852,500
General Management	6,698,300	6,645,700	6,772,800
Special Services	1,041,400	1,041,100	1,061,100
Rents, rates, taxes and other charges	88,100	95,000	50,000
Increase in provision for bad debts - uncollectable debts	180,900	191,800	186,600
Increase in provision for bad debts - impact of Benefit Reform	422,100	100,000	435,400
Cost of Capital Charge	4,593,200	4,530,300	4,530,300
Depreciation of fixed assets - council dwellings	7,112,500	7,112,500	7,361,500
Depreciation of fixed assets - other assets	38,800	40,500	40,500
Debt Management Expenses	45,400	40,700	40,700
HRA subsidy payable	0	0	0
Contribution to Business Plan Headroom Reserve	3,689,400	4,048,900	4,134,700
<b>Total Expenditure</b>	<b>30,715,100</b>	<b>30,651,500</b>	<b>31,466,100</b>
<b>Net cost of services</b>	<b>(123,900)</b>	<b>(177,700)</b>	<b>(326,600)</b>
Amortised premia / discounts	(14,600)	(14,600)	(14,600)
Interest receivable - on balances	(150,200)	(135,900)	(190,400)
Interest receivable - on loans (mortgages)	(2,600)	(1,900)	(1,900)
<b>Net operating expenditure</b>	<b>(291,300)</b>	<b>(330,100)</b>	<b>(533,500)</b>
<b>Appropriations</b>			
Appropriation relevant to depreciation and MRA	(38,800)	0	0
Revenue contributions to capital	515,400	515,400	533,500
<b>(Surplus) / Deficit</b>	<b>185,300</b>	<b>185,300</b>	<b>0</b>
<b>Working balance brought forward</b>	<b>(1,185,300)</b>	<b>(1,185,300)</b>	<b>(1,000,000)</b>
<b>Working balance carried forward</b>	<b>(1,000,000)</b>	<b>(1,000,000)</b>	<b>(1,000,000)</b>



**Sheltered Support and Amenity Charges**  
**Current charges 2013/14 and proposed charges 2014/15**

Scheme	<b>Total Current Charges 2013/14 £</b>	Proposed Management Charge 2014/15 £	Proposed Support Charge 2014/15 £	Proposed Amenity Charge 2014/15 £	<b>Total Proposed Charges 2014/15 £</b>	<b>Increase over current charges £</b>
Beech Close	<b>18.51</b>	10.18	8.33		<b>18.51</b>	<b>0.00</b>
Chelsea Avenue	<b>18.51</b>	10.18	8.33		<b>18.51</b>	<b>0.00</b>
Clarkshill	<b>33.96</b>	10.18	8.33	15.94	<b>34.45</b>	<b>0.49</b>
Elms Close	<b>20.31</b>	10.18	8.33	1.86	<b>20.37</b>	<b>0.06</b>
Falcon House	<b>23.20</b>	14.17		9.32	<b>23.49</b>	<b>0.29</b>
Griffin Close	<b>18.51</b>	10.18	8.33		<b>18.51</b>	<b>0.00</b>
Griffin House	<b>22.93</b>	14.17		9.04	<b>23.21</b>	<b>0.28</b>
Hampson Fold	<b>18.51</b>	10.18	8.33		<b>18.51</b>	<b>0.00</b>
Harwood House	<b>36.04</b>	10.18	8.33	18.09	<b>36.60</b>	<b>0.56</b>
Limegrove	<b>18.51</b>	10.18	8.33		<b>18.51</b>	<b>0.00</b>
Maple Grove	<b>18.51</b>	10.18	8.33		<b>18.51</b>	<b>0.00</b>
Moorfield	<b>38.57</b>	10.18	8.33	20.70	<b>39.21</b>	<b>0.64</b>
Mosses House	<b>34.42</b>	10.18	8.33	16.42	<b>34.93</b>	<b>0.51</b>
Stanhope Court	<b>26.58</b>	10.18	8.33	8.33	<b>26.84</b>	<b>0.26</b>
Taylor House	<b>36.41</b>	10.18	8.33	18.47	<b>36.98</b>	<b>0.57</b>
Top O'th Fields 1	<b>35.78</b>	10.18	8.33	17.82	<b>36.33</b>	<b>0.55</b>
T O'th F 2 (Welcomb Walk)	<b>18.51</b>	10.18	8.33		<b>18.51</b>	<b>0.00</b>
Waverley Place	<b>37.48</b>	10.18	8.33	19.58	<b>38.09</b>	<b>0.61</b>
Wellington House	<b>44.17</b>	10.18	8.33	26.48	<b>44.99</b>	<b>0.82</b>

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**HRA VOID LEVEL OPTIONS - 2014/15**

**Rent loss is calculated assuming an average rent increase of 3.7% for 2014/15**

**Figures exclude Springs TMO which has a fixed voids allowance - currently 2%**

<b>VOIDS</b>	<b>RENT LOSS</b>	<b>DIFFERENCE FROM ASSUMED VOIDS LEVEL (2%)</b>
<b>%</b>	<b>£</b>	<b>£</b>
1.10	328,289	-208,911
1.20	358,133	-179,067
1.30	387,978	-149,222
1.40	417,822	-119,378
1.50	447,667	-89,533
1.60	477,511	-59,689
1.70	507,356	-29,844
1.80	537,200	0
1.90	567,044	29,844
2.00	596,889	59,689
2.10	626,733	89,533
2.20	656,578	119,378
2.30	686,422	149,222
2.40	716,267	179,067
2.50	746,111	208,911

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## HOUSING REVENUE ACCOUNT - RISK ASSESSMENT

Risk Event	Impact	Risk Level	Likelihood	Max. Impact £000	Min. Provision £000
Increased stock loss - level exceeds the provision made in the estimates	The loss of a property costs the HRA approx. £3,800 in lost rental income in a full year. A loss of 50 properties throughout the year would cost around £100,000	H 100%	Budget 2014/15 assumes 42 sales. Current sales levels are around this level but further changes to discounts and eligibility coupled with the introduction of Right to Buy Agents could significantly increase interest and potential sales.	100	100
Higher level of void (empty) properties - increase loss of rental income	A 0.5% increase in void loss costs the HRA £149,200 in a full year.	H 100%	Budget 2014/15 assumes 1.8% void rental loss. There is a possibility that the level may be higher than this if current performance is not maintained.	150	150
Increase in Management Fee paid to Six Town Housing - pay costs	Six Town Housing can request additional pay costs as an addition to the Management Fee however this is subject to negotiation with the Council (it is not an automatic payment).	H 100%	The STH Management Fee has not yet been agreed for 2014/15 and it is felt prudent to allow for a 1% increase over and above that provided for in the 2014/15 budget.	80	80
- non pay inflation	If non pay inflation was to be 2% higher than assumed then this would amount to £118,000. Six Town Housing can request additional inflation as an addition to the Management Fee however this is subject to negotiation with the Council (it is not an automatic payment).	M 80%	Budget 2014/15 allows for 0% increase on non pay elements of the Management Fee. This includes expenditure on the Repairs and Maintenance service.	120	100

## HOUSING REVENUE ACCOUNT - RISK ASSESSMENT

Risk Event	Impact	Risk Level	Likelihood	Max. Impact £000	Min. Provision £000
Increase in arrears levels	Rental income is accounted for in the HRA on a rents receivable basis rather than actual rent received. However an increase in arrears could impact on the level of contribution required to the Bad Debt Provision.	H 100%	Budget 2014/15 allows for contributions of £622,200 to the Bad Debt Provision. This is based on 2% of the rental income due and allow for the potential impact of under occupation and other benefit changes. However the level of arrears can be volatile and the timing and impact of benefit changes is still estimated at this stage; the position will be monitored and reviewed during the year.	310	310
Interest rates - Cost of Capital	Under self financing the risks associated with changes in interest rates impact directly on the HRA.	M 80%	The loans taken on for self financing are long term fixed rate so the interest charges are known. However there could be an impact on the HRA when pre self financing loans are replaced.	200	160
Other HRA expenditure	Whilst the Management Fee paid to Six Town Housing accounts for the majority of management and maintenance expenditure within the HRA there are other costs and charges. These include payments to Adult Care Services and other departments of the Council for services provided to HRA customers. If these costs were to be 2% higher than assumed then this would amount to £42,000.	M 80%	The majority of these charges are agreed in advance and as such should not vary throughout the year. However it is felt prudent to allow for the possibility that unforeseen circumstances within services outside of the HRA could have an impact on the charges made. Increased costs are likely to result from the implementation of benefit reforms.	40	30
Springs Tenant Management Co-operative - potential progress towards small scale voluntary transfer	If the transfer proposals are progressed to the next stage then the HRA will incur costs associated with this.	H 100%	The 2014/15 budget does not contain any provision for these costs as the timing and extent of such costs has not yet been fully established.	50	50
				<b>1050</b>	<b>980</b>

**REPORT FOR DECISION**



<b>DECISION OF:</b>	<b>OVERVIEW &amp; SCRUTINY COMMITTEE CABINET COUNCIL</b>
<b>DATE:</b>	<b>12 FEBRUARY 2014 19 FEBRUARY 2014 19 FEBRUARY 2014</b>
<b>SUBJECT:</b>	<b>TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2014/15</b>
<b>REPORT FROM:</b>	<b>DEPUTY LEADER &amp; CABINET MEMBER FOR FINANCE AND CORPORATE AFFAIRS</b>
<b>CONTACT OFFICER:</b>	<b>MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES STEPHEN KENYON, ASSISTANT DIRECTOR OF RESOURCES (FINANCE AND EFFICIENCY)</b>
<b>TYPE OF DECISION:</b>	<b>COUNCIL</b>
<b>FREEDOM OF INFORMATION/STATUS:</b>	The report is for publication
<b>SUMMARY:</b>	<p>The report sets out the suggested Strategy for 2014/15 in respect of the following aspects of the Treasury Management function. It is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The Strategy covers:</p> <ul style="list-style-type: none"> <li>• treasury limits in force which will limit the treasury risk and activities of the Council;</li> <li>• prudential and treasury indicators;</li> <li>• the current treasury position;</li> <li>• prospects for interest rates;</li> <li>• the borrowing strategy;</li> <li>• the borrowing requirement;</li> <li>• debt rescheduling;</li> <li>• the investment strategy;</li> <li>• the minimum revenue provision policy;</li> </ul>

	<p>The primary objective of the Council's treasury management function will continue to be the minimisation of financing costs whilst ensuring the stability of the Authority's long term financial position by borrowing at the lowest rates of interest and by investing surplus cash to earn maximum interest, all at an acceptable level of risk.</p> <p>The overall strategy for 2014/15 will be to finance capital expenditure by running down cash/investment balances and using short term temporary borrowing rather than more expensive longer term loans. The taking out of longer term loans (1 to 10 years) to finance capital spending will only then be considered if required by the Council's underlying cash flow needs. With the reduction of cash balances the level of short term investments will fall. Given that investment returns are likely to remain low (say) 0.50% for the financial year 2014/15, then savings will be made from running down investments rather than taking out more expensive long term loans.</p> <p>This approach does have a refinancing risk and it should be noted that with a 2 pool approach to Housing Revenue Account (HRA) and General Fund (GF) debt, whilst the HRA is fully funded, the GF is carrying all of this risk.</p> <p>All prospects for rescheduling debt will be considered, in order to generate savings by switching from high costing long term debt to lower costing shorter term debt.</p>
<p><b>OPTIONS &amp; RECOMMENDED OPTION</b></p>	<p>It is recommended that Overview and Scrutiny Committee notes the report;</p> <p>It is recommended that Cabinet approves, for onward submission to Council, the:</p> <ul style="list-style-type: none"> <li>• Prudential Indicators forecast for 3 years</li> <li>• Treasury Management Strategy for 2014/15</li> <li>• Minimum Revenue Provision Policy for 2014/15</li> <li>• Schemes of Delegation and Responsibility attached at Appendices 2 and 6</li> </ul> <p>It is recommended that Council approves the report.</p> <p>Reasons for the Decision:</p> <p>It is a requirement of the CIPFA Code that the Council receives an annual treasury management strategy report.</p>
<p><b>IMPLICATIONS:</b></p>	
<p><b>Corporate Aims/Policy Framework:</b></p>	<p>Do the proposals accord with the Policy</p>

	Framework? Yes
<b>Statement by the S151 Officer: Financial Implications and Risk Considerations:</b>	Treasury Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
<b>Statement by Executive Director of Resources:</b>	There are no additional resource implications.
<b>Equality/Diversity implications:</b>	No
<b>Considered by Monitoring Officer:</b>	Yes
<b>Wards Affected:</b>	All
<b>Scrutiny Interest:</b>	Overview & Scrutiny Committee

**TRACKING/PROCESS**

**EXECUTIVE DIRECTOR: Mike Owen**

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Yes	Finance & Resources		
Scrutiny Committee		Committee	Council
Overview & Scrutiny 12/2/14		Cabinet 19/2/14	Council 19/2/14

## 1.0 BACKGROUND

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 CIPFA defines treasury management as:  
*"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

## 1.4 Reporting requirements

- 1.4.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** (this report) – the first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

**A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

**An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

- 1.4.2 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

## 1.5 In Year Monitoring Arrangements

- 1.5.1 Budget monitoring reports are produced on a monthly basis, together with quarterly reporting to Cabinet and the Overview and Scrutiny Committee.

1.5.2 In 2013/14 the average rate of return on investments is 0.82%.

## 1.6 Treasury Management Strategy for 2014/15

1.6.1 The strategy for 2014/15 covers two main areas:

### Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

### Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

1.6.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

## 1.7 Treasury Management consultants

1.7.1 The Council uses Capita Asset Services, treasury solutions as its external treasury management advisors.

1.7.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.7.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## 2.0 THE CAPITAL PRUDENTIAL INDICATORS 2014/15 – 2016/17

2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist Members overview and confirm capital expenditure plans.

### 2.2 Capital expenditure

2.2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure	2012/13 Actual £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Non-HRA	18,253	17,432	11,770	5,009	3,839
HRA	7,156	8,316	7,895	8,171	8,457
<b>Total</b>	<b>25,409</b>	<b>25,749</b>	<b>19,665</b>	<b>13,180</b>	<b>12,296</b>

## 2.3 The Council's borrowing need (the Capital Financing Requirement)

2.3.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

2.3.3 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Capital Financing Requirement	2012/13 Actual £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
CFR – non HRA	131,233	130,696	130,949	127,894	128,797
CFR – HRA existing	40,531	40,531	40,531	40,531	40,531
Housing Reform Settlement	78,253	78,253	78,253	78,253	78,253
<b>Total CFR</b>	<b>250,017</b>	<b>249,480</b>	<b>249,733</b>	<b>246,678</b>	<b>247,581</b>

## 2.4 Minimum revenue provision (MRP) policy statement

2.4.1 The concept of MRP was introduced in 1989 to prescribe the minimum amount which must be charged to the revenue account each year to meet credit liabilities (borrowing and leasing costs).

2.4.2 The Council will follow the same policy in 2014/15 as it did in 2013/14. Accordingly it is recommended that the:

- Regulatory method for calculating MRP be used for supported borrowing
- Asset Life method of calculating repayment provision be used for unsupported borrowing

2.4.3 It is to be noted that the above policy resulted in MRP savings of £72,000 in 2011/12, £89,700 in 2012/13 and is expected to generate further savings in 2013/14 and 2014/15.

## 2.5 Affordability prudential indicators

2.5.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

## 2.6 Ratio of financing costs to net revenue stream.

2.6.1 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	3.40%	3.26%	3.18%	3.09%	3.02%
HRA	15.78%	14.81%	14.18%	13.61%	13.61%

2.6.2 The estimates of financing costs include current commitments and the proposals in this budget report.

## 2.7 Incremental impact of capital investment decisions on Council Tax

2.7.1 This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

2.7.2 Incremental impact of capital investment decisions on the band D council tax:

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
<b>Council tax -Band D</b>	£16.33	-£0.18	£0.08	-£1.02	£0.30

## 2.8 Estimates of the incremental impact of capital investment decisions on housing rent levels.

2.8.1 Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

2.8.2 Incremental impact of capital investment decisions on housing rent levels:

	2012/13 Actual	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
<b>Weekly housing rent levels</b>	£0	£0	£0	£0	£0

### 3.0 BORROWING

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 3.2 Current portfolio position

3.2.1 To assist Members in agreeing a strategy for 2014/15 the Council's current treasury portfolio position (at nominal value) is detailed below:

	31st March 2013			Forecast 31st March 2014		
	Principal		Avg. Rate	Principal		Avg. Rate
	£0	£0		£0	£0	
<b>Fixed rate funding</b>						
PWLB Bury	153,862			146,362		
PWLB Airport	4,829			4,078		
Market Bury	39,000	197,691		57,500	207,940	
<b>Variable rate funding</b>						
PWLB Bury	0			0		
Market Bury	0	0		0	0	
<b>Temporary Loans / Bonds</b>	3	3		2,003	2,003	
<b>Total Debt</b>		<b>197,694</b>	<b>4.43%</b>		<b>209,943</b>	<b>4.10%</b>
<b>Total Investments</b>		<b>17,456</b>	<b>1.68%</b>		<b>25,000</b>	<b>0.82%</b>

3.2.2 The forecast accumulated capital financing requirement at the end of 2013/14 is £250.0m. The forecast borrowing at the end of 2013/14 is £209.9m meaning that the Authority is under borrowed by £40.1m.

3.2.3 The investment portfolio after the Capital Programme has been spent during 2013/14 is estimated to be around £25m. In preference to taking out long term borrowing, the Authority is taking temporary loans and running down investments to finance capital expenditure because investment returns are low at the present time. The estimated rate of interest on investments for 2013/14 is 0.82% against Capita Asset Services' suggested investment earnings rate for returns on investments placed, for periods up to three months in 2013/14, of 0.50%.

### 3.3 Treasury Indicators: limits to borrowing activity

3.3.1 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
<b>Borrowing</b>	249,500	249,700	246,700	247,600
<b>Other long term liabilities</b>	7,300	7,000	6,700	6,400
<b>Total</b>	<b>256,800</b>	<b>256,700</b>	<b>253,400</b>	<b>254,000</b>

3.3.2 **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

<b>Authorised limit</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>
<b>Borrowing</b>	284,500	284,700	281,700	282,600
<b>Other long term liabilities</b>	7,300	7,000	6,700	6,400
<b>Total</b>	<b>291,800</b>	<b>291,700</b>	<b>288,400</b>	<b>289,000</b>

### 3.4 Prospects for interest rates

3.4.1 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

	<b>Bank Rate %</b>	<b>PWLB Borrowing Rates (including certainty rate adjustment)</b>		
		<b>5 year</b>	<b>25 year</b>	<b>50 year</b>
March 2014	0.50	2.50	4.40	4.40
June 2014	0.50	2.60	4.50	4.50
Sept 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
March 2015	0.50	2.80	4.60	4.70
June 2015	0.50	2.80	4.70	4.80
Sept 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
March 2016	0.50	3.10	5.00	5.10
June 2016	0.75	3.20	5.10	5.20
Sept 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
March 2017	1.25	3.40	5.10	5.20

3.4.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market.

3.4.3 Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore

means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

3.4.4 The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

3.4.5 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of long term growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the past few years. However, this needs to be continually reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

### **3.5 Borrowing strategy**

3.5.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

3.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Assistant Director of Resources (Finance and Efficiency) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks,*

then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

3.5.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

### 3.6 Treasury management limits on activity

3.6.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Interest rate exposures	2014/15 Upper	2015/16 Upper	2016/17 Upper
Limits for fixed interest rates based on net debt	140%	140%	140%
Limits for fixed interest rates based on net debt	-40%	-40%	-40%
<b>Maturity structure of new fixed rate borrowing 2014/15</b>			
	<b>Upper</b>	<b>Lower</b>	
Under 12 months	40%	0%	
12 months and within 24 months	35%	0%	
24 months and within 5 years	40%	0%	
5 years and within 10 years	50%	0%	
10 years and above	90%	0%	

### 3.7 Policy on borrowing in advance of need

3.7.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.7.2 In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets, have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

### 3.8 Borrowing Requirement

3.8.1 Based on a current forecast for the Capital Financing Requirement plus the replacement of existing debt, less the minimum revenue provision (MRP) and the voluntary revenue provision (VRP), the net borrowing requirement for the current year and the next three years is estimated to be as follows.

	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>
<b>Alternative financing</b>	0	0	0	903
<b>Replacement borrowing</b>	7,779	6,059	11,280	16,994
<b>Borrowing Requirement</b>	<b>7,779</b>	<b>6,059</b>	<b>11,280</b>	<b>17,897</b>

3.8.2 Alternative financing is a combination of running down cash balances and investments and temporary borrowing.

3.8.3 The plan is to use a combination of internal borrowing (i.e. running down cash balances/investments) and temporary borrowing to finance the replacement borrowing, and to only use more long term borrowing (1 to 10 years) if required by the Council's underlying cash flow needs.

3.8.4 The overall effect of the finance costs on the General Fund for the next three years is detailed in the Affordable Borrowing Limit prudential indicator. This ultimately shows the effect of the proposed capital investment decision on the council tax compared to a situation with the same level of capital investment as occurred in the previous year. Changes in the capital investment decision affects the movement in new borrowing for capital purposes, resulting in a change in the finance costs which impacts council tax.

<b>Affordable Borrowing Limit</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>	<b>2015/16 Estimate</b>
<b>Increase in Council tax</b>	£0.00	£0.08	£0.00

The increase in Council Tax in 2014/15 relates to slippage on schemes approved in previous years.

### 3.9 Debt rescheduling

3.9.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

3.9.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

- 3.9.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 3.9.4 All rescheduling will be reported to the Council, at the earliest meeting following its action.

### **4.0 ANNUAL INVESTMENT STRATEGY**

#### **4.1 Investment policy**

- 4.1.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.
- 4.1.2 In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita Asset Services' ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
- 4.1.3 Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services, in producing its colour codings which show the varying degrees of suggested creditworthiness.
- 4.1.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 4.1.5 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.
- 4.1.6 Investment instruments identified for use in the financial year are listed in appendix 5.3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

## 4.2 Creditworthiness policy

4.2.1 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

4.2.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark Pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light Pink 5 years for EMMFs with a credit score of 1.5
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

4.2.3 All credit ratings will be monitored daily and weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

4.2.4 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

## 4.3 Country limits

4.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4, although the Council's current approach is to use UK High Street Banks and other public bodies. The list of counterparties will be added to, or deducted from, by officers should ratings change in accordance with this policy.

**4.4 Investment Strategy**

4.4.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

4.4.2 **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

4.4.3 There are upside risks to these forecasts (i.e. start of increases in Bank Rate is implemented more quickly) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

4.4.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

2014/15	0.50%
2015/16	0.50%
2016/17	1.00%
2017/18	2.00%

4.4.5 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

<b>Maximum principal sums invested &gt; 364 days</b>			
<b>£m</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>Principal sums invested &gt; 364 days</b>	£10m	£10m	£10m

4.4.6 For its cash flow generated balances, the Council will seek to utilise its business reserve, instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

4.4.7 The Council uses the Co-operative bank for it’s current account. No funds are invested with the bank. The Council has been given notice by the bank that the current contract with them will not be renewed at the end of it’s term in March 2015. There is a joint procurement exercise currently being undertaken for a new banking contract.

**4.5 End of year investment report**

4.5.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

**5.0 EQUALITY & DIVERSITY**

5.1 An initial assessment has been undertaken and it is concluded that there will be no negative impact from this report.

**COUNCILLOR JOHN SMITH**

**DEPUTY LEADER & CABINET MEMBER FOR FINANCE AND CORPORATE AFFAIRS**

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## APPENDIX 1: Interest Rate Forecasts 2014 – 2017

<b>Capita Asset Services Interest Rate View</b>															
	Now	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
<b>Capita Asset Services Bank Rate View</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
3 Month LIBID	0.39%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.00%
6 Month LIBID	0.47%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.75%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.90%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%
5yr PWLB Rate	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
10yr PWLB Rate	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
25yr PWLB Rate	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
50yr PWLB Rate	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
<b>Bank Rate</b>															
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
<b>5yr PWLB Rate</b>															
Capita Asset Services	2.38%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%
UBS	2.38%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.38%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.90%	3.30%	-	-	-	-	-
<b>10yr PWLB Rate</b>															
Capita Asset Services	3.52%	3.70%	3.70%	3.70%	3.80%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
UBS	3.52%	3.90%	4.00%	4.00%	4.10%	4.10%	-	-	-	-	-	-	-	-	-
Capital Economics	3.52%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.80%	-	-	-	-	-
<b>25yr PWLB Rate</b>															
Capita Asset Services	4.29%	4.40%	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%
UBS	4.29%	4.40%	4.50%	4.50%	4.60%	4.60%	-	-	-	-	-	-	-	-	-
Capital Economics	4.29%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.35%	-	-	-	-	-
<b>50yr PWLB Rate</b>															
Capita Asset Services	4.33%	4.40%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.30%
UBS	4.33%	4.50%	4.50%	4.60%	4.60%	4.70%	-	-	-	-	-	-	-	-	-
Capital Economics	4.33%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.50%	-	-	-	-	-

## **APPENDIX 2: Economic Background**

### **1 The UK Economy**

#### **1.1 Economic growth.**

Until 2013, the economic recovery in the UK since 2008 had been the slowest in recent history. However, growth re-emerged in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%). The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%).

Forward surveys indicate that growth prospects are likely to remain for 2014. One drag on the economy however is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards remain under pressure.

#### **1.2 Forward guidance.**

The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did not rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a level of retention of labour, which could mean that there is potential for GDP growth to be accommodated without a major reduction in unemployment. It is therefore increasingly likely that early in 2014, the MPC will need to amend its forward guidance by reducing its 7.0% threshold rate and/or by adding further wording similar to the Fed's move in December (see below).

#### **1.2 Credit conditions.**

While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, also started in January 2014. These measures have boosted the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), this led to the Bank of England announcing at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

### **1.3 Inflation.**

Inflation has fallen from a peak of 3.1% in June 2013 to 2.1% in November. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

### **1.4 AAA rating.**

The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

## **2 The Global Economy**

### **2.1 The Eurozone (EZ)**

The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of Greece 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

## 2.2 The USA

The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 4.1% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its \$85bn per month asset purchases programme of quantitative easing by \$10bn. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

## 2.3 China

There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

## 2.4 Japan

The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

## 3 Capita Asset Services Forward View

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields.

Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An possible upturn in investor confidence that sustainable robust world economic growth is expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

**APPENDIX 3: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management**

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of 100% \*\* will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	* Minimum credit criteria / colour band	** Max % of total investments	Max. maturity period
<b>DMADF – UK Government</b>	N/A	<b>100%</b>	<b>6 months</b>
UK Government gilts	UK sovereign rating	10%	5 years
UK Government Treasury bills	UK sovereign rating	10%	5 years
Bonds issued by multilateral development banks	UK sovereign rating		6 months
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	5 years
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour	100%	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use
Corporate bond funds		10%	
Gilt funds	UK sovereign rating	10%	
Property funds		10%	

**APPENDIX 4: Approved countries for investments**

*Based on lowest available rating*

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Hong Kong
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

**APPENDIX 5: DELEGATION AND RESPONSIBILITY**

The following personnel are involved on a regular basis in Treasury Management: -

Executive Director of Resources (Mike Owen)	Overall supervision of Treasury Management function and cashflow. Regular reviews of Treasury Management Strategy.
Assistant Director of Resources (Steve Kenyon)	Deputise for the Executive Director of Resources. Direct supervision of Treasury Management function. Assist in reviews of Treasury Management Strategy and monitor performance
Head of Financial Management (Andrew Baldwin)	Deputise for the Executive Director of Resources
Principal Accountant (Management Accountancy) (Jane Bunn)	Manage and undertake day to day Treasury Management Activities in accordance with Treasury Strategy and Policy Statement.
Senior Accountant (Joanne McIntyre)	Deputise for Principal Accountant in her duties as required.
Senior Accountant (Angela Sozansky)	Deputise for Principal Accountant in her duties as required.
Senior Accountancy Assistant (Stephen Blake)	Deputise for Principal Accountant in her duties as required.
Accountancy Assistant (Linda Hughes)	Standby for allocation of short term business via brokers.

Please note that the Council's signatories for treasury management transactions are :-

Mike Owen	Executive Director of Resources
Steve Kenyon	Assistant Director of Resources
Andrew Baldwin	Head of Financial Management
Lewis Magid	Principal Accountant
Jane Bunn	Principal Accountant

**APPENDIX 6: Treasury management scheme of delegation**

**(i) Full council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

**(ii) Boards/committees/Council/responsible body**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

**(iii) Body/person(s) with responsibility for scrutiny**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

**APPENDIX 7: The treasury management role of the section 151 officer**

**The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

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