

AGENDA FOR

CABINET

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To: All Members of Cabinet

Councillors: M C Connolly (Leader) (Chair), R Shori (Deputy Leader & Cabinet Member for Health and Well Being), J Lewis (Cabinet Member for Communities and Culture), S Walmsley (Cabinet Member for Resource and Regulation), T Isherwood (Cabinet Member for Environment) and G Campbell (Cabinet Member for Children and Young People)

Dear Member/Colleague

Cabinet

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

Date:	Wednesday, 25 February 2015
Place:	Bury Town Hall, Bury, BL9 0SW
Time:	5.30 pm
Briefing Facilities:	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.
Notes:	

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 CORPORATE FINANCIAL MONITORING REPORT - MONTH 9 (Pages 1 - 32)

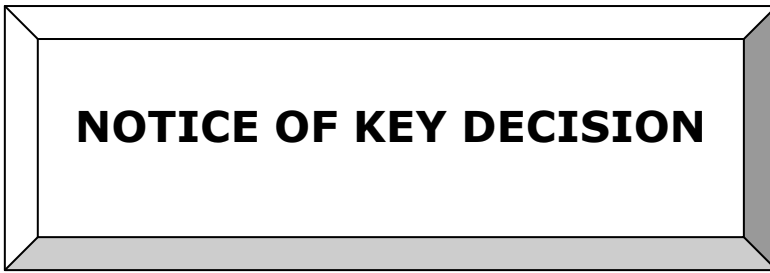
5 BUDGET 2015/2016 (Pages 33 - 104)

6 HOUSING REVENUE ACCOUNT 2015-2016 (Pages 105 - 126)

7 TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2015-2016 (Pages 127 - 154)

8 URGENT BUSINESS

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



Agenda Item	
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MEETING: OVERVIEW & SCRUTINY COMMITTEE
CABINET

DATE: 11 FEBRUARY, 2015
25 FEBRUARY, 2015

SUBJECT: CORPORATE FINANCIAL MONITORING REPORT –
APRIL 2014 TO DECEMBER 2014

REPORT FROM: LEADER OF THE COUNCIL AND CABINET MEMBER
FOR FINANCE

CONTACT OFFICER: STEVE KENYON, ASSISTANT DIRECTOR OF
RESOURCES & REGULATION (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 April 2014 to December 2014 and projects the estimated outturn at the end of 2014/15.

It also sets out the proposed series of measures that were agreed by Cabinet on 26 November to curb spend in 2014/15 and proposes that this continues into 2015/16, as detailed in paragraphs 3.5 and 3.6 on page 4.

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 2014, 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 and the proposed series of measures taken to address the budget position; these are identified by Directors at the quarterly Star Chamber meetings.

Statement by Executive Director of Resources & Regulation:

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 will need remedial action.

Members and officers examine 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 2015/16 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
26/01/15	25/02/15	11/02/15			

1.0 INTRODUCTION

- 1.1 This report informs Members of the forecast outturn for 2014/15, based upon current spend for the period 1 April 2014 to 31 December 2014, 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 continue to exist in some key areas and it will be necessary to continue to examine options for improving the situation further. A series of measures was agreed by Cabinet on 26 November 2014 to curb spend in 2014/15 and these are detailed in paragraphs 3.5 and 3.6 on page 4.

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 and 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
Communities & Wellbeing	69,209	69,876	+667
Resources & Regulation	4,132	4,678	+546
Children, Young People & Culture	33,973	35,202	+1,229
DCN Residual	133	(169)	(302)
Non Service Specific	36,332	35,093	(1,239)
TOTAL	143,779	144,680	+901

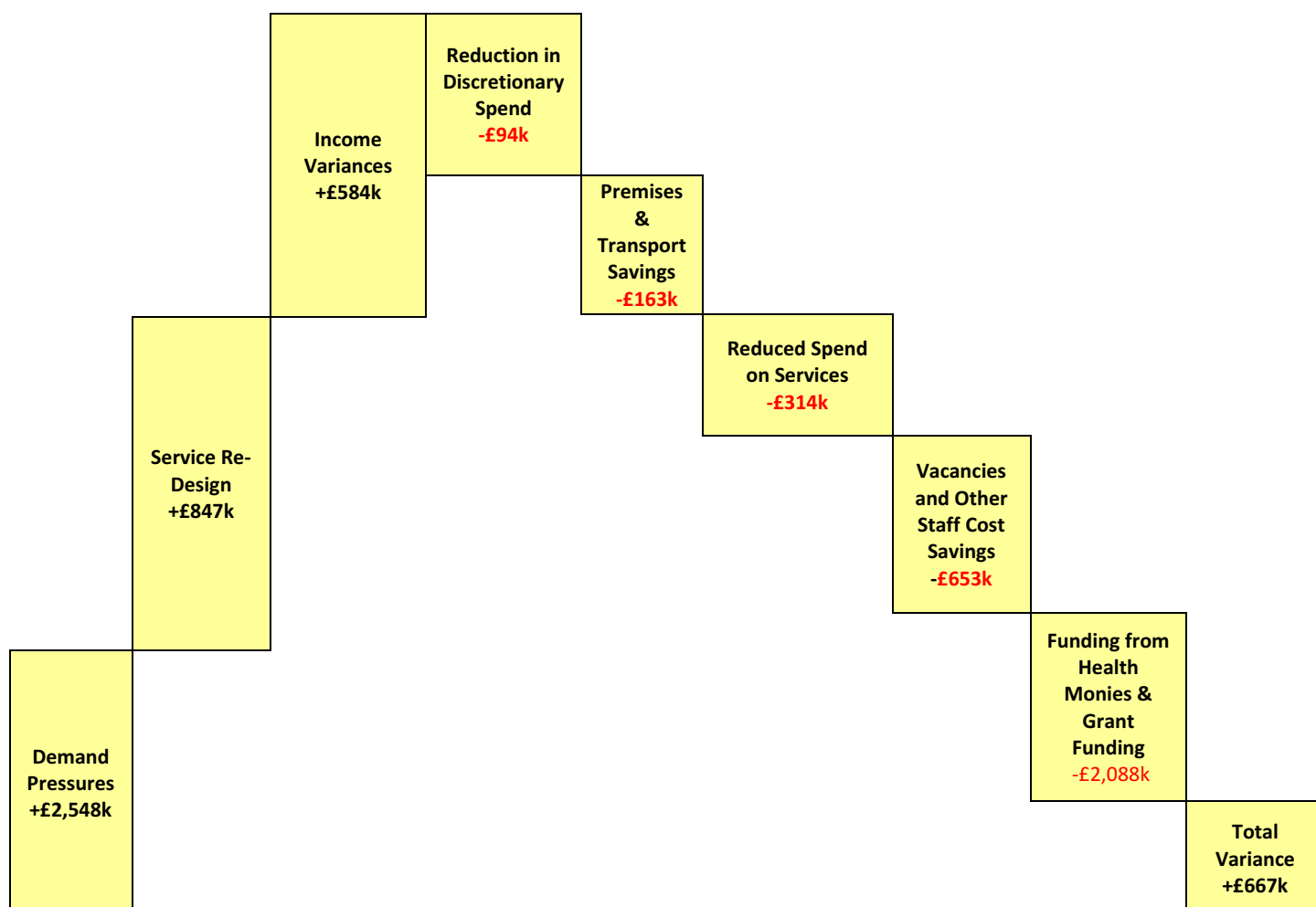
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- 3.2 The projected overspend of **£0.901m** represents approximately **0.63%** of the total net budget of £143.779m.
- 3.3 Members need to be aware that financial reporting involves an element of judgement, and this particularly applies to the treatment of budget pressures.
- 3.4 However it is felt appropriate 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.
- 3.5 In the light of the severity of the financial position a number of management actions were approved by Cabinet on 26 November 2014 to be implemented from 1 December, 2014. These include:
- Freeze on external recruitment (exceptions to be signed off by Head of Human Resources & Organisational Development); internal recruitment will continue to support the redeployment process.
 - Relaunch Work Life Balance options around reduced hours / purchase of leave;
 - Cease all but essential spend on stationery, office equipment etc.;
 - Any spend >£500 to be signed off by Executive Director.
- 3.6 In addition, Executive Directors have also been asked to;
- Review the use of all casual / agency staff / consultants
 - Review arrangements for overtime / additional hours
 - Review training commitments
 - Review spend on IT / Communications
- 3.7 It is anticipated that implementation of these measures will restrict spend in the final third of the financial year and ease the pressure on the 2014/15 budget.
- 3.8 It is also proposed that these measures continue into 2015/16 and are reviewed upon examination of the Q1 position.

4.0 SERVICE SPECIFIC FINANCIAL MONITORING

4.1 COMMUNITIES AND WELLBEING

- 4.1.1 The current projected overspend for Communities and Wellbeing is **£0.667m**, which is 0.96% of the Department's net budget of £69.209m.
- 4.1.2 Reasons for major variations are illustrated in the chart overleaf;



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

Theme	ACS/C&N	Variance £'000	Reason	Action Being Taken
Demand Pressures	Adult Care	+2,548	Demand pressures: Care in the Community budgets particularly around Domiciliary Care, Residential Care and Self Directed Support Budgets (+£2,379k). Deprivation of Liberty Safeguards (+£120k). Reablement Service (+£38k). Other small demand pressures on individual budgets (+£11k).	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 & medium cost care packages are kept under regular review.

	Communities & N'hoods	0		
	Sub Total	+2,548		
Service redesign	Adult Care	+648	<p>A number of service areas have yet to achieve 14/15 savings target against specific schemes:</p> <p>Business and Development (+£356k) Finance (+£101k) Operations (+£191k)</p>	<p>An Action plan is being developed by senior management for each of the service areas, ensuring the savings target are achieved during 2014/15 at least on a temporary basis in the first instance, with longer term plans to achieve full year effect from 2015/16 onwards.</p>
	Communities & N'hoods	+199	<p>Civic Halls savings from self management and extra income target not likely to be achieved based on current projections (+£39k).</p> <p>Delay in new Leisure Centres project (+£91k).</p> <p>Savings target on communities not yet identified (+£9k).</p> <p>Sports Development savings not identified (+£60k).</p>	<p>Continue to market & promote service and assess income & profitability of activities/events.</p> <p>Saving expected in future years if project proceeds.</p> <p>Review levels of spend.</p> <p>Offset by underspends if possible or use other savings transferred to reserves to offset cost pressure in short term.</p>
	Sub Total	+847		
Income variances	Adult Care	+62	<p>Shortfall in Supporting People Income (+£62k).</p>	<p>Planned reduction in spending levels in line with the grant receivable.</p> <p>This is a good news story for CWB and the hope is that further income can be generated from increased activity of the internal recruitment agency.</p> <p>SP recovery action plan</p>

				is being developed by senior management team.
	Communities & N'hoods	+522	<p>Difficulty in meeting beverage service/café income target (+£56k).</p> <p>Civic Halls surplus below target (+£130k).</p> <p>Shortfall on pest control income reduced to (+£3k).</p> <p>Grounds maintenance (+£26k) reduced income from schools.</p> <p>Leisure income not meeting targets, including income lost during closure of Radcliffe Pool for repairs (+£246k).</p> <p>Transport Services income forecast to exceed budget (-£144k).</p> <p>Shortfalls on bulky waste income (+£45k) and trade waste income (+£156k).</p> <p>Other variances (+£4k).</p>	<p>Reduce spend levels.</p> <p>Offset as much as possible by reducing spend.</p> <p>Continue to market & promote service and assess income & profitability of activities/events.</p> <p>Continue to review service to see if remaining deficit can be eradicated.</p> <p>Offset as much as possible by reducing spend. Savings to date are shown below.</p> <p>Use to offset other overspends.</p> <p>Offset by underspends elsewhere in the service.</p>
	Sub Total	+584		
Reduced Discretionary Spend	Adult Care	0		
	Communities & N'hoods	-94	<p>Shortfall of income on Exam fees in adult learning (+£22k).</p> <p>Reduced spend at Leisure Centres (-£72k).</p>	Use net savings to offset overspends

			<p>Forecast underspend on caddy liners, after budget saving target taken into account (-£112k).</p> <p>Forecast overspend on budget for bulking up waste at Fernhill and costs of disposing of leaf clearance waste (+£78k).</p> <p>Other variances, including forecast extra waste collection costs (-£10k).</p>	<p>Monitor service and review arrangements as required</p> <p>Overspends are offset by forecast savings on staff costs</p>
	Sub Total	-94		
Reduced Spend on Services	Adult Care	-314	<p>Reduce spend activity on Carers services budget (-£175k).</p> <p>The non start of 2 schemes within preventing homelessness budgets (-£50k).</p> <p>Underspend on Utilities (-£27k).</p> <p>Commissioning Contracts (-£25k).</p> <p>Mental Health Home treatment service (-£37k).</p>	Forecast underspends may be used to offset pressures within other areas of adult care service budgets.
	Communities & N'hoods	0		
	Sub Total	-314		
Premises & transport cost savings	Adult Care	-25	One off rate rebate.	Used to offset other overspends.
	Communities & N'hoods	-138	Underspends on transport repairs, hire & leasing costs (-£126k) plus (-£12k) other minor variances.	Use savings to offset overspends.
	Sub Total	-163		

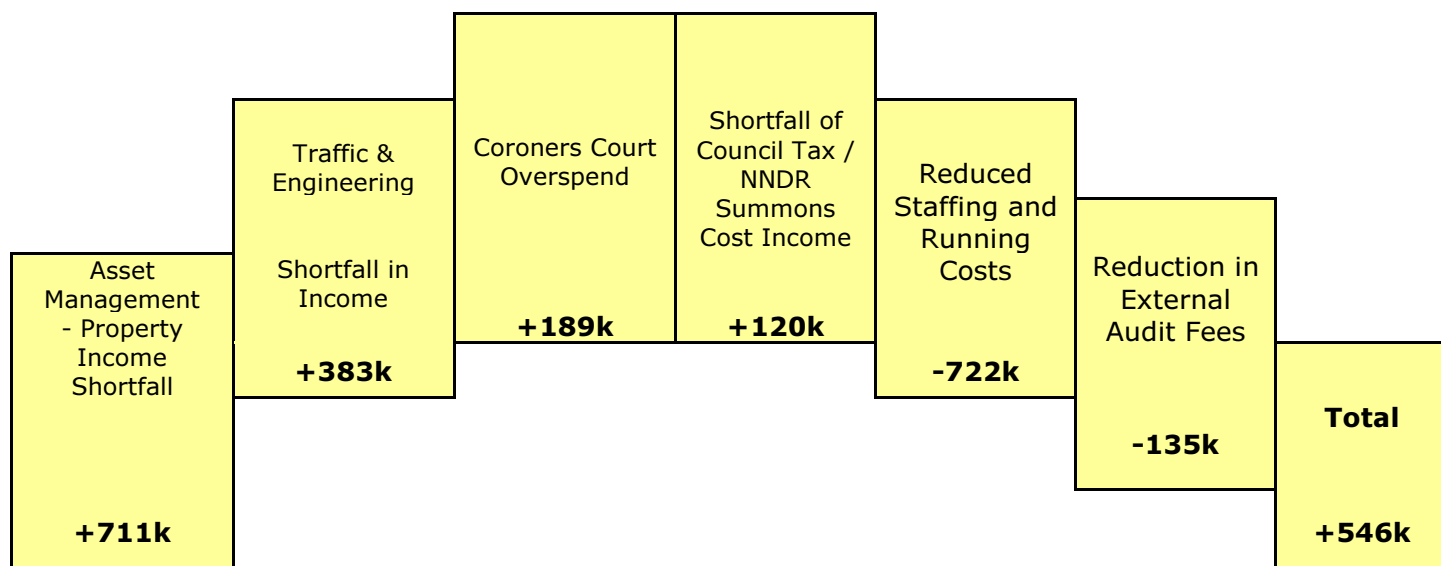
Vacancies and Other Staff Cost Savings	Adult Care	-321	<p>The following service areas are reporting underspends largely as a result of staffing vacancies and flexing of staff due to demand led staffing:</p> <p>Business and Development (-£64k) Commissioning (-£89k) Workforce (-£125k) Operations (-£43k)</p>	Forecast underspend will be used to offset pressure within other areas of adult care service budgets.
	Communities & N'hoods	-332	<p>Savings on adult learning staffing, to offset lower income levels (-£52k).</p> <p>Reduced spend on Leisure Centre staff during closures (-£105k).</p> <p>Extra costs of grounds seasonal staff kept on as grass cutting extended due to warm weather conditions (+£25k).</p> <p>Savings from secondments in park ranger service and pest control (-£11k).</p> <p>Transport salary savings – reduced overtime/standby, vacancies & flexible retirements (-£19k).</p> <p>Underspendings on waste management employees (-£146k).</p> <p>Savings from industrial action across all services (-£19k).</p> <p>Other (-£5k).</p>	Use savings to offset overspends
	Sub Total	-653		
Funding from Health Monies & Grant Funding	Adult Care	-2,088	Funding to support the demand pressures of the Care in the Community budgets (-£2,088k).	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.
	Communities & N'hoods	0		
	Sub Total	-2,088		
	Total	+667		

4.2 RESOURCES AND REGULATION

4.2.1 The Resources & Regulation Department is forecasting an overall overspend of **£0.546m**, or 13.2% of a net budget of £4.132m.

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



4.2.3 Reasons for major variations are illustrated in the table below;

Activity	Variance £'000	Reason	Action Being Taken
Property Services Shortfall in Income	+711	<p>Shortfall in income due to reduced occupancy levels.</p> <p>Should all of the properties within the non-operational property portfolio be let, the level of current market rents is such that the income budgets would still not be achieved.</p>	<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 have now been demolished owing to their poor condition. and business cases are being looked at for redevelopment viability.</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> <p>A report was approved by Cabinet on 3rd September 2014 which proposed the acquisition of secure property investments and the disposal of poorly performing assets. This would increase revenue income to the Council and achieve greater returns than monies currently held in other investments.</p>

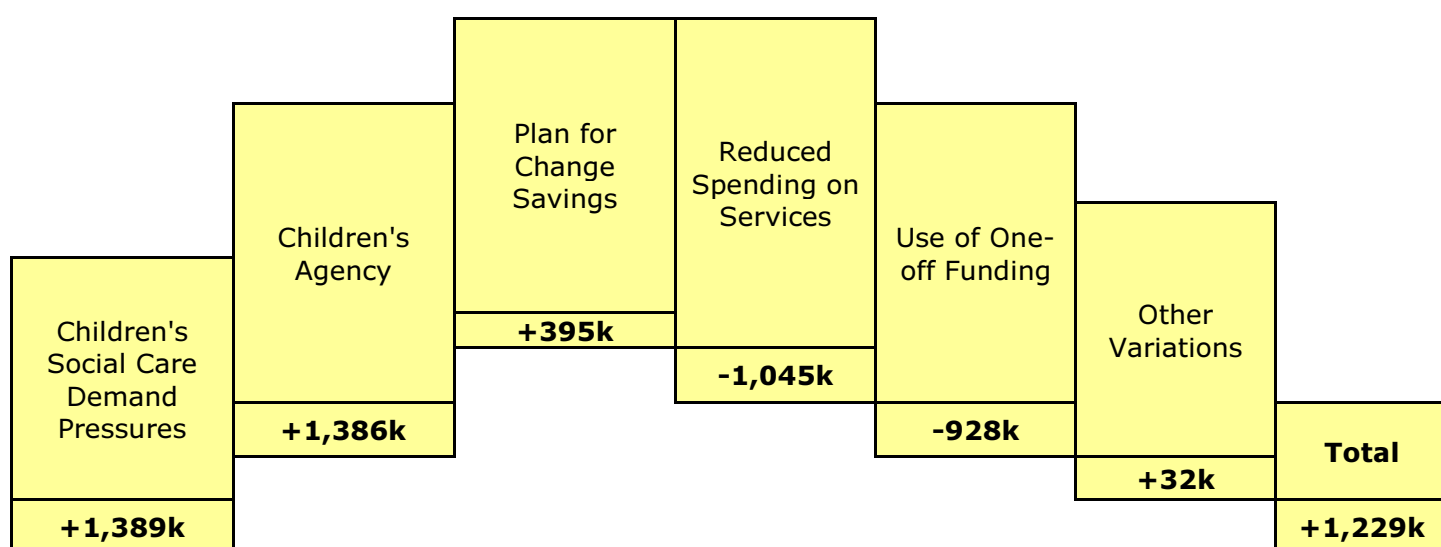
Activity	Variance £'000	Reason	Action Being Taken
Traffic & Engineering Shortfall in Income	+383	Estimated shortfalls in income relating to on and off-street parking and parking fines due to greater compliance (+£182k), Greater Manchester Road Activities Permit Scheme (GMRAPS) (+£102), coring (£30k), bus lane enforcement (+£40k), traffic management severance pay (+£17k) and delayed savings from Engineering management restructure (+£12k).	Monitor income levels, adjust expenditure and targets where possible and review staff resources allocated to GMRAPS. Severance pay and management restructure delayed savings are one-offs to achieve planned savings longer term.
Coroners Court Costs	+189	There are legislative changes around deaths occurring under Deprivation of Liberty Orders (DoL's) that are driving a significant increase in the volume of cases and thus costs.	Meetings being held between Coroner's Court and with DoLS coordinators from Rochdale, Oldham and Bury Councils to assess the issue in more detail.
Summons Costs	+120	Summons costs income for council tax and business rates are forecast to under-recover against historically over-inflated income budget targets.	Internal measures being taken to improve the income recovery rate.
Reduced Staffing and Running Costs	-722	Vacant posts not filled and tightening of controllable expenditure across the department. Salaries savings in Internal Audit and Accountancy (£78k), Customer Support & Collections (£156k), reduced use of locums (£107k), HR (£70k), Mayoral Costs (£14k), Planning & Development (£58k) plus savings on Members Allowances (£91k), Admin Buildings (£66k), Community Safety (£50k), Procurement (£116k), Trading Standards (£12k), Mayoral (£20k), Depot /Stores (£53k) and minor underspends (£3k). These are offset by projected overspends within Municipal Elections (£85k) and Register of Electors (£73k).	To be used to assist in reducing the estimated overspend within the department in 2014/15 and part included within the 2015/16 savings.

External Audit Fees	-135	Lower than budgeted costs received from KPMG.	To be used to assist in reducing the estimated overspend within the department in 2014/15 and to be included as part of the 2015/16 savings.
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4.3 CHILDREN’S, YOUNG PEOPLE AND CULTURE

4.3.1 The overall Children’s, Young People & Culture budget is currently projecting an overspend of **£1.229m**, or 3.61% based on net budget of £33.973m.

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
Children’s Social Care Demand Pressures	+1,389		
	Made Up Of:		
Leaving Care	+413	Spending on housing and further education of 19+ students who have now left our care.	The overspending has reduced from the previous quarter because one high cost young person is no longer supported by the service. Additional costs are expected for the void costs for properties earmarked for the HEN Project.

Advice & Assessment	+592	Continuing demand pressures	<p>Increased recruitment of Social Workers has taken place in previous months to reduce caseload numbers into line with Ofsted recommended quotas.</p> <p>Since the start of this financial year, several new Social Workers have been appointed, with a consequential reduction in the number of agency social workers. The impact in the current financial year is small as the handover of cases needs to be funded.</p>
Safeguarding	+32		<p>The overspending is predicted due to agency social workers covering vacancies, which will reduce following the recent recruitment.</p>
Children & Young people in Care	+52		<p>Forecast overspending is due to an establishment shortfall, honorarium and Agency staff to cover sickness.</p>
Family Placement	+209		<p>The overspending in payments to carers is due to an increase from 76 in 2013 to 89 in April 2014, plus there has been an increase in the number of Looked After Children. There has been a decrease in the overspending following the review of payments to carers.</p>
Adoption	+91		<p>In 2013/14, the DfE took money from LA's Early Intervention Grant to fund the Adoption Reform Grant. This grant has been reduced in 2014/15 while the service still continues locally.</p> <p>Additionally, the number of children placed for adoption with other Authorities is higher than the anticipated placement fee income from other authorities.</p>

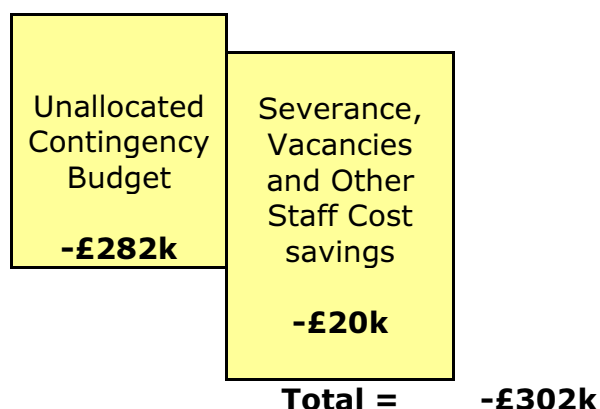
<p>Demand pressures - Children's Agency Placements</p>	<p>+1,386</p>	<p>Continuing demand pressures</p>	<p>A range of preventative strategies have been /are being introduced to try to minimise future spending, with all high and medium cost care packages being rigorously reviewed. It is estimated that during the forthcoming months this overspend will continue to reduce the cost burden on this highly volatile budget.</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.</p> <p>Children, Young People & Culture 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>Although there has been a reduction in spending compared to previous months because of fewer IFA's and residential packages, these have been offset by the increase in young people being placed in remand, which is much more expensive.</p>
<p>Home to School and College pupils & students with SEN</p>	<p>+395</p>	<p>The demand for SEN Transport is similar to last year.</p>	<p>The transport schedules for the 2014-15 academic year have now been calculated resulting in a forecast overspend. Additional demand pressures are partially offset by savings on bus escorts.</p>

Use of previous year's monies	-928	Previous years' underspending of external grant monies brought forward.	Prior year grant balances being used to offset overspending elsewhere within the department.
Reduced Spending on Services	-1,045		
	Made up of:		
School Attendance	-120		Higher than anticipated external funding, buy-back income and penalty notice income.
Youth Service	-80		Savings identified on youth projects used to offset the shortfall on salaries.
Children's centres and Early Help	-142		General efficiencies and reduced spending.
Management & Administration	-703		General efficiencies and reduced spending, coupled with continued innovative use of external funding. Additionally savings on early retirement/pension costs and additional buy-back income on traded services.
Other	+32		Mainly payments for severance and redundancy costs.

4.4 COMMUNITIES AND NEIGHBOURHOODS - RESIDUAL

4.4.1 There is a projected underspend of £0.302m on former DCN costs against a budget of £133,000.

4.4.2 The main reasons are shown in the chart below:



4.4.3 Further details are provided in the table below;

Activity	Variance £'000	Reason	Action Being Taken
Severance, vacancies and other staff cost variances.	-282	Salary savings of (-£80k) in 2014/15 from approved VER/VES applications. Savings of (-£2k) from industrial action. Provision in budget for severance costs (-£200k) currently uncommitted.	Full year impact of savings from approved VERS will be used in 2015/16 to reduce the need to make alternative cuts in services. Budget may be required later in the year if further VER/VES applications are received and approved.
Uncommitted contingency budget	-20	Budget set aside to meet unforeseen costs. The underspend has reduced due to budget transfers to offset savings targets in Leisure Services (£70k) and Commercial and Trading Standards (£15k).	Use remaining budget to offset other overspends.

4.5 NON-SERVICE SPECIFIC

4.5.1 There is a forecast net underspend of **£1.239m**, or 3.41% based on net budget of £36.332m. This relates primarily to the Council's Treasury Management activity (see Section 8.0, page 22 for further details), reduced forecast for use of provisions

(£0.9m) and a slightly higher than expected airport dividend (£84k) offset by increased annual subscription costs and contributions (£130k).

5.0 CAPITAL BUDGET

5.1 CAPITAL PROGRAMME

5.1.1 The revised estimated budget for the Capital Programme 2014/15 at the end of December is shown in the table below:

2014/15	£m
Original Capital Programme	24.284
Approved Slippage from 2013/14	16.126
In year adjustments and contributions	2.311
Revised Capital Allocation at Quarter 3	42.721
Estimated re-profiled projects into 2015/16	(13.191)
Revised working budget for Year at Qtr 3	29.530

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 2014/15 is 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 Quarter3, a total of **£13.191m** of the 2014/15 budget has been identified for re-profiling to 2015/16. Most of this amount is attributed to Children Services Projects where the schemes are funded mainly by grants from Department of Education to a total of £8.867m.

5.1.5 The Urban Renewal scheme on the Radcliffe Empty Property Pilot is indicated to slip £0.438m into 2015/16 due to time limited grant allocation from the Homes and Communities Agency (HCA) that has supported the 2014/15 budget. The remainder is attributable to Highways schemes with a total of £0.833m for the Street Lighting Invest to save scheme, £0.621m for the Traffic Calming schemes and a further £0.483m on the A56 Prestwich Village Corridor Improvements.

5.1.6 Details received from Transport for Greater Manchester on the proposed delivery of Radcliffe Town Centre Bus Station Relocation indicate that 0.900m will slip into 2015/16 as the Council contribution towards the overall cost.

5.2 Expenditure

5.2.1 The Forecast Outturn as at Month 9 is indicated to be **£28.174m** and Budget Managers have reported that they expect to spend up to this amount by 31 March 2015.

5.2.2 The actual expenditure incurred by the end of Month 9 totals **£15.577m**.

5.2.3 The main areas to record expenditure in the third quarter were:

• Property Redevelopment Schemes	£1.542m
• Children's, Young People and Culture -	£4.678m
• Older People schemes	£0.364m
• Housing Public Sector -	£5.901m
• Urban Renewal (Disabled Facilities Grants)	£0.498m
• Highways Maintenance	£1.077m
• Street Lighting – I2S	£0.409m

5.3. Variances

5.3.1 Appendix A provides details of variances for each scheme based on latest available information received from budget managers and at Month 9 it shows a projected underspend for the Programme of £1.355m.

5.3.2 This amount is the balance of several larger schemes in the programme that are either in the process of finalising details or expenditure may not take place during 2014/15 and will be requested as slippage at year end.

5.3.3 The schemes that are forecasted to overspend are monitored and analysed by budget managers. Any remedial action required will be taken as soon as details for expenditure and final funding availability are known.

5.3.4 Brief reasons for all variances are provided in **Appendix A** attached with this report.

5.4 Funding

5.4.1 The funding profile included in Appendix A shows the resources available to cover the capital programme during 2014/15.

5.4.2 The principal source of funding for Capital schemes approved for the 2014/15 programme is made of external resources together with resources unspent and carried forward from previous years. The Council and Cabinet have also approved a second phase of Invest to Save schemes supported by the Council's own resources of **£0.886m** for the year.

5.4.3 The position of the capital receipts and borrowing as at the end of Month 9 is reported below. The figures in the table show the total funding requirement for the revised estimated capital programme inclusive of potential slippage into 2015/16 and the expected resources to be supported by the Council as at the end of Quarter 3 of the year.

2014/15 Use of Council Resources for Capital Investment	£m
Revised Capital Programme allocation for the year	42.721
Use of external funding and contributions	(37.143)
Balance of programme relying on Council resources	5.578
Use of Capital receipts and earmarked reserves	1.139
Use of Prudential Borrowing (2014/15 approved Invest to Save schemes)	0.886
Use of Prudential Borrowing (2013/14 schemes brought forward)	3.553
Total Council Resources used to support the Capital Budget for Year	5.578

5.5 Capital Programme Monitoring

5.5.1 The programme will continue to be monitored closely during the remaining quarter of the year by CPMG and Management Accountancy with an aim to deliver approved schemes on cost and time and with minimum slippage into 2015/16.

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 2014/15. The projected outturn shows a working balance carried forward of £0.647m. See Appendix B.

6.3 There are a number of variations that contribute to the projected outturn position however there are only two areas where the variance exceeds 10% and £50k:

- General Management – the main increases in expenditure are higher charges for Public Liability Insurance, £0.057m and £0.020m for costs associated with the review of the HRA Tenancy Agreement.
- Interest receivable – on balances. The projected reduction in income of £0.098m reflects lower rates of interest in the last and current financial years along with the projected reduction in the working balance for the current year.

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 2.2% compared to a void target level set in the original budget of 1.8%. Void levels have however reduced over the latter part of the quarter to around 1.9%; if this performance continues for the rest of the year there would be a reduction in rental income of around £0.094m; the projection of rental income in Appendix B has been calculated on this basis.

Six Town Housing have started a review looking at the voids processes and the various factors affecting demand.

Arrears:

The rent arrears at the end of December totalled £0.905m, an increase of 6.43% since the end of March. Of this total £0.402m relates to former tenants and £0.503m 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.

Based on the performance to the end of December, projected for the full year, this provision would require an additional contribution of £0.182m to be made.

The 2014/15 HRA estimates allow for additional contributions to the provision totalling £0.614m, £0.184m for uncollectable debts and £0.430m to reflect the potential impact that welfare benefit changes could have on the level of rent arrears. Therefore there is a potential underspend of £0.432m. The projected outturn has not been amended to reflect this as the impact of further benefit changes needs to be assessed and the level of rent arrears is volatile, however it is increasingly likely that a significant underspend will be reported at the end of the financial year; any underspend will increase the level of HRA working balance carried forward.

Right to Buy Sales:

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

This has resulted in an increase in the number of applications and ultimately sales. There were 13 sales in 2012/13 and this increased to 40 sales last year.

The forecast for 2014/15 was set at 42, this being the level of sales assumed for Bury in the Government's self-financing valuation.

From July 2014 the maximum Right to Buy discount increased from £75,000 to £77,000 and the maximum percentage discount on houses increased from 60% to 70% (in line with the discounts allowed on flats). These changes may increase the number of applications and sales but it is too early after the changes to quantify this.

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 £3,800.

- 6.5 There have been 32 sales in the period April to December. The total number of sales is not expected to differ significantly from the forecast therefore rental income projections have not been adjusted.

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 2014/15 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 2014/15 (approved by Council on 19 February 2014) with the revised projections as at 31 December 2014. The variances can be seen in the Appendix together with explanatory notes. The Prudential Indicators were not breached during the first nine months of 2014/15.

8.0 TREASURY MANAGEMENT

8.1 Investments:

8.1.1 At the 31st December 2014 the Council's investments totalled £48.9 million and comprised:-

Type of Investment	£ Million
Call Investments (Cash equivalents)	6.7
Fixed Investments (Short term investments)	42.2
Total	48.9

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 3 quarters of 2014/15.

The Council has earned the following return on investments:

Quarter 1	0.67%
Quarter 2	0.57%
Quarter 3	0.61%

8.1.3 This figure is higher than Sector's suggested budgeted investment earnings rate for returns on investments, placed for periods up to three months in 2014/15, of 0.50%

8.2 Borrowing:

8.2.1 No external borrowing was undertaken in the quarter to 31st December 2014.

8.2.2 At 31st December 2014 the Council's debts totalled £210.943 million and comprised:-

		31st Dec 2014		Avg. Rate
		Principal		
		£000	£000	
Fixed rate funding				
	PWLB Bury	146,362		
	PWLB Airport	4,078		
	Market Bury	57,500	207,940	
Variable rate funding				
	PWLB Bury	0		
	Market Bury	0	0	
Temporary Loans / Bonds		3,003	3,003	
Total Debt			210,943	3.96%

8.2.3 The overall strategy for 2014/15 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 2014/15, then savings will be made by running down investments and taking shorter term loans rather than more expensive long term borrowing.

8.2.4 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
General Fund Balance 31 March 2014 per Accounts	11.580
Less : Minimum balances to be retained in 2014/15	-4.500
Less : Contribution towards cost of Equal Pay	-1.500
Less : Forecast overspend	-0.901
Available balances at 1 April 2014	4.679

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 2014/15 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 £4.500m.

9.3 In light of the above assessment it is recommended that the minimum level of balances be retained at **£4.500m**.

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 will 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 Q1 and Q2 Star Chamber meetings have already been held and Q3 meetings are scheduled to take place in February 2015.

**Councillor Mike Connolly,
Leader of the Council and Cabinet Member for Finance**

List of Background Papers:-

Finance Working Papers, 2014/15 held by the Assistant Director of Resources & Regulation (Finance & Efficiency).

Contact Details:-

Steve Kenyon, Assistant Director of Resources & Regulation (Finance & Efficiency), Tel. 0161 253 6922, E-mail: S.Kenyon@bury.gov.uk

Month 9 - 2014/15

		(1) 2014/15 Original £000's	(2) Revised Estimate £000's	(3) Reprofiled to Future Years £000's	(4) Revised Estimate £000's	(5) Forecast Outturn £000's	(6) Month 09 Actual £000's	(7) Year End Variance / £000's	(8) Month 9 Variance / £000's		Notes
Children, Young People & Culture	Support Services		84	-	84	94	80	10	(14)	K	
Children, Young People & Culture	DFES - Devolved Formula	500	1,746	(1,045)	701	701	636	0	(65)	J	spend takes place over a 3yr rolling programme allocated directly to schools
Children, Young People & Culture	NDS Modernisation	3,926	11,614	(7,262)	4,352	4,393	3,579	40	(814)	J	
Children, Young People & Culture	Access Initiative	-	62	(28)	34	34	20	-	(14)	K	
Children, Young People & Culture	Targetted Capital Funds	-	130	(100)	30	30	26	-	(4)	J	
Children, Young People & Culture	New Sports Hall - Derby	321	127	(18)	109	109	109	(0)	-	L	
Children, Young People & Culture	Children Centres	-	44	(44)	-	-	-	-	-	K	
Children, Young People & Culture	Free School Meal Capital Grant	356	356	(91)	265	265	160	-	(105)	K	
Children, Young People & Culture	Early Education Fund	-	321	(280)	41	41	26	-	(15)	J	
Children, Young People & Culture	16-19 Demographic Growth Fund	274	447	-	447	447	-	-	(447)	K	
Children, Young People & Culture	Libraries/Adult Education	-	109	-	109	42	42	(67)	(0)	L	part of allocation not required - scheme completed
Communities & Wellbeing	Contaminated Land	-	31	(22)	9	6	6	(3)	-	L	
Communities & Wellbeing	Air Quality	-	64	(9)	55	49	10	(6)	(39)	L	
Communities & Wellbeing	Improving Info. Management	-	37	-	37	-	-	(37)	-	L	
Communities & Wellbeing	Learning Disabilities	-	430	-	430	209	198	(221)	(12)	L	new schemes approved late in the year retention and project allocations to be resolved by year end
Communities & Wellbeing	Older People	448	548	-	548	162	365	(385)	202	L	
Communities & Wellbeing	Empty Property Strategy	199	604	(438)	166	166	25	-	(141)	J	
Communities & Wellbeing	GM Green Deal and ECO Deliv	0	1,200	(50)	1,150	-	-	(1,150)	-	L	require small amount of slippage only - allocation may not be required for the proposed scheme
Communities & Wellbeing	Disabled Facilities Grant	652	989	(219)	770	770	498	0	(272)	J	reprofile remaining budget to 15/16
Communities & Wellbeing	Waste Management	-	337	(124)	213	213	78	-	(135)	K	
Communities & Wellbeing	Leisure and Parks	-	1,152	-	1,152	1,154	2	2	(1,152)	J	new temporary pool scheme approved
Communities & Wellbeing	Outdoor Tennis Courts Refurbishment	-	2	-	2	-	-	(2)	-	L	
Resources & Regulation	Traffic Management Schemes	205	519	(219)	300	300	46	-	(254)	J	
Resources & Regulation	Public Rights of Way	23	20	-	20	20	1	-	(19)	K	
Resources & Regulation	Planned Maintenance	1,233	1,583	(30)	1,554	1,516	866	(38)	(650)	L	final fees / retentions
Resources & Regulation	Bridges	445	479	-	479	499	184	20	(315)	J	land purchase planned / may slip
Resources & Regulation	Street Lighting LED Invest to Sa	1,046	1,574	(833)	741	741	409	-	(332)	K	scheme newly re-profiled over the next three years
Resources & Regulation	Traffic Calming and Improve	500	748	(621)	127	39	26	(88)	(13)	L	details of scheme necessitates slippage
Resources & Regulation	Planning Environmental Project	237	815	(568)	247	297	64	50	(232)	J	
Resources & Regulation	Planning Development Projects	206	358	(181)	177	177	65	-	(112)	J	
Resources & Regulation	Corporate ICT Projects	-	140	(110)	30	30	-	-	(30)	K	
Resources & Regulation	Townside Fields - Joint Venture	-	5	-	5	5	274	-	269	K	
Resources & Regulation	Depot & Operational Premises	-	83	-	83	92	92	9	-	J	
Resources & Regulation	Opportunity Land Purchase	-	109	-	109	109	-	-	(109)	K	
Resources & Regulation	Demolition of the Rock Fire Sta	-	94	-	94	2	2	(92)	-	L	
Resources & Regulation	Irwell Street Redevelopment	-	-	-	-	54	54	54	(0)	J	fees only/ long term scheme
Resources & Regulation	Bradley Fold	-	33	-	33	-	-	(33)	-	L	
Resources & Regulation	Demolition of Former Police HQ, Irwell Street	-	22	-	22	45	34	23	(11)	J	
Resources & Regulation	Bury Market - New Toilets	-	187	-	187	238	238	51	-	J	variances to be resolved by year end
Resources & Regulation	Radcliffe Town Centre Redevelo	700	874	-	874	930	898	56	(32)	J	
Resources & Regulation	The Rock Fire Station Redevelopment	-	4	-	4	4	-	-	(4)	K	
Resources & Regulation	Radcliffe TC Bus Station Reloca	1,000	1,000	(900)	100	100	77	-	(23)	K	only Bury council fees
Resources & Regulation	New Leisure Centre at Knowsley Street	-	-	-	-	79	79	79	-	J	fees only/ long term scheme
Resources & Regulation	Bury Open Market extension to polycarbonate n	-	-	-	-	17	17	17	0	J	details to funding stream awaited
Resources & Regulation	18 Haymarket Street	-	99	-	99	5	4	(94)	(1)	L	
Resources & Regulation	Tile Street Refuse Removal	-	120	-	120	323	78	203	(245)	J	details of scheme awaited
Resources & Regulation	Acquisition of 88 Hollins Lane	-	-	-	-	60	60	60	-	J	
Resources & Regulation	Property Management / Sale of Assets	-	-	-	-	244	244	244	(3)	K	offset at year end against realised sales.
Resources & Regulation	ELR Trust	-	-	-	-	5	5	5	(0)	J	the ELR trust to meet expenditure as incurred
Housing Public Sector	Disabled Facilities Adaptations	534	557	-	557	521	250	(36)	(271)	L	
Housing Public Sector	Major Repairs Allowance Schen	7,361	8,744	-	8,744	8,716	5,651	(29)	(3,065)	L	overprogramming in the event of delays and to ensure full allocation spent by year end
Housing Public Sector	Major Repairs Allowance Schen	4,119	4,119	-	4,119	4,119	-	-	(4,119)	K	
Total Bury Council controlled programme		24,284	42,721	(13,191)	29,530	28,174	15,577	(1,355)	(12,598)		

Funding position:

Capital Receipts	205	1,139	(219)	920	920
Reserve / Earmarked Capital Receipts	-	1,500	-	1,500	1,500
General Fund Revenue	699	1,296	-	1,296	1,296
Housing Revenue Account	-	4,653	-	4,653	4,653
Capital Grants/Contributions	9,780	20,926	(11,224)	9,702	9,702
HRA/MRA Schemes	12,014	8,767	-	8,767	8,703
Supported Borrowing	-	-	-	-	-
Unsupported Borrowing	1,586	4,440	(1,748)	2,692	1,400
	24,284	42,721	(13,191)	29,530	28,174

Key for budget monitoring reports

Projected Overspend (or Income Shortfall)

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

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K
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April 2014 - December 2014 Monitor

	2014/15 Original Estimate	2014/15 Latest Estimate	2014/15 Projected Outturn	2014/15 Variation Over/(Under)
	£	£	£	£
INCOME				
Dwelling rents	30,187,600	30,187,600	30,118,500	69,100
Non-dwelling rents	220,800	220,800	220,400	400
Heating charges	71,600	71,600	73,800	(2,200)
Other charges for services and facilities	904,100	904,100	928,100	(24,000)
Contributions towards expenditure	53,900	53,900	53,900	0
Total Income	31,438,000	31,438,000	31,394,700	43,300
EXPENDITURE				
Repairs and Maintenance	0	0	0	0
General Management	739,100	739,100	828,400	89,300
Special Services	752,300	752,300	746,800	(5,500)
Rents, rates, taxes and other charges	50,000	50,000	90,000	40,000
Increase in provision for bad debts - uncollectable debts	184,400	184,400	184,400	0
Increase in provision for bad debts - impact of Benefit Reforms	430,400	430,400	430,400	0
Cost of Capital Charge	4,530,300	4,530,300	4,531,900	1,600
Depreciation/Impairment of fixed assets - council dwellings	7,361,500	7,361,500	7,361,500	0
Depreciation of fixed assets - other assets	40,500	40,500	41,900	1,400
Debt Management Expenses	40,700	40,700	41,000	300
Contribution to/(from) Business Plan Headroom Reserve	(358,000)	(358,000)	(358,000)	0
Total Expenditure	13,771,200	13,771,200	13,898,300	127,100
Net cost of services	(17,666,800)	(17,666,800)	(17,496,400)	170,400
Amortised premia / discounts	(14,600)	(14,600)	(14,600)	0
Interest receivable - on balances	(164,200)	(164,200)	(66,200)	98,000
Interest receivable - on loans (mortgages)	(1,900)	(1,900)	(1,000)	900
Net operating expenditure	(17,847,500)	(17,847,500)	(17,578,200)	269,300
Appropriations				
Appropriation relevant to Impairment	0	0	0	0
Revenue contributions to capital	4,652,500	4,652,500	4,664,500	12,000
(Surplus) / Deficit before ALMO/SHU payments	(13,195,000)	(13,195,000)	(12,913,700)	281,300
Payments to Six Town Housing / Transfers re Strategic Housing Unit excluded from above				
Six Town Housing Management Fee	12,875,000	12,875,000	12,946,400	71,400
Contribution to SHU Costs	320,000	320,000	320,000	0
Total	13,195,000	13,195,000	13,266,400	71,400
(Surplus) / Deficit after ALMO/SHU payments	0	0	352,700	352,700
Working balance brought forward	(1,000,000)	(1,000,000)	(1,000,000)	0
Working balance carried forward	(1,000,000)	(1,000,000)	(647,300)	352,700

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 2014/15 and the Original Budget for 2014/15 as approved at Council in February 2014. The Original Budget for 2014/15 is compared with the Forecast Outturn for 2014/15 as at 31st December 2014.

CAPITAL EXPENDITURE	Original Budget 2014/15	Forecast Outturn at 31 Dec 14	Variance	Notes
	£'000	£'000		
Estimate of Capital Expenditure				
Non-HRA	12,270	14,819	20.77%	1
HRA existing expenditure	12,014	13,356		
TOTAL	24,284	28,174		
Estimate of Capital Financing Requirement (CFR)				
Non-HRA	125,551	122,743	(2.24%)	2
HRA existing expenditure	40,531	40,531		
HRA reform settlement	78,253	78,253		
	244,335	241,525		3

AFFORDABILITY	Original Budget 2014/15	Forecast Outturn at 31 Dec 14	Variance	Notes
	£'000	£'000		
Estimate of incremental impact of capital investment decisions				
Increase in council tax (band D, per annum)	-£1.72	£0.00		4
Increase in housing rent per week	£0.00	£0.00		5
Ratio of Financing Costs to net revenue stream				
Non-HRA	3.14%	3.10%	(1.46%)	6
HRA	14.18%	14.18%	0.00%	6
Net External Borrowing only to support the CFR in Medium Term	£'000	£'000		
Net External borrowing over medium term	201,361	201,361		7
Total CFR over Medium Term	244,335	241,525		7
Net External Borrowing < Total CFR	TRUE	TRUE		

EXTERNAL DEBT	Original Budget 2014/15	Forecast Outturn at 31 Dec 14	Variance	Notes
	£'000	£'000		
Authorised limit of external debt				
Borrowing	200,000	197,200		
Other long term liabilities	7,000	7,000		
HRA reform settlement	79,300	79,300		
TOTAL	286,300	283,500	0.00%	8
Operational boundary				
Borrowing	165,000	162,200		
Other long term liabilities	7,000	7,000		
HRA reform settlement	79,300	79,300		
TOTAL	251,300	248,500	0.00%	8

TREASURY MANAGEMENT	Original Budget 2014/15	Forecast Outturn at 31 Dec 14	Variance	Notes
Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	140%	112%	0.00%	9
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	-40%	-25%	0.00%	9
Upper limit for total principal sums invested for > 364 days	£10 m	£10 m		10
Maturity structure of fixed rate borrowing at 31	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 £24.284m. The forecast outturn of £28.174m is higher than budget because of slippage from 2013/14.
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 28th 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 2014/15 to finance current and 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

Agenda Item	
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MEETING: **OVERVIEW & SCRUTINY COMMITTEE
CABINET
COUNCIL**

DATE: **11 FEBRUARY 2015
25 FEBRUARY 2015
25 FEBRUARY 2015**

SUBJECT: **BUDGET 2015/16**

REPORT FROM: **LEADER OF THE COUNCIL & CABINET MEMBER FOR
FINANCE**

CONTACT OFFICER: **M Owen – Executive Director of Resources &
Regulation
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 2015/16 to 2017/18 (section A) and the Revenue Budget for 2015/16 (section B) and outlines the Council's strategy for tackling the financial challenges ahead.

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 2015/16
- Forecast outturn for 2014/15
- The budget strategy for 2015/16 and the approach to balancing the budget.

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 2015/16, to be funded (in part) by £0.774m 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 long term 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 2015/2016 at its meeting on 25th February 2015.

Council is recommended to:

Section A – Capital Programme

1. Approve the Capital Programme for 2015/16 and future years, shown in Appendix 1;
2. Approve the proposed financing of the Capital Programme;

Section B – Revenue Budget

3. Note the details of the Settlement Funding Allocation (SFA) 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 and Efficiency) calculated the amount of 51,227.93 as the Council Tax base for the year 2015/16 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 2014/15;
7. Approve that the actual minimum level of balances for 2015/16 be increased to £4,500,000 in view of the Council's risk profile;
8. Approve, amend or reject the draft Revenue Budget for 2015/16 as shown in the report;
9. Approve the programme of cuts set out at Appendix 5;

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 2015/16.

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 & Regulation:

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.

Health & Safety Implications:

The report does not present any Health & Safety issues. Health & Safety matters will continue to be managed in the same way within the services concerned.

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

2015. Legal issues are set out in Appendix 3.

Wards Affected:

All

Scrutiny Interest:

Overview & Scrutiny Committee

TRACKING/PROCESS

EXECUTIVE DIRECTOR: Mike Owen

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
26/1/15	Finance		
Scrutiny Committee	Cabinet	Committee	Council
Overview & Scrutiny 11/2/2015	25/2/2015	Special JCCs	25/2/2015

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SECTION A
CAPITAL PROGRAMME

1.0 BACKGROUND

- 1.1 This report outlines the proposed approach in respect of the Capital Programme 2015/16 to 2017/18 and sets out a strategy recommended by the Strategic Leadership Team and endorsed previously by the Cabinet.

2.0 PROGRESS AGAINST THE 2014/15 PROGRAMME

- 2.1 Details of spend against the 2014/15 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report presented to the Cabinet on 25th February 2015.

3.0 CAPITAL RESOURCES FOR 2015/16

- 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.

- 3.3 The Settlement for 2015/16 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 2015/16

- 4.1 In line with last year's Capital Programme, and the Council's Medium Term Financial Strategy, it is recommended that the 2015/16 – 2017/18 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.
- 4.4 Members are advised that negotiations are now complete with Transport for Greater Manchester to secure funding to implement an agreed option for relocating Radcliffe bus station. This scheme was approved and included in last year's programme, and will be brought forward into 2015/16.
- 4.5 Additional funding (£500,000) made available in the 2014/15 budget for works to the A56 corridor in Prestwich also remains in the programme and any balance will be carried forward to 2015/16.
- 4.6 The programme also reflects the Council's continued investment in the Housing Stock to deliver the "Bury Standard"; as approved at Budget Council in February 2014.

5.0 FUNDING THE CAPITAL PROGRAMME

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

Source	2015/16 £	2016/17 £	2017/18 £	Total £
Gross Cost	23,689,899	19,744,209	3,556,100	46,990,208
Financed by:				
Grants / External Funding	22,247,899	18,058,609	2,670,500	42,977,008
Earmarked Reserves	1,243,000	937,000	0	2,180,000
S106 Reserves	199,000	0	0	199,000
Borrowing (Invest to Save Business Case)	0	748,600	885,600	1,634,200
Total	23,689,899	19,744,209	3,556,100	46,990,208

5.2 The table shows a limited programme for 2017/18; this is due to the absence of funding information available at this stage.

6.0 RISKS

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

- **Capital receipts are not realised.** This risk has been addressed through prudent forecasting, in the light of current market conditions however there are no plans to use receipts to fund the Programme.
- **Schemes slip from one year to the next.** This is a normal feature of capital schemes and can occur for a large number of reasons. The risk can be mitigated by slipping corresponding resources between years and is not felt to be high.
- **Scheme costs increase.** Again this is not unusual, but unlike slippage, increased costs are more than timing issues and this cannot be mitigated without an impact on other schemes within the Programme or an impact on future years' resources. The risk can be mitigated by the use of sound costing techniques, effective project management and monitoring schemes using a risk assessment approach.

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

SECTION B
REVENUE BUDGET

1.0 INTRODUCTION

- 1.1 This section of the report examines the position in respect of the Revenue Budget for the current and future years. The position in respect of the Housing Revenue Account is the subject of a separate paper.
- 1.2 The report begins by providing Members with details of the final Local Government Finance Settlement for 2015/16 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2014/15 and the draft Revenue Budget for 2015/16. No forecast is provided beyond this date given the lack of detailed information available, and the likelihood of a Comprehensive Spending Review in 2015. 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 3.
- 1.4 A draft settlement was announced on 18th December 2014, outlining figures for 2015/16, however in a departure from recent years, no indicative allocations were given for 2016/17. At the time of writing, final settlement figures have not been confirmed for 2015/16.
- 1.5 Setting the budget for 2015/16 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 3) setting out in detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning personal and prejudicial interests and goes on to specify the responsibilities of the Assistant Director of Resources (Finance and Efficiency) who fulfils the role of the Council's 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 2015/16

- 2.1 The Draft Local Government Finance Settlement for 2015/16 (the Settlement) was released on 18th December 2014 and is due to be confirmed in February 2015. The Settlement provides details of the authority's income from Central Government, and incorporates a number of fundamental changes which took effect on 1st April 2013.

Local Retention of Business Rates

- 2.2 Historically, Local Authorities collected Business Rates and paid them over to a Central Government "pool"; 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. The 2015/16 budget assumes a 5% loss in Business Rates yield as a result of appeals. Monthly monitoring already takes place, and this will continue to monitor progress against this assumption.
 - Reliefs – The Council is also now liable for 49% of the cost of charitable / empty reliefs. The impact of this is also 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
 - The Council is responding to this opportunity with the creation of a Business Engagement Group led by the Executive Director of Resources & Regulation. This groups seeks to "grow" existing Bury businesses and attract new businesses to the Borough.

Pooling

- 2.7 When a Local Authority's share of Business Rates grows above an upper threshold, a "levy" is applied effectively capping the growth available to Local Authorities.
- 2.8 Equally, a "safety net" applies where income falls below a lower threshold.
- 2.9 There is an opportunity for Local Authorities to "pool" business rates income and retain Business Rates Growth at a local level. Alongside this however, is the risk that losses are covered locally.

- 2.10 The Greater Manchester Authorities have created a pool arrangement along with colleagues from Cheshire East Council.
- 2.11 The utilisation of any proceeds from this approach has yet to be finally agreed, and the 2015/16 Budget assumes no additional income at this stage.

Localised Council Tax Benefit Scheme

- 2.12 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.
- 2.13 The local scheme is reviewed annually; the 2015/16 scheme was approved at Council in December 2014.
- 2.14 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

- 2.15 Bury's 2015/16 Draft "Settlement Funding Allocation" (SFA) compares as follows to previous years;

	SUFA £m	Change %
2013/14	78.741	
2014/15	72.414	-8.04%
2015/16	61.599	-14.94%

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

	2015/16 %
Bury	-14.94%
Metropolitan Areas	-15.14%
Shire Areas	-14.06%
London Area	-12.16%
England	-13.91%

Figures now include rolling in of 2014/15 Council Tax Freeze Grant

- 2.17 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;

	2015/16	Additional Resources if funded at this level
	£	£m
Bury	£330.24	£0.00m
Greater Manchester Average	£431.95	£18.97m
CIPFA "Family" Average	£365.00	£6.48m
England Average	£385.37	£10.28m

Response to Settlement Consultation

- 2.18 The Council has responded to the draft settlement outlining these concerns, and the Leader has participated in two telephone conferences with Government ministers.
- 2.19 In these telephone conferences, the Civil Servants present outlined that there was no prospect of any change to the settlement formula.
- 2.20 A copy of the Council's settlement response is attached at Appendix 2

Rolled in Grants

- 2.21 The settlement has once again seen the "rolling in" of former specific grants – meaning these are now part of the mainstream funding settlement.
- 2.22 This offers the Council more freedom in terms of how grants are applied as ringfencing is relaxed once a grant is "rolled in".
- 2.23 A critical consideration however is the level at which grants are rolled in; the table below highlights an overall reduction of **£0.510m** (4.85%) for 2015/16; this is in addition to cuts of almost **£3 million** to these grants to date.

Grant	2014/15 £'000	2015/16 £'000	Change	
			£'000	%
Early Intervention Grant	5,502	5,011	-491	-8.92%
Homelessness Prevention Grant	456	455	-1	-0.22%
Lead Local Flood Authority Grant	120	119	-1	-0.83%
Learning Disability / PH Reform	4,432	4,415	-17	-0.38%
	10,510	10,000	-510	-4.85%

- 2.24 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

- 2.25 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.

2.26 The Settlement gave details of other DCLG specific grants as follows;

Grant	2014/15 £'000	2015/16 £'000	Change £'000
Community Right to Bid	8	0	-8
Community Right to Challenge	9	0	-9
Council Tax Support – New Burdens	118	44	-74
Housing Benefit Admin Subsidy Grant	1,217	1,016	-201
Local Reform / Community Voice Grant	148	110	-38
Local Welfare Provision	513	0	-513
	2,013	1,170	-843

2.27 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.

Education Services Grant

2.28 The Education Services Grant is determined by the Secretary of State for Education to provide funding for academies for the transferred management responsibilities from local authorities. The nationally determined rate per pupil is almost twice as much as Bury will spend on these support services for its schools, and therefore any reduction in the ESG will have a significant impact on other Council services. In June 2013, the Chancellor of the Exchequer announced a 20% reduction in the Education Services Grant for 2015/16, which means that Bury will see a £780,000 reduction in its available funding.

3.0 FORECAST OUTTURN 2014/15

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 2014 (i.e. month 9):

Department	Budget £'000	Forecast £'000	Variance £'000
Communities & Wellbeing	69,209	69,876	+667
Resources & Regulation	4,132	4,678	+546
Children, Young People & Culture	33,973	35,202	+1,229
DCN Residual	133	(169)	(302)
Non Service Specific	36,331	35,093	(1,238)
TOTAL	143,778	144,680	+902

- 3.4 The forecast shows a net overspend of **£902,000 (0.6%)** 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 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.
- 3.6 Star Chambers have continued to pay close attention to the situation as have the Overview & Scrutiny and Audit Committees.
- 3.7 The impact that this position has on the General Fund balance is explained in section 9.

4.0 DRAFT REVENUE BUDGET 2015/16

- 4.1 This 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 2015/16 budget
 - The potential Council Tax position for 2015/16
 - The draft budget for 2015/16
- 4.2 The report then goes on to consider the Schools' position, options for balancing the budget, the consultation process and the robustness of the estimates behind the draft budget.
- 4.3 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.

4.4 Medium Term Budget Forecast

- 4.4.1 The Council has consistently and successfully taken a medium-term view of its 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.
- 4.4.2 The table below shows the current forecast cuts as per the Council's "Medium Term Financial Strategy" (MTFS). Members should not that the 2016/17 figure is indicative and no funding data for 2016/17 is currently available. The MTFS is continually reviewed, and will be formally revised when further funding data is available.

	Cuts (£m)
2015/16	15.807
2016/17 (estimate)	15.554

4.4.3 It is anticipated that further cuts will be required beyond 2016/17 and the MTFS will be updated to reflect this as more information becomes available.

4.5 Golden Rules

4.5.1 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 is regularly reviewed 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 has been successively reduced to the point that there is no longer a reliance on one-off options. It is however recognised temporary funding may be required for some initiatives during their implementation.
- 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.

4.5.2 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.

4.5.3 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.

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

4.6 Assumptions

4.6.1 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;
- Calculating the resources that will be available in light of the Government’s draft funding settlement and regulations in respect of Council Tax.
- Determining options for addressing the budget deficit, balancing income with expenditure.

4.6.2 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.

4.6.3 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.

4.6.4 In determining the assumptions to be used to underpin the 2015/16 budget the following considerations have been taken into account:

	Note	2015/16
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 2015/16. Along with provision made in the 2014/15 budget, this funds the recently announced 2 year national pay award of 2.20% (part year 2014/15 and full year 2015/16).
- 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** – it is recognised that inflation is decreasing and given the Council’s overall funding position, no provision for general inflation has

been made. Directors have been asked to absorb general inflationary pressures and have been invited to bid for funding towards unavoidable/contractual inflationary cost increases.

- 4. Waste Levy** –The Council has embarked upon a recycling initiative which will see residual waste collected on a 3 weekly basis, and the frequencies of recyclable waste collection have increased. The actual levy payable to Greater Manchester Waste Disposal Authority for 2015/16 is estimated to be £11.527m; compared to £13.333m in 2014/15.

Bury operates a “smoothing reserve” which aims to equalise the annual budget requirement for the levy payable to Greater Manchester Waste Disposal Authority (WDA); this will continue to be used to mitigate increases in future years.

The budget prudently assumes savings of £862,000; net of smoothing, and additional costs of the recycling initiative. This is included in the measures to address the cuts requirement at Appendix 5.

- 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.

Secondly there is the amount required to meet the rise in the Combined Authority’s general costs.

The Council’s Medium Term Financial Strategy assumed an annual increase of £300,000, however following robust scrutiny of the Combined Authority’s budget by Leaders and officers from Bury, Trafford and Wigan Councils, this has been reduced to a net nil increase for Greater Manchester as a whole. This is reflected in the measures to address the cuts requirement at Appendix 5 (categorised as Procurement Savings).

- 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 & Efficiency) has calculated the amount of **51,227.93** (Band D equivalent) as the Council Tax base for the year 2015/16 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This figure is the same as 2014/15.

- 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 2015/16 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 2015/16, the Government has indicated that any Council Tax increase "at or above 2%" would trigger a referendum.

- 4.6.5 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.
- 4.6.6 The Council has responded to this challenge through the introduction of its "Investment Strategy" (approved by Cabinet September 2014) which seeks to source additional income through investment in property.
- 4.6.7 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
 - The seemingly adverse funding formulae which result in lower funding per head for Bury residents
 - The impact of economic conditions on income levels
 - The endeavours of the Council to allocate resources in line with residents' wishes and Council priorities.
- 4.6.8 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.

4.7 The Draft Budget 2015/16

- 4.7.1 This budget reflects the assumptions set out in section 4.6 above, but excludes costs funded by the Dedicated Schools Grant.
- 4.7.2 The budget also preserves "rolled in" grants at their historic levels as outlined at 2.20.
- 4.7.3 The table overleaf summarises the initial draft 'standstill' budget for 2015/16:

	2015/16 £000
Opening Budget	138,515
Add: one-off cuts from previous year	0
Add: losses on grants now rolled in to settlement	510
Add: provision for Business Rate Appeals	182
Add: losses from reduced Education Services Grant	780
Inflation:	
Pay	862
Contractual Commitments	1,454
Energy Costs	141
Income	-146
Staffing costs:	
Increase in employers' pension contribution	708
Increase in National Insurance	0
Increments	500
Levies (Initial Forecasts):	
Combined Authority	300
Waste Disposal	393
Estimated Budget	144,199
Less:	
Settlement Funding Assessment	-61,599
Council Tax (@ 0% rise)*	-66,793
Estimated Resources	-128,392
TOTAL CUTS REQUIRED	15,807

* This estimate is based upon an assumed 0% Council Tax increase; the associated "Freeze Grant" is included within the measures to address the £15.807m gap. At the time the estimate was prepared, it was not certain whether the Council Tax Freeze scheme was continuing.

4.7.4 Analysis of the draft Settlement for 2015/16 indicates that the Council will have to find a further **£15.807m** of cuts, 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.

4.7.5 Total cuts from 2011/12 are summarised below;

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

4.7.6 Members are reminded that the Settlement figures are provisional at this stage.

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 2015/16 DSG is 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 Following an extensive campaign over many years, finance staff has been successful in getting its schools the largest percentage increase in funding of all the 23 north-west local authorities. Bury's schools will see the benefit of an extra £5½ million in 2015/16 and beyond, which is more than the other 35 local authorities in the major city conurbations (Greater Manchester, Merseyside, South Yorks, Tyne & Wear, West Midlands, West Yorks) outside of London put together.

5.1.5 Bury's funding has increased by £204 to £4433.88 per pupil in maintained Primary and Secondary schools and academies for 2015/16. In per pupil funding terms, Bury has risen from being ranked 123rd out of 150 local authorities in England to 101st in 2015/16.

5.1.6 Additional funding recognising the total increase in pupil numbers has been included in 2015/16 DSG amounting to just over £1.1 million.

5.1.7 Pupil Numbers in Schools and Academies based on the October 2014 census

Pupil Numbers	14/15	15/16	Variance
Primary schools	14,929	14,568	-361
Secondary schools	10,687	10,742	55
Academy	660	1,217	557
Totals	26,276	26,527	251

5.1.8 The DfE only provided "Trajectory Funding" for introducing the 2 Year Old provision up to 2014/15 and this has not been included in the 2015/16 funding shown below.

5.1.9 The Early Years settlement figure remains indicative until after the January 2015 pupil census and Early Years provider headcounts. Bury's per pupil funding remains at £3,123.19 per pupil. In per pupil funding terms, Bury is ranked 149th out of 150 local authorities in England.

5.1.10 The settlement for the High Needs block remains indicative as there is a lack of recognition by the Department for Education for planned growth in Special school places, increased out-borough referrals and some Post-16 growth.

5.1.11 Total external grants for schools and academies:

Grant Funding	14/15	15/16	Variance
	£M	£M	£M
<i>Dedicated Schools Grant</i>			
Schools Block	111.0	117.7	6.7
Early Years	9.1	8.6	-0.5
High Needs	23.8	24.1	0.3
<i>Other Grants</i>			
Pupil Premium Grant	7.9	8.2	0.3
Universal Infant Free School Meals	1.1	2.2	1.1
Total	152.9	160.8	7.9

5.2 School Funding Formula Values

5.2.1 After a number of consultations with Primary and Secondary Headteachers, the Schools Forum at their meeting on 13th January 2015 considered each factor and made their final recommendations prior to the Authority submitting the 2015/16 Schools Block pro-forma to the DfE by the required deadline of 20th January 2015.

5.2.2 The following table confirms the recommendations to formula unit values to be applied to Bury's schools/academies budgets for 2015/16 and 2016/17:

Factor	Sector	2014/15	Increase	2015/16/17
		£	£	£
Basic Entitlement	Primary	3,050	30	3,080
	Secondary KS3	3,430	320	3,750
	Secondary KS4	4,370	130	4,500
Deprivation	Primary	64	1	65
Free School Meals	Secondary	5	0	5
Deprivation Income	Primary Band 1	100	100	200
	Band 2	150	150	300

Deprivation Affecting Children Indices (IDACI)	Band 3	200	200	400
	Band 4	250	350	600
	Band 5	300	500	800
	Band 6	400	600	1,000
	Secondary			
	Band 1	400	0	400
	Band 2	500	0	500
	Band 3	600	0	600
	Band 4	800	0	800
	Band 5	1,000	0	1,000
Band 6	1,200	0	1,200	
Looked After Children (LAC)	Primary	0	0	0
	Secondary	0	0	0
Low Prior Attainment	Primary	312	408	720
	Secondary	1,130	470	1,600
English as an Additional Language (EAL)	Primary	65	0	65
	Secondary	250	0	250
Lump Sum	Primary	120,000	5,000	125,000
	Secondary	120,000	5,000	125,000
Pupil Mobility	Primary	0	500	500
	Secondary	0	0	0
Sparsity	Primary	0	0	0
	Secondary	0	0	0

5.3 Pupil Premium

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

5.3.2 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.

5.3.3 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 and Looked After Children in the past six years.

5.3.4 As notified by the DfE, the amounts per category for 2015/16 are:

PPG element	£
FSM 'Ever 6' - Primary	1,320
FSM 'Ever 6' - Secondary	935

Looked After Children	1,900
Formerly Looked After Children	1,900
Children of Service Personnel	300
Early Years PPG	300 (£0.53 per hour)

5.3.5 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.

5.4 Universal Free School Meals for Infants

5.4.1 The DfE 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.

5.4.2 The additional revenue funding is based on schools achieving a take-up of 87% and the funding that has to be distributed to schools will be based on £2.30 per meal. Bury’s current amount is £2 per meal.

6.0 **OPTIONS FOR BALANCING THE 2015/16 BUDGET**

6.1 The table at 4.7.3 highlights the need to make ongoing cuts totalling **£15.807** million in response to the Council’s reduced funding position.

6.2 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 Council Priorities
- Cost of Doing Business
- Mandatory Provision
- Local Political Priority

6.3 In examining ways of achieving cuts, 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

6.4 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

6.5 The total proposed cuts for 2015/16 are summarised by Department in the table below (this now reflects the new Department structure, and savings created from the move from 4 to 3 departments):

Department	2015/16 Cuts £m
Communities & Wellbeing	6.372
Children, Young People & Culture	3.398
Resources & Regulation	2.518
Savings from former Department for Communities & Neighbourhoods	0.237
Corporate / Authority Wide Options	3.282
Total	15.807

6.6 Cuts are summarised by category in the table below;

Area	Amount £m
Alternative Service Delivery Models	3.420
External Funding Optimisation	3.376
Grants to the Voluntary Sector	0.200
Income Generation	2.012
Increased Recycling	0.862
Managing Assets	0.726
Procurement Savings	1.320
Reduced Provision	0.662
Staff Restructurings	3.229
	15.807

6.7 Further details are included in the "Information Pack" at Appendix 5, which formed the basis of resident / stakeholder consultation.

6.8 The next section of this report expands further upon the approach taken to the consultation process.

7.0 CONSULTATION PROCESS

7.1 Given the scale of the cuts needed to balance the 2015/16 Budget, consultation commenced early on a number of key projects;

- Staff Terms & Conditions (138 responses)
- Childrens Centres (359 responses)
- Alternative Service Delivery Options - Adult Care (411 responses)

7.2 In addition to this, a full budget consultation exercise ran from November 2014 to January 2015 as follows;

- Letter from Leader of the Council to all residents outlining the Council's funding position and the likely impact on services
- Participation via the Council website
- In writing
- By email
- Over the phone
- At township forums meetings
- At staff briefings
- Via meetings with union reps and at JCC meetings
- Discussions with the BAME Forum

7.3 This stage of the consultation generated 120 comments /correspondence; outlined at Appendix 6.

7.4 In total, the consultation exercises have therefore generated **1,028 responses**.

7.5 A number of changes have been made to the original budget proposals in advance of this report, in the light of comments received during consultation;

- Revised proposals relating to staff terms and conditions
- Revised proposals in respect of Children's Centres proposals

7.6 The Council is proud of its record on consultation and actively seeks to engage 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.

7.7 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 Council's values of 'putting residents first'.

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 Settlement Funding Assessment (Revenue Support Grant and locally retained business rates), Specific Grants, Council tax and fees and charges. In respect of Settlement Funding Assessment, the income stream is now known for the coming year, 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 next Parliament, and increasingly likely beyond.

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 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.

8.4.4 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.

8.4.5 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. 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.

- 8.4.6 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.
- 8.4.7 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2015/16 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.
- 8.4.8 Fees and charges (excluding Council House rents) are budgeted to raise over £50m of income in 2015/16 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.
- 8.4.9 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%.
- 8.4.10 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.
- 8.4.11 It is clear from monitoring that has taken place during 2014/15 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.
- 8.4.12 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 2015/16 proposed budget makes a 1% provision for a pay award – this is in line with the 2 year national pay settlement recently announced. 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; however the likelihood of this event has been downgraded to low in light of the two year pay agreement.

- 8.4.13 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.
- 8.4.14 Staff account 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 (Transport/Waste/Environment Agency)
- 8.4.15 Supplies and services etc. account for around 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 Executive 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.
- 8.4.16 The Council exercises sound Treasury Management practices and has a reasonable volatility ratio. Interest rate predictions are up-dated regularly and action taken to mitigate any negative effects, wherever possible. The present downward trend in interest rates was anticipated and both investments and borrowing have been locked-in long-term (as far as prudence allows) at optimal market rates, so minimising risk. 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.
- 8.4.17 For levies the budget has been set at the level recommended by the external bodies concerned.

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 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 have a clear understanding and ownership of the budget and pressures in their area. **Members should note that the required savings in 2015/16 are 50% higher than they have been in recent years, and this brings with it additional risk.**
- 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 controlled for 2015/16. However it is important that this level of risk is mitigated and provision has therefore been made within balances to cover these items.

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 15 December 2014, and no major issues 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:
- 8.7.2 "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.
- 8.7.3 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.
- 8.7.4 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.
- 8.7.5 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.
- 8.7.6 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.
- 8.7.7 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.
- 8.7.8 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.
- 8.7.9 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 I believe **the budget for 2015/16 to be robust**. This statement is in compliance with s25 of the Local Government Act 2003."
- 8.7.10 The Council maintains other reserves alongside the General Fund Balances, however these are earmarked locally for known pressures / liabilities. A number of earmarked reserves are also ring-fenced by statute; for example funds relating to specific grants which are subject to conditions.

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 & Efficiency); is required to report on the adequacy of the authority’s financial reserves. The s151 officer must determine a minimum level reserves and then report on the likely balance on that reserve at the end of the year for which the Council Tax is being set and at the end of the preceding financial year.

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

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

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

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

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

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

	Risk	£000
Pay inflation Cushion: This represents a sum equivalent to 1%; over and above the level provided for in the 2015/16 draft budget. It should be noted that Pay Awards represent an ongoing cost, whereas use of reserves is only a one-off measure.	L	900
Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been set, this contingency assumes a 3.0% increase in inflation on non-discretionary	M	900

items and that discretionary items will be kept within budget.		
Interest Cushion: Given the fact that the cost of borrowing budget reflects a baseline position in respect of interest rates, that borrowing has been locked in and that the Capital Programme requires no new borrowing then risk in this area is felt to be on the up-side especially with short-term investment rates at an historic low.	M	100
Uncertainty of Income Cushion: Adequate provisions are made for bad debts, however, in the past some income budgets have not been achieved and therefore it is prudent to provide a contingency for all non grant income.	H	400
Business Rate Volatility Cushion: 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.	H	100
Unpredictable and Demand Led Expenditure Cushion: The Council's budgets have had to be kept to a minimum level for a number of years. As a result, the flexibility to compensate for overspends, by reducing spending in other areas is limited. Conversely, significant investment has been made into 'high risk' budgets and this has helped to mitigate this risk. This contingency is now based upon 2.0% of all "demand led" expenditure largely in the areas of Children's and Adult Care Services.	H	1,200
Budget Strategy Risk Cushion: There is always likely to be a level of uncertainty around the Authority's ability to achieve savings options; this provision allows for any slippage which is beyond the Council's control	M	1,250
Emergency Expenditure Cushion: Provision must be made for the cost of emergencies that by their very nature cannot be predicted and for any uninsured losses. The Government's "Bellwin Scheme" partially protects authorities from	L	400

catastrophic costs of some emergencies, but costs up to the threshold of the Bellwin Scheme will still need to be covered by reserves. The Government will pay 85% of any disaster costs above the threshold. This contingency provides for the Council's contribution, assuming a major disaster costing £3.0m.		
Contingency for smaller emergencies e.g. highway collapse.	L	400
TOTAL		5,650

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

	Risk Level	Likelihood	Provision £000	Max. Impact £000
Pay inflation cushion	L	60%	900	540
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%	1,250	1,000
Emergency expenditure cushion	L	60%	800	480
			5,650	4,520

9.7 This would set the minimum balance requirement for 2015/16 at **£4.520m**. 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 2014/15.

9.8 The forecast position on the General Fund balance at 1 April 2015 is shown in the following table:

	£m
General Fund Balance 31 March 2014 per Accounts	11.580
Less : Minimum balances to be retained in 2015/16	-4.500
Less : Forecast overspend 2014/15	-900
Less : Earmarked to fund Equal Pay Settlements	-1.500
Forecast Available balances at 1 April 2015	4.680

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.

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 suggests further savings in the order of £16 million will be required for 2016/17.

10.4 Members are requested to be mindful of this challenge ahead when considering the 2015/16 Budget.

10.5 Work is already underway in respect of the 2016/17 Budget. The Executive Director of Resources & Regulation is examining alternative budgeting models which will pro-actively focus upon the resources the Council has at its disposal and the opportunities available for growth. This is a departure from recent budget rounds, where the focus has been upon cuts to services.

10.6 Work on the 2016/17 Budget will be undertaken within a 5 year context and will support the strategic vision, ambition and direction of the Council.

COUNCILLOR MIKE CONNOLLY

LEADER OF THE COUNCIL & CABINET MEMBER FOR FINANCE

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DRAFT

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 Act, 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 requires 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 Section 151 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 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, if 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..

8. RESPONSIBILITIES OF CHIEF FINANCIAL OFFICER AND AUDITORS' POWERS

Section 151 Officer and Monitoring Officer

Section 114 of the Local Government Finance Act 1988 places the Section 151 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 Section 151 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 Cabinet 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 Section 151 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 Section 151 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 Section 151 Officer'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 Section 151 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 Section 151 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 Section 151 Officer on the estimates and reserves used for its budget calculations.

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 Act, 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 3).

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 Assessment

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.

DRAFT

Capital Programme 2015/16 - 2017/18 (New funding allocations)

Project Title	3 YEAR TOTALS	2015/2016			2016/2017			2017/2018			
		Gross Cost £	Gross Cost £	External £	BC Cost £	Gross Cost £	External £	BC Cost £	Gross Cost £	External £	BC Cost £
CHILDREN AND YOUNG PEOPLE											
Basic need	4,465,308	2,178,199	2,178,199	0	2,287,109	2,287,109	0	0	0	0	
Devolved Formula Non-VA schools	499,500	499,500	499,500	0	0	0	0	0	0	0	
Capital Maintenance	2,600,000	2,600,000	2,600,000	0	0	0	0	0	0	0	
Radcliffe Hall - major development	1,500,000	700,000	700,000	0	800,000	800,000	0	0	0	0	
CHILDREN AND YOUNG PEOPLE	9,064,808	5,977,699	5,977,699	0	3,087,109	3,087,109	0	0	0	0	
COMMUNITIES AND WELLBEING											
Adult Personal Social Services Capital Allocation - Community Cap	455,000	455,000	455,000	0	0	0	0	0	0	0	
Grant Funded Major Adaptations - Private Housing -Disabled Facilities	2,343,000	781,000	781,000	0	781,000	781,000	0	781,000	781,000	0	
Radcliffe Empty Properties Pilot	199,000	199,000	199,000	0	0	0	0	0	0	0	
COMMUNITIES AND WELLBEING	2,997,000	1,435,000	1,435,000	0	781,000	781,000	0	781,000	781,000	0	
RESOURCES AND REGULATION											
Radcliffe Bus Station (b/f 2014/15)	1,000,000	1,000,000	1,000,000	0	0	0	0	0	0	0	
A56 Corridor Prestwich (b/f 2014/15)	500,000	500,000	0	500,000	0	0	0	0	0	0	
LTP H/ways Capital Maintenance	5,238,000	1,878,000	1,878,000	0	1,708,000	1,708,000	0	1,652,000	1,652,000	0	
Minor Works Programme Active Travel	725,000	275,000	275,000	0	450,000	450,000	0	0	0	0	
Kirklees Valley LNR - WIG	93,000	60,400	60,400	0	25,700	25,700	0	6,900	6,900	0	
Capitalised Salaries (Programme wide)	211,800	70,600	70,600	0	70,600	70,600	0	70,600	70,600	0	
RESOURCES AND REGULATION	7,767,800	3,784,000	3,284,000	500,000	2,254,300	2,254,300	0	1,729,500	1,729,500	0	
HOUSING PUBLIC SECTOR											
Housing programme Major works (HRA funded)	15,504,800	7,619,100	7,619,100	0	7,885,700	7,885,700	0	0	0	0	
Disabled Facilities Adaptations - Housing Stock (HRA funded)	1,123,600	552,100	552,100	0	571,500	571,500	0	0	0	0	
HRA component modernisation Council approval	8,238,000	4,119,000	4,119,000	0	4,119,000	4,119,000	0	0	0	0	
HOUSING PUBLIC SECTOR	24,866,400	12,290,200	12,290,200	0	12,576,200	12,576,200	0	0	0	0	
FULLY FUNDED SCHEMES TOTAL	44,696,008	23,486,899	22,986,899	500,000	18,698,609	18,698,609	0	2,510,500	2,510,500	0	
INVEST TO SAVE SCHEMES											
COMMUNITIES AND WELLBEING											
Street Lighting I2S	2,294,200	203,000	203,000	0	1,045,600	297,000	748,600	1,045,600	160,000	885,600	
I2S SCHEMES TOTAL	2,294,200	203,000	203,000	0	1,045,600	297,000	748,600	1,045,600	160,000	885,600	
PROPOSED CAPITAL PROGRAMME TOTAL	46,990,208	23,689,899	23,189,899	500,000	19,744,209	18,995,609	748,600	3,556,100	2,670,500	885,600	

 confirmed external funding
 estimated external funding

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Provisional Local Government Settlement 2015/16

CONSULTATION RESPONSE – BURY COUNCIL

Question 1: Do you agree with the Government's proposal that local welfare provision funding of £129.6m should be identified within the settlement by creating a new element distributed in line with local welfare provision funding in 2014-15?

Representing the Local Welfare Provision (LWP) in this way in the Settlement is purely presentational.

The reality is that specific funding for LWP has been cut.

We would ask that the LWP grant is reinstated as a separate funding source, recognising the burden that has transferred to Authorities.

Question 2: Do you agree with the Government's proposal that the funding for the Improvement and Development Agency for Local Government for services to local government should be £23.4 million in 2015-16 ?

The Council's preference would be that maximum funds are directed to Local Authorities, allowing decisions to be made at a local level on a democratic and transparent basis.

Question 3: Do you agree with the Government's proposal to reduce the New Homes Bonus holdback from £1bn to £950m ?

We agree with the reduced level of hold back and the commitment to refund any surpluses to Local Authorities.

Question 4: Do you agree with the Government's proposal that the rural funding element should be increased from £11.5m as previously proposed, to £15.5m ?

This element has little impact for Bury, however we would welcome this area being examined as part of a wider review of the Settlement formula (see question 7).

Question 5: Do you agree with the Government's proposal to reduce the fire funding element of Revenue Support Grant for each fire and rescue authority, by an amount equal to 0.24% of the total pensionable pay for that authority ?

This has no direct impact for Bury Council, however we would wish to highlight the adverse effect this has on our Partners at Greater Manchester Fire and Rescue Service.

Question 6: Do you agree with the Government's proposal to compensate local authorities for the cap on the multiplier in 2015-16, calculated on the same basis as in 2014-15?

We agree that Local Authorities should be compensated for the decision to cap the Business Rates multiplier.

Question 7: Do you have any comments on the impact of the 2015-16 settlement on persons who share a protected characteristic, and on the draft Equality Statement?

We feel strongly that the Settlement is inequitable; both in terms of the Government funding (SFA) per head of population, and the reductions in SFA from 2014/15.

"Per Head"

Bury Council's SFA per head for 2015/16 will be **£330.24**; based upon the Provisional Settlement and ONS Mid 2013 Population data.

This compares to funding per head of **£385.37** nationally, and an average of **£365.00** for our nearest neighbour grouping.

This cannot be right – we are providing the same statutory services, recruiting staff from broadly the same "jobs market", and buying goods and services from the same local economy.

"Year on Year"

Bury will see a **14.94%** reduction in SFA between 2014/15 and 2015/16; this compares to an average national reduction of **13.91%**; clearly this is inequitable.

To address both of these concerns, the Council requests that a full review of the Settlement formulae is undertaken as a matter of urgency; once again, Bury Council is prepared to make staff time available to assist with this process.

"Spending Power"

Finally, we wish to take issue with the reported headline that Councils are losing **1.8%** in terms of "Spending Power".

From the DCLG's own calculations, Bury is losing **2.3%**; again clearly inequitable.

We strongly object to the notion of presenting the Settlement in terms of "Spending Power".

"Spending Power" includes all income streams, including Council Tax raised from residents, and Specific Grants – many of which have their own commitments, demand pressures, and terms and conditions which mean they are not available to support the wider Council budget.

The reality is that core Council Funding (Settlement Funding Assessment) has reduced by **14.94%** for Bury, compared to reductions of **13.91%** nationally.

We will be submitting a letter addressing wider issues as agreed in a telephone conference with Penny Mordaunt MP on 12th January 2015.

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Draft Budget Cuts Programme 2015-16 Information Pack

Published November 2014



Introduction

Welcome to our 2015/16 Budget Information Pack which provides more information about our proposals to address the cuts the Council is required to make. It provides answers to a series of questions and helps you to consider the different options in more detail.

For 2015/16 we have to find cuts totalling **£15.8 million** mainly because our grant from the Government has been cut by a further **13%**. In addition to this we face cuts to other grants and significant demand pressures in respect of vulnerable adults and safeguarding children.

This means that by the end of next year we will have been forced to make cuts of £53.7m since 2010 which is over 50% of the budget that we can directly influence and there is no doubt that this will have serious consequences for our borough and for the many services we provide and which so many people rely on.

Yet again, we feel strongly that Bury has been treated unfairly by the way that the Government distributes its money because many similar Councils receive significantly more funding per head, and have experienced lower grant reductions. We are continuing to lobby the Government on your behalf about this under our **"Fair Deal for Bury"** campaign.

Despite this the Council continues to spend around £200m on providing local services and we will continue to look to balance our books by doing things differently, by prioritising services, by focussing on people with greatest need and by striving for yet more efficiency savings. We have continued to invest in the borough and substantial progress is being made on redeveloping Radcliffe Town Centre, improving our roads, providing better facilities for older people and protecting our children through the use of 20mph zones.

We will do all that we can to reduce the impact of the cuts, particularly on our most vulnerable residents, and try to offer alternative arrangements where we can from 2015 onwards.

Please let us have your views on the proposals set out in this document by **9th January 2015**. Final proposals for savings will be published prior to the Council meeting on **25th February 2015**.

We hope that you find this information.



Councillor Mike Connolly
Leader of the Council



Councillor Rishi Shori
Deputy Leader of the
Council
Cabinet Member for Health
& Wellbeing

The Council is changing....and we need your help

This is what we have done.

- Reduced from 4 to 3 departments
- 30% reduction in managements posts
- Less staff – 400 employees have left the Council
- Internal Efficiencies have generated over £10m
- Self management of facilities
- "Digital by Default", more web based activity e.g. Housing reception, Connect & Direct hub
- 3 weekly waste management collections

We now need the help of our residents and communities e.g. creating less litter, promoting more self care and self ownership of issues, prevention, and taking responsibility for their actions.

Changing the expectations about what the Council can deliver – In the future, the Council will not be able to meet all the public's needs/expectations or be able to deliver services at the quantity/quality/standard that we currently provide. The Council will need to be up-front about the need to cut services, spell out why levels of service are reducing, develop more targeted services or in some circumstances stop delivering services altogether.

Working more closely with individuals and communities to deliver services – The Council will not be organisationally or financially able to meet all service needs in the future and therefore will need to work with individuals and communities to encourage them where possible to undertake more for themselves. This is an approach that we will need to consider across all the Council's services where we do not have a statutory duty to provide the service. For example, the Council may provide facilities or equipment but community/voluntary groups/individuals may have to organise events, maintenance, support etc. themselves.

This approach builds on the very long standing and successful 'self management' partnerships operating for bowling greens, football pitches, allotments and other leisure facilities such as Gymnastics and Burrs Activity Centre. More of this approach is needed and involves engaging and encouraging a greater partnership between the Council and voluntary community groups in providing services in their area. Over the coming period we will be working with 3rd Sector

partners to develop a new and comprehensive Strategy that will support a transformation of this important area.

Stronger focus on demand reduction - Part of the principles behind Public Service Reform is to manage the demand for services, reduce this demand where possible and to identify more cost effective ways of meeting the demands that remain. We have had some success for example through the changes we made in the refuse collection arrangements which has changed people's attitude towards recycling and helped the Council reduce the expensive costs of tipping rubbish into landfill.

Can we do more for less? – Bury Council, its Members and employees have and continue to work miracles in delivering services with less resources and at lower cost.

Over the coming period we must redouble our efforts to ensure the services we directly provide are securing value for money and are delivered in the most effective way as I know our residents would expect this. This may well mean doing things differently to the way we have always delivered services; **No change** is not an option for us!

Changing the way Residents access services

Bury Council has been trying to widen access options in addition to providing very traditional ways residents and service users access services and secure information about services. Whilst there have been developments with the Council's web site to move to become a 24/7 Council access is still primarily through face to face contact and telephone.

The challenge for us is that we need to offer a wider range of 'self service' remote options similar to the high street experience so familiar to many of our residents, such as booking holidays, on-line shopping, and banking. In a post 2015 environment the Council will have to look to becoming a 'virtual' council where the 'high street' experience of 'self service' using smart technology becomes mainstream, whilst still offering the traditional options, but these, because of affordability, will have to steadily reduce over time.

Invest to Save

The Council has and will continue to explore opportunities for growth and reduce its costs through the promotion of innovative service alternatives or develop new service offers. For

example through Invest to Save, over £1m has been saved through directly employing a small resource to market and promote Fostering and Adoption Services.

Other examples are where the Council leads on generating income for our customers or partner organisations – over £2m has been generated for customers through benefits advice linked to financial assessment services in respect of adult care, a proportion of which becomes income for the Council too.

Bury is the leading authority in the development of charging for loaning out major artworks to International Exhibitors in the Far East. With a small resource to market and put together exhibitions on behalf of Greater Manchester Councils, thousands of pounds of fee income has been generated.

In growth terms the development of Tourism and Culture offers, Bury has seen a transformation as a destination and a place where artists and performers want to come to Bury. Tourism spend is increasing along with hotel stays which in turn helps local businesses and where future investors see Bury in a positive light.

Key Facts

- The Council operates over **113** different service areas.
- We serve a population of **186,200** people.
- We provide services to **82,000** individual households.
- We currently have approximately **3,400** FTE staff (this excludes teaching staff in schools).
- Over **400** staff have left the organisation since 2011 as a result of cuts in funding.
- Our current Net Budget is **£138.5 million**.
- The table below shows that we have had to make cuts totalling nearly **£54 million** since 2011.

Year	Cut (£ million)
2011/12	9.6
2012/13	8.7
2013/14	9.9
2014/15	9.7
2015/16	15.8
Total	53.7

Summary of Changes

We have summarised the proposed changes into the following categories;

Category	Explanation	Amount
Alternative Service Delivery Models	We will develop new models of service delivery to ensure that service outcomes are maintained. This will include new approaches to staffing and the use of buildings.	£3.420 million
External Funding Optimisation	We will maximise the benefit to the Council from new and existing grant funding opportunities.	£3.376 million
Grants to Voluntary Sector	We will review how the Council operates with the Voluntary Sector, reviewing grants to ensure that key outcomes are achieved.	£0.200 million
Income Generation Invest to Save	We will further develop existing income streams and identify new sources of income.	£2.012 million
Increased Recycling Invest to Save	We will continue to develop the refuse collection service so that recycling rates are optimised, reducing costs for the Council, and benefitting the environment.	£0.862 million
Managing Assets Invest to Save	We will continue to review our asset base ensuring the optimum use and financial return.	£0.726 million
Procurement Savings	We will review the way we buy goods and services and continue to strive for best value.	£1.320 million
Reduced Provision	Given the scale of cuts facing the Council, it is inevitable that some services will be reduced in quality, frequency, or even stop altogether. Where this happens we will work closely with service users to identify alternative means of provision.	£0.662 million
Staff Restructuring	Staffing is a significant cost for the Council as most of our services rely on people to deliver them. Equally staff are our greatest asset, and we rely heavily on commitment and goodwill at times when budgets are being cut. We will continue to review staffing structures and ensure that operational processes are as efficient as possible.	£3.229 million
TOTAL		£15.807 million

Frequently Asked Questions

What happened to the “Plan for Change”?

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 been forced to make massive cuts 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.

The Plan for Change was a three year plan covering the period 2012-2015. For 2015/16, however, we have only received one year’s information and even this has yet to be confirmed. We are therefore approaching 2015/16 budget as a “one year” exercise. What is clear however is that cuts to budgets will continue into 2016/17 and beyond.

How much more money does the council have to find?

We estimate that we will need to make cuts of £15.8 million in 2015/16.

The Council’s core funding from Central Government is likely to be cut by over 13% (although this is not yet confirmed). Bury still receives a poor settlement compared to similar Authorities and we are lobbying the Government for changes.

We also face cuts to a number of grants we receive e.g. Early Intervention and Education Services.

In addition to reduced funding, the Council faces pressures e.g. Customer demand, inflation, increments, and levies from other bodies. Finally we still face considerable uncertainty following the localisation of Business Rates – where we now share income (and losses) with the Government.

Will there be further cuts?

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. For 2015/16, however, we have only received one year’s information and even this has yet to be confirmed. We are therefore approaching the 2015/16 budget as a “one year” exercise. What is clear however is that cuts will continue into 2016/17 and beyond.

How is work progressing towards achieving savings for Internal Efficiencies?

For the period 2011-2014 over £10m of internal efficiencies has been saved. We will strive where possible to make more efficiency savings and reduce the level of cuts facing front line services. However, given the level of savings made to date this is becoming increasingly difficult and we are now at the point where real service reductions are inevitable.

What is the difference between back office and front line services?

We use these terms to show the difference between those services which directly work with or relate to our residents (front line), 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.

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/Budget201516 and will be promoted in the local media.
- Read the proposals and comment online at www.bury.gov.uk/Budget201516
- Read the information at your local library and send in your comments
- Call us 0161 253 5696
- Email Budget201516@bury.gov.uk
- Write to us at Budget201516, Bury Council, Knowsley Street, Bury, BL9 OSW to leave your comments or request a hard copy of the proposals.

What are the next steps in the budget consultation process?

We are consulting on all the proposals until 9th January 2015. The comments and feedback will then be analysed before final proposals are taken to Budget Council on 25th February 2015. 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.

Alternative Service Delivery Models

<p>Proposal: We will develop new models of service delivery to ensure that service resilience and sustainable outcomes are maintained. This will include new approaches to staffing and the use of buildings.</p>	<p>Cut: £3.420 million</p>
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Why are we making these proposals?

The Council is seeking to examine alternative ways of delivering remaining Council services and change the expectations about what the Council can deliver.

What changes are we undertaking to meet these Cuts?

The Council is seeking to examine alternative ways of delivering remaining Council services, ensuring they are fit for purpose and sustainable and to help service users be better informed about what the Council is able to deliver.

What changes are we undertaking to meet these Cuts?

Adult Care provider services will be reviewed to develop alternative models of delivery. These include service of Supported Living; Day Care and Short Stay.

Following earlier consultation, two options are currently being examined:

- Local Authority Owned Company; or
- Social Enterprise

Whichever model is chosen, budgets will be reduced by developing a new service model. Operational Services will be reviewed to provide assessment services which promote greater inclusion and control for people to carry out assessments. To include social work provision, reablement, intermediate care and crisis response service.

Children’s Centres – the proposals for a new targeted delivery model for Children’s Centres is currently out to consultation. It is proposed that one main Hub in each township is retained plus an additional spoke Children’s Centre in Bury East. Seven buildings would be released and re-used for development of two year old childcare provision.

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

Cuts to any budget inevitably impacts on services and these proposals will see a reduction in capacity and an increase in waiting lists for non urgent cases and places.

We will seek to maintain service outcomes, however the delivery mechanisms will be different and more targeted – e.g. less focus on building based activity in Children’s Centres and more targeted outreach work.

Adult Care proposals seek to maintain service standards; however these will be delivered through new operating structures.

Will any geographical area be particularly affected by this proposal?

All geographical areas would be affected.

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

Management and administrative processes will be examined as part of this proposal and further efficiencies targeted.

Does this mean additional charges for this service?

We aim to achieve the saving through reductions in cost, however increased charges will be made where it is appropriate and necessary to do so.

Does this budget proposal affect staffing?

As in previous years we will seek to manage any job losses, in the first instance, on a voluntary basis, however compulsory redundancies may be necessary. Where there are compulsory redundancies, every effort will be made to facilitate redeployment for affected individuals.

Will I be consulted on how these changes affect my personal circumstances (e.g. changes to care arrangements)?

Yes. We would welcome views regarding these proposals.

External Funding Optimisation

Proposal:

We will maximise the benefit to the Council from new and existing grant funding opportunities

Cut: £3.376 million

Why are we making these proposals?

We will continue to be innovative in the way we use existing Grant Funding, and we will continue to explore new funding opportunities.

What changes are we undertaking to meet these Cuts?

Housing- We will be reviewing how we utilise grant monies allocated for Housing/Homelessness purposes to ensure we get the maximum benefit for residents.

Sport/Leisure – We will examine the cost of our sport/leisure assets and the potential for income generation. We will also continue to deliver the externally funded 'I Will if You Will' movement to test what helps create a shift in attitude and what encourages more women and girls to be more active, more often.

Health - We will work closely with Partner agencies – especially the NHS to ensure that funding for Adult Social Care is used to the best effect e.g. Better Care Fund.

Children's - We will make more effective use of grant funding available for young people.

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

In using external funding, we are endeavoring to ensure that individuals see no change to the service they receive.

Will any geographical area be particularly affected by this proposal?

All geographical areas would be affected.

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

More effective use of external funding should reduce the impact of cuts on front-line services.

A risk remains that some of grants may not be available in future years.

Does this mean additional charges for this service?

We aim to achieve the cut through better use of grant funding, however, charges will be made where it is appropriate and necessary to do so.

Does this budget proposal affect staffing?

There will be no compulsory redundancies from this element of the proposals.

Will I be consulted on these changes?

Yes. We would welcome your views regarding these changes.

Grants to Voluntary Sector

Proposal:	Cut: £200,000
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We will review how the Council operates with the Voluntary Sector, reviewing grants to ensure that key outcomes are achieved.	Cut: £200,000
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Why are we proposing these Cuts?

To review the relationship between the Council, the Community and the Voluntary Sector.

What changes are we undertaking to meet these Cuts?

We will review funding to the voluntary sector, with a greater focus on outcomes that supports the Council's priorities.

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

We will seek to maintain service outcomes, and opportunities for the Community to engage with the Council, however the delivery mechanisms may be different.

Will any geographical area be particularly affected by this proposal?

All geographical areas would be affected.

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

Management and administrative processes will be examined as part of this proposal.

Does this mean additional charges for this service?

This service area does not currently levy charges, however charges will be made where it is appropriate and necessary to do so.

Does this budget proposal affect staffing?

To be determined.

Will I be consulted on how these changes affect my voluntary group or individually?

Yes. We would welcome any views regarding these changes.

Income Generation

Proposal: We will further develop existing income streams and identify new sources of income.	Cut: £2.012 million
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Why are we making these proposals?

We will build on existing sources of income, and identify new sources of sustainable income where possible.

What changes are we undertaking to meet these Cuts?

We will review the services included in the buy-back arrangements with partner organisations by ensuring we offer quality services at affordable prices.

Additional income will be generated from the loan of art / external exhibitions.

The Community Safety Service will focus on new income generating work for external clients.

The Council's investment portfolio / treasury management strategy will also contribute to this element of the proposals by widening the scope of investment opportunities.

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

We will seek to maintain current service provision in these areas – funded by additional income being generated.

Will any geographical area be particularly affected by this proposal?

All geographical areas would be affected.

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

Management and administrative processes will be further streamlined to supports clients needs as part of this proposal.

Does this mean additional charges for this service?

The primary focus will be on identifying new customers and generating additional income but increase charges to cover costs cannot be ruled out.

Does this budget proposal affect staffing?

There will be no compulsory redundancies from this element of the proposals.

Can other suggestions to improve income be made?

Yes. We would welcome any suggestion that would result in the Council securing increased levels of income.

Increased Recycling

Proposal:

We will continue to develop the refuse collection service so that recycling rates are optimised, reducing costs for the Council, and benefitting the environment.

Cut: £862,000

Why are we proposing these Cuts?

Waste disposal is a significant cost for the Council, and we also have duty to ensure waste is disposed of in an environmentally responsible manner.

What changes are we undertaking to meet these Cuts?

We have reviewed our Waste Management Strategy and changed the frequency of household waste collections to increase recycling. Household rubbish collections have been reduced from 2 weekly to 3 weekly and recycling collections have increased from 4 weekly to 3 weekly.

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

Change to three-weekly collections for residual waste (Grey Bins).

Improved collection frequencies for recyclable waste.

New, replacement or extra recycling bins, kitchen caddies and compostable liners are all provided free of charge. There is also no charge to upsize from a 140 to a 240 litre grey bin.

Waste audits are carried out as part of the application process for additional grey bins to help residents with managing their waste. Recycling advice is widely available over our website via the recycling information line, our customer contact centre and on request.

Will any geographical area be particularly affected by this proposal?

All geographical areas would be affected.

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

Technology / IT systems have been used to ensure the smooth rollout of the new collection rounds; coupled with support from our Customer Contact Centre, and development of applications on the Council's website.

Does this mean additional charges for this service?

No.

Does this budget proposal affect staffing?

No.

Can I still comment on these changes?

This service is now operational. However we always welcome feedback in order to continue improving this service.

Managing Assets

Proposal:	
We will continue to review our asset base ensuring the optimum use and financial return.	Cut: £726,000

Why are we proposing these Cuts?

The Council manages a large portfolio of assets which we continually review to ensure the best use and financial return.

What changes are we undertaking to meet these Cuts?

Under-utilised assets will be reconfigured / disposed of - resulting in less call on Maintenance budgets.

We recognise that this sometimes takes time and the Council's own financial rules permit a temporary use of balances pending review / development of new facilities, or disposal of assets.

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

Underperforming assets may be subject to change of use / disposal.

Will any geographical area be particularly affected by this proposal?

Not known at this stage, however assets will be examined "Borough wide".

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

We will ensure that our back office functions facilitate effective and responsive management of our assets.

Does this mean additional charges for this service?

No.

Does this budget proposal affect staffing?

No.

Can I still comment on these proposals?

Yes. We would like your views regarding these changes.

Procurement Savings

Proposal:	Cut: £1.320 million
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We will review the way we buy goods and services and continue to strive for best value.	£1.320 million
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Why are we making these proposals?

A large proportion of the Council's budget is spent on buying goods and services. We already have a strong track record of effective procurement and will be seeking to build upon this.

What changes are we undertaking to meet these Cuts?

Re-tendering of existing contracts has already taken place and achieved savings e.g. Domestic Violence support services.

Some areas are already achieving these savings by restricting spending, e.g. Children's Centres, Early Years, Emergency Duty Team and administrative functions.

A review of various discretionary budgets is taking place.

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

It is unlikely that improved procurement savings will impact on service outcomes.

Will any geographical area be particularly affected by this proposal?

Savings will relate to all areas.

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

We continue to make effective use of the latest procurement techniques and undertake joint exercises with other Greater Manchester Authorities where appropriate.

Does this mean additional charges for this service?

No.

Does this budget proposal affect staffing?

No.

Can other suggestions to reduce procurement costs be made?

Yes. We would welcome any suggestions that would result in the Council reducing its costs.

Reduced Provision

Proposal:

Given the scale of cuts facing the Council, it is inevitable that some services will be reduced in quality, frequency, or even stopped altogether. Where this happens we will work closely with service users to identify alternative means of provision.

Cut: £662,000

Why are we proposing these Cuts?

This is the most challenging category of these proposals; whilst we strive to make efficiency savings where possible, the scale of cuts is such that some services will see reduced levels of provision.

What changes are we undertaking to meet these Cuts?

We will continue to review the standard of grounds maintenance, bedding and tree services in our parks, countryside and open spaces.

Funding to Summer Playschemes will cease.

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

Yes; there will be noticeable changes to the above service areas, and this will start from April 2015.

Will any geographical area be particularly affected by this proposal?

All geographical areas would be affected.

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

Management and administrative processes will be examined as part of this proposal.

Does this mean additional charges for this service?

No.

Does this budget proposal affect staffing?

Yes – there will be job losses. We will seek to achieve this on a voluntary basis in the first instance, however compulsory redundancies may be necessary. Where there are compulsory redundancies, every effort will be made to facilitate redeployment for affected individuals.

Can I comment on these proposals?

Any proposals will, in the first instance, be discussed with affected staff before consulting more widely.

Staff Restructuring

<p>Proposal: Staffing is a significant cost for the Council as most of our services rely on people to deliver them. Equally staff are our greatest asset, and we rely heavily on commitment and goodwill at times when budgets are being cut. We will continue to review staffing structures and ensure that operational processes are as efficient as possible.</p>	<p>Cut: £3.229 million</p>
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Why are we proposing these Cuts?

Staffing is a key element to all services. We need to continually review structures to ensure they are fit for purpose and sustainable.

What changes are we undertaking to meet these Cuts?

We will review front line services to ensure cuts to services are minimised, but they will have to operate within reduced budgets.

We will make greater use of volunteers in some service areas.

Further restructuring will take place in back office services where a large number of senior staff have already left the organisation under voluntary redundancy / early retirement options.

Management savings have already been made by the transition from 4 to 3 departments.

This category also includes proposed changes to staff Terms and Conditions.

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

There may well be a reduction in the standard of service – e.g. longer processing / response times, more emphasis on self service. We will use the latest technology to mitigate this impact.

Will any geographical area be particularly affected by this proposal?

All geographical areas would be affected.

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

Improved use of smart technology; development of new more interactive web site with more self service and remote access for a 24/7 virtual council.

We will further develop Apprenticeship schemes and smarter working through improved use of Business Analysts.

Does this mean additional charges for this service?

No.

Does this budget proposal affect staffing?

Inevitably, resources will have to be reduced as further rationalisation takes place. Over 400 staff have already left (or have agreed to leave) the organisation. Potentially there will be further job losses and we would seek to achieve this on a voluntary basis in the first instance, however compulsory redundancies may be necessary. Where there are compulsory redundancies, every effort will be made to facilitate redeployment for affected individuals.

Through training and development the future focus has to be the introduction of a range of skills and upskilling and re-training where appropriate to achieve successful outcomes in this crucial area.

Can I still make contact face -to-face or over the phone about these proposals?

Yes. Any proposals will, in the first instance, be discussed with affected staff before consulting more widely.

APPENDIX 6

The table below shows the total number of comments (120) 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.

Proposed savings	Number of comments	Themes of comments
Alternative service delivery models	10	<ul style="list-style-type: none"> • Combine back office functions • If moving away from face to face contact your website and emails must be more effective • Bring Six Town Housing back to Council control • Move Housing stock to Housing Association • Cut free transport to over 60's • A paper about a specific service re-design was submitted
External funding optimisation	0	
Grants to Voluntary sector	38	<ul style="list-style-type: none"> • Making cuts is false economy as will result in further strain on Council services • Would pay more Council Tax to keep the voluntary sector funded • Stop grants to Voluntary Sector and instead help them to access central grant schemes • More help to Voluntary sector to access funding/grants • Concerns from clients of 3 Voluntary groups/charities about the effects of reducing/stopping funding to their lives
Income generation (Invest to save)	2	<ul style="list-style-type: none"> • Charge residents to have a drop kerb rather than parking on grass verges • Lend out more art pieces
Increased recycling (Invest to Save)	10	<ul style="list-style-type: none"> • Brown bins don't need recycling every 2 weeks in Winter • Continue to educate/ promote recycling • Enlist 'recycling' volunteers • Subsidise a recycling nappy scheme to help recycling • New bin service is excellent • Allow us to recycle more plastics
Managing assets (Invest to	3	<ul style="list-style-type: none"> • Sell off buildings that are empty

Save)		
Procurement savings	2	<ul style="list-style-type: none"> • Join forces more often with other GM Authorities
Reduced provision	2	Not enough detail supplied to comment on this
Staff restructures	0	
Elected Members	6	<ul style="list-style-type: none"> • Delete position of Mayor • Cut number of Councillors per ward • Reduce expenses received
Stop funding the 20mph schemes	4	
Radcliffe does not need a new bus station	2	<ul style="list-style-type: none"> • Other areas have more buses but manage
Get rid of Bury in Bloom	2	
Need more detail in consultation document	2	<ul style="list-style-type: none"> • Show us where money is currently spent as well as proposed cuts
Street lighting	2	<ul style="list-style-type: none"> • Turn off after midnight • Do not put in extra street lights
Council Tax	5	<ul style="list-style-type: none"> • Increase the Council Tax • Questions around if Bury had taken the assistance offered from Government to increase Council Tax
Recruit volunteers	2	
Other comments	28	<ul style="list-style-type: none"> • A mixture of comments
	120	

REPORT FOR DECISION



Agenda Item	
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MEETING:	OVERVIEW AND SCRUTINY COMMITTEE CABINET COUNCIL
DATE:	11 FEBRUARY 2015 25 FEBRUARY 2015 25 FEBRUARY 2015
SUBJECT:	DRAFT HOUSING REVENUE ACCOUNT 2015/16
REPORT FROM:	LEADER OF THE COUNCIL AND CABINET MEMBER FOR FINANCE DEPUTY LEADER AND CABINET MEMBER FOR HEALTH AND WELLBEING
CONTACT OFFICER:	MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION STEPHEN KENYON, ASSISTANT DIRECTOR OF RESOURCES AND REGULATION (FINANCE)
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
SUMMARY:	The report details the proposed Housing Revenue Account for 2015/16 and proposals for Dwelling and Garage rents, Sheltered Support, Management, Amenities and Heating charges, Furnished Tenancy charges and Fernhill Caravan site tenancy charges.
OPTIONS & RECOMMENDED OPTION	The report is prepared on the basis of the Government's rent policy increase of 2.2%. Members are reminded that any increase below this level would result in a reduction in rental income which will impact on future years and could jeopardise the sustainability of the business plan. Cabinet is recommended to note the report and request

	<p>that the Council should consider all matters relating to the Housing Revenue Account 2015/16, the increase in 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) increase the Rents by 2.2% from the first rent week in April.</p> <p>(c) increase Garage rents by 2.2% from the first rent week in April.</p> <p>(d) increase Sheltered Management charges in line with the proposals set out in section 3.2.4 and implement the scheme of protection outlined in section 3.2.6.</p> <p>(e) increase Sheltered amenity charges by 1.2% 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 support, Sheltered heating and Furnished Tenancy charges remain unchanged from the first rent week in April.</p> <p>(g) increase tenancy charges at the Fernhill Caravan Site by 2.2% from the first rent week in April.</p>
<p>IMPLICATIONS:</p>	
<p>Corporate Aims/Policy Framework:</p>	<p>The proposals accord with the Policy Framework</p>
<p>Statement by Section 151 Officer:</p>	<p>Financial and risk implications are detailed in the report.</p>
<p>Statement by Executive Director of Resources:</p>	<p>The report fully details the Housing Revenue Account for 2015/16.</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>
<p>Equality/Diversity implications:</p>	
<p>Considered by Monitoring Officer:</p>	
<p>Are there any legal implications?</p>	<p>No</p>
<p>Staffing/ICT/Property:</p>	<p>There are no direct staffing, ICT or property implications arising from this report although</p>

	the HRA budget impacts on these areas.
Wards Affected:	All
Scrutiny Interest:	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
11 February 2015	25 February 2015		25 February 2015

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 2014/15 is £12,946,400.
- 1.7 For 2015/16 the HRA is expected to have an average stock of 8,068 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 43 RTBs in 2015/16, however given the current level of activity the HRA estimates have been prepared on the basis of 50 sales. 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 72% of tenants who are entitled to support with their rent and charges.
- 1.10 The introduction of the Universal Credit, sees 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 65% of HRA rental income comes directly from Housing Benefit meaning that once the current welfare reforms have been fully implemented up to £19.9m 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 2015/16).
- 1.11 There are currently only around 35 tenants claiming Universal Credit so at this stage it is difficult to assess the impact on the HRA for the coming year.
- 1.12 The Council's Support Fund was financed by specific grant, however this ceased in the 2015/16 Settlement. Similarly funding for Discretionary Housing Payments has seen a 20% reduction. Both of these developments are likely to have an adverse impact on vulnerable tenants and potentially impact upon rent arrears in the future.
- 1.13 The roll out 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 2015/16

- 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 however 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 for 2015/16 is the Consumer Price Index (CPI) for the previous September plus 1%. For 2015/16 the guideline rent increase calculation is based on 1.2% (being the CPI for September 2014). Individual rent increases should be capped at 2.2% i.e. CPI + 1%.

- 2.4 At the Council meeting in February of last year an average increase of 3.7% was recommended, this being in line with the rent setting policy but without any further adjustment for convergence, however a subsequent amendment was agreed that increased the rents by a lower average figure of 2.5%.
- 2.5 For 2015/16 it is proposed that rents are increased by 2.2% (being CPI plus 1%).
- 2.6 The Government sets a weekly average limit rent for Bury and this is expected to be £82.09 for 2015/16 (on a 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.

2.10 The following table shows the difference between the current and proposed rents on the basis of an increase of 2.2% 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 2014/15	PROPOSED RENT 2015/16	INCREASE OVER ACTUAL 2014/15 RENT	
		£	£	£	£	%
Bed-sit	0	23,235	59.59	60.90	1.31	2.2
Bungalow	1	30,706	68.94	70.46	1.52	2.2
Flat	1	28,321	67.91	69.40	1.49	2.2
House	1	29,467	69.52	71.05	1.53	2.2
Bungalow	2	39,487	81.29	83.08	1.79	2.2
Flat	2	29,559	75.02	76.67	1.65	2.2
House	2	34,637	77.77	79.48	1.71	2.2
Maisonette	2	32,132	76.84	78.53	1.69	2.2
Flat	3	29,702	80.43	82.20	1.77	2.2
House	3	37,566	85.51	87.39	1.88	2.2
Maisonette	3	33,843	83.95	85.79	1.84	2.2
House	4/6	38,444	92.88	94.93	2.05	2.2
		32,530	75.69	77.35	1.66	2.2

2.11 There are currently 311 HRA owned garages (of which 201 are currently let). Garages are charged for at the rate of £6.47 per week (50 weeks). The last increase was in April 2014 when the charges rose in line with the percentage increase in council house rents; increases for 2015/16 in line with the proposed rent increase of 2.2% would result in a weekly increase of £0.14 giving a rate of £6.61 per week (over 50 weeks);

3.0 SHELTERED AND OTHER TENANCY 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 The Sheltered Management charges have remained unchanged since their introduction in 2012/13. Unfortunately in order to ensure that the costs of the services provided are recovered from those receiving them it is proposed that the weekly charges per unit (on a 50 week basis) are increased for 2015/16 as shown below.

	Current Charge	Proposed Charge 2015/16
	£	£
Sheltered schemes (other than Extra Care)	10.18	10.40
Extra Care schemes (Falcon House/Griffin House)	14.17	19.97

3.2.5 For Sheltered schemes (other than Extra Care) the proposed increase is 2.2% in line with the proposed rent increase i.e. September CPI plus 1%.

3.2.6 For the Extra Care scheme, which comprises the Falcon House and Griffin House sheltered scheme, an additional increase is being proposed. This additional increase is to recover costs relating to the management team at the scheme which have not previously been included in the charges made to tenants. An assessment has been made of the costs attributable to additional housing management duties undertaken by the postholders.

It is recognised that the proposed charge will particularly affect those existing tenants who do not receive Housing Benefit for all or part of the Sheltered Management charge. Therefore it is proposed that tenants in this position at the end of the current financial year should receive protection up to a maximum of £5.49 per week, this being the element of the proposed increase over and above a general increase of 2.2% (as discussed in the previous paragraph).

On current information it is anticipated some level of protection would apply to 12 tenants with a potential cost to the HRA of £2,700 in 2015/16.

- 3.2.7 These charges will be eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.
- 3.2.8 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 has remained at this level since then.

It is proposed that this charge remains unchanged for 2015/16. 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.

- 3.2.9 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 2015/16.

- 3.2.10 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 the Department of Communities and Wellbeing and they will be reviewing the charges for 2015/16.

3.3 Sheltered Amenity Charges

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

As outlined in paragraph 2.3 the government's rent policy uses CPI as an inflation measure for 2015/16 rather than RPI. Therefore it is proposed that the current charges are increased by 1.2% (September's CPI figure) from the first rent week in April 2015. The additional income generated will offset increased costs of providing the service, for example pay awards.

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

	Current Charge	Proposed Charge 2015/16
	£	£
Clarkshill	15.94	16.13
Elms Close	1.86	1.88
Falcon House	9.32	9.43
Griffin House	9.04	9.15
Harwood House	18.09	18.31
Moorfield	20.70	20.95
Mosses House	16.42	16.62
Stanhope Court	8.33	8.43
Taylor House	18.47	18.69
Top O'th Fields 1	17.82	18.03
Waverley Place	19.58	19.81
Wellington House	26.48	26.80

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 current charges have remained unchanged since April 2013 and 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 2015/16.

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 2014/15 the rates for these are £200 per household for those born on or before 5 July 1952, rising to £300 per household for those aged 80 or over at 21 September 2014.

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. Prior to the current year the scheme was expanding on a self funding basis with increases of 20% per annum in the number of furnished tenancies.

Six Town Housing, who manage the furnished tenancies, are looking to review the packages and tenancies available under the scheme to determine whether a wider range of options may have a positive impact on tenancy sustainment. Any proposed changes to the current packages and pricing will be subject to appropriate consultation and approval.

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 2015/16 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

3.6 Fernhill Caravan Site Tenancy Charges

3.6.1 Management of the Fernhill Caravan Site passed over to Six Town Housing in 2014/15 for which they receive a separately determined Management Fee. Whilst income from tenants and payment of the Management Fee are accounted for in the General Fund not the Housing Revenue Account it is felt appropriate to consider increases in the charges under these tenancies alongside those of HRA rents and charges.

3.6.2 Tenants at the site are charged a weekly pitch fee and a weekly charge for water; these charges are payable on a 52 week basis i.e. there aren't any non-collection weeks.

3.6.3 It is proposed that the weekly charges for 2015/16 are increased in line with the rent increase proposed for HRA dwellings i.e. 2.2% therefore the current and proposed charges per plot per week are:

	Current Charge	Proposed Charge 2015/16
	£	£
Single Plot – pitch fee	54.02	55.21
Double Plot – pitch fee	73.60	75.22
Single Plot – water charge	6.10	6.23
Double Plot – water charge	8.45	8.64

4.0 HOUSING REVENUE ACCOUNT PERFORMANCE

4.1 Voids

- 4.1.1 The rent lost on empty properties is projected to be 2.12% over the course of 2014/15; this will mean a reduction in rent income of approximately £94,000 as the original budget allowed for a void level of 1.8%.
- 4.1.2 The level of void loss for 2015/16 has been assumed at 1.8% which could be a challenging target given 2014/15 performance to date and the potential 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 2015/16 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 2016/17 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 2015/16.

4.2 Rent Arrears

- 4.2.1 The opening arrears and current levels for 2014/15 are shown in the following table. The figures reflect the fact that around £74,200 of Former Tenant Arrears has been written off during 2014/15. Write offs totalling £15,000 are awaiting approval and it is anticipated that a further £20,000 could be written off before the end of 2014/15. All write offs are done in accordance with the Corporate Debt Write Off Policy as approved by the then Executive.

	Opening Arrears 2014/15 £	Current Position £	Increase/ (Reduction) in arrears £
Current Arrears	488,600	503,000	14,400
Former Tenant Arrears	361,900	402,100	40,200
	-----	-----	-----
	850,500	905,100	54,600

- 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 £617,700 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 2014/15 allowed for additional contributions to the provision totalling £614,800; £184,400 for uncollectable debts and £430,400 for the impact of benefit reforms. Looking at the arrears position, it is now estimated that the additional provision required in 2014/15 may only be £181,500. All things being equal this suggests that the Provision will stand at £684,300 at the end of 2014/15 against arrears of £905,100. 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 2015/16 estimates allow for additional contributions to the provision, totalling £499,200:
- For uncollectable debts £187,200
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 2015/16.
 - For the impact of benefit reforms £312,000
This figure represents 1.0% 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 and roll out of Universal Credit.
- 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 £327,800 of which £301,000 is debt over 1 year old. Of the debt over 1 year old around £213,700 appears to be static debt i.e. there have been no payments received at all. No accounts have been written off so far in the current year however £23,400 of accounts have been 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 £300,800.

Taking into account the expected write offs, at the end of 2015/16 the provision will stand at £277,400; this amount will be reduced by the amount of any further write-offs done before the end of 2015/16. 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 2015/16; 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 2015/16 HOUSING REVENUE ACCOUNT (HRA), HRA CAPITAL RESOURCES AND THE HRA WORKING BALANCE

5.1 2015/16 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 2015/16.

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 2015/16 is currently being finalised between Six Town Housing and the Council. The HRA Estimates for 2015/16 assume the Management Fee to be £13,158,400 this being the current year's figure uplifted for inflation and the full year effect of changes agreed part way through 2014/15; any changes to this figure during negotiations will impact on the level of HRA balances.

§ Springs Tenant Management Co-operative (TMO) have been undertaking 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. An update on progress was taken to Cabinet on 21 January 2015 with Cabinet deciding to continue to support the work on the transfer proposals. No provision has currently been made within the HRA for any additional costs that may arise from transfer.

§ Bury Council's current tenancy agreement was last reviewed in 2009. In line with good practice the Council and its managing agent, Six Town Housing, have reviewed the document, in particular, to take into account changes in national legislation and local policies. At their meeting of 14 December 2014 Cabinet approved the consultation on the new draft tenancy agreement including for any changes arising from the consultation to be delegated to the Executive Director for Communities and Wellbeing. This will allow the new tenancy agreement to be implemented from 1 April 2015.

§ From July 2014 further changes have been made to Right to Buy discounts with the maximum discount increased from £75,000 to £77,000 and the maximum percentage discount on houses increased from 60% to 70%. The

Government has appointed RTB Agents and established a capital fund to improve access to mortgage finance. These changes may increase the number of applications and sales but it is too early after the changes to quantify this; the impact of these changes will continue to 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 **2.2%**.

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 Investment needs to be undertaken on a sustainable basis and in line with the Council's overarching Housing Strategy.

5.2.3 Since the introduction of HRA self financing the resources made available from the HRA for capital expenditure agreed by the Council was at the level assumed in the self financing determination. However at the Council meeting in February of last year an amendment was agreed to provide a contribution of £12.357m from the Business Plan Headroom Reserve over the period of 2014/15 to 2016/17 to facilitate improvements to bathrooms, kitchens and heating systems in Council owned properties in addition to the existing programme of improvements.

5.2.4 An operational decision in June 2014 confirmed HRA funding for the AGMA NEDO heating project; it is estimated that this will require £503,000 in 2015/16.

5.2.5 Therefore it is proposed that for 2015/16 the resources made available from the HRA for capital expenditure should be:

Housing programme Major works	£7.619m
HRA component modernisation Council approval	£4.119m
Disabled Facilities Adaptations – Housing Stock	£0.552m
NEDO Heating Project	£0.503m
Total capital resources 2015/16	£12.793m

5.2.6 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 or from 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 and Regulation 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 £
2014/15	8,115	811,500
2015/16	8,068	806,800
2016/17	8,018	801,800

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 Regulation and the Council's s151 Officer are now recommending that for 2015/16 the HRA balances should not be allowed to fall below **£1,000,000**.

**Councillor Mike Connolly,
Leader of the Council and Cabinet Member for Finance**

**Councillor Rishi Shori,
Deputy Leader of the Council and Cabinet Member Health and Wellbeing**

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HOUSING REVENUE ACCOUNT

	2014/15		2015/16
	Original Estimate	Revised Estimate	Original Estimate
	£	£	£
INCOME			
Dwelling rents	30,187,600	30,060,100	30,639,500
Non-dwelling rents	220,800	220,400	220,400
Heating charges	71,600	73,800	73,800
Other charges for services and facilities	904,100	928,100	950,800
Contributions towards expenditure	53,900	53,900	53,900
Total Income	31,438,000	31,336,300	31,938,400
EXPENDITURE			
Repairs and Maintenance	6,852,500	6,852,500	6,907,500
General Management	6,772,800	6,932,500	7,028,200
Special Services	1,061,100	1,055,600	1,102,100
Rents, rates, taxes and other charges	50,000	90,000	93,200
Increase in provision for bad debts - uncollectable debts	184,400	184,300	187,200
Increase in provision for bad debts - impact of Benefit Reform	430,400	100,000	312,000
Cost of Capital Charge	4,530,300	4,531,900	4,531,900
Depreciation of fixed assets - council dwellings	7,361,500	7,361,500	7,619,100
Depreciation of fixed assets - other assets	40,500	41,900	41,900
Debt Management Expenses	40,700	40,600	40,600
HRA subsidy payable	0	0	0
Contribution to/(from) Business Plan Headroom Reserve	(358,000)	(445,800)	(1,018,500)
Total Expenditure	26,966,200	26,745,000	26,845,200
Net cost of services	(4,471,800)	(4,591,300)	(5,093,200)
Amortised premia / discounts	(14,600)	(14,600)	(14,600)
Interest receivable - on balances	(164,200)	(66,200)	(65,400)
Interest receivable - on loans (mortgages)	(1,900)	(1,000)	(1,000)
Net operating expenditure	(4,652,500)	(4,673,100)	(5,174,200)
Appropriations			
Appropriation relevant to depreciation and MRA		0	0
Revenue contributions to capital	4,652,500	4,673,100	5,174,200
(Surplus) / Deficit	0	0	0
Working balance brought forward	(1,000,000)	(1,000,000)	(1,000,000)
Working balance carried forward	(1,000,000)	(1,000,000)	(1,000,000)

Sheltered Support and Amenity Charges**Current charges 2014/15 and proposed charges 2015/16**

Scheme	Total Current Charges 2014/15 £	Proposed Management Charge 2015/16 £	Proposed Support Charge 2015/16 £	Proposed Amenity Charge 2015/16 £	Total Proposed Charges 2015/16 £	Increase over current charges £
Beech Close	18.51	10.40	8.33		18.73	0.22
Chelsea Avenue	18.51	10.40	8.33		18.73	0.22
Clarkshill	34.45	10.40	8.33	16.13	34.86	0.41
Elms Close	20.37	10.40	8.33	1.88	20.61	0.24
Falcon House	23.49	19.97		9.43	29.40	5.91
Griffin Close	18.51	10.40	8.33		18.73	0.22
Griffin House	23.21	19.97		9.15	29.12	5.91
Hampson Fold	18.51	10.40	8.33		18.73	0.22
Harwood House	36.60	10.40	8.33	18.31	37.04	0.44
Limegrove	18.51	10.40	8.33		18.73	0.22
Maple Grove	18.51	10.40	8.33		18.73	0.22
Moorfield	39.21	10.40	8.33	20.95	39.68	0.47
Mosses House	34.93	10.40	8.33	16.62	35.35	0.42
Stanhope Court	26.84	10.40	8.33	8.43	27.16	0.32
Taylor House	36.98	10.40	8.33	18.69	37.42	0.44
Top O'th Fields 1	36.33	10.40	8.33	18.03	36.76	0.43
T O'th F 2 (Welcomb Walk)	18.51	10.40	8.33		18.73	0.22
Waverley Place	38.09	10.40	8.33	19.81	38.54	0.45
Wellington House	44.99	10.40	8.33	26.80	45.53	0.54

HRA VOID LEVEL OPTIONS - 2015/16**Rent loss is calculated assuming an average rent increase of 2.2% for 2015/16****Figures exclude Springs TMO which has a fixed voids allowance - currently 2%**

VOIDS	RENT LOSS	DIFFERENCE FROM ASSUMED VOIDS LEVEL (2%)
%	£	£
1.10	329,267	-209,533
1.20	359,200	-179,600
1.30	389,133	-149,667
1.40	419,067	-119,733
1.50	449,000	-89,800
1.60	478,933	-59,867
1.70	508,867	-29,933
1.80	538,800	0
1.90	568,733	29,933
2.00	598,667	59,867
2.10	628,600	89,800
2.20	658,533	119,733
2.30	688,467	149,667
2.40	718,400	179,600
2.50	748,333	209,533

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. £3,900 in lost rental income in a full year. A loss of 50 properties throughout the year would cost around £100,000	H 100%	Budget 2015/16 assumes 50 sales. Current sales levels are around this level but further changes to discounts and eligibility coupled with the introduction and promotion 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 0.75% increase in void loss costs the HRA £224,600 in a full year.	H 100%	Budget 2015/16 assumes 1.8% void rental loss. There is a possibility that the level may be higher particularly as current performance is not meeting this target.	225	225
Increase in Management Fee paid to Six Town Housing - non pay inflation	If non pay inflation was to be 2% higher than assumed then this would amount to £117,000. 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).	L 60%	Budget 2015/16 allows for 0% increase on the majority of non pay elements of the Management Fee. This includes expenditure on the Repairs and Maintenance service.	120	70
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 2015/16 allows for contributions of £499,200 to the Bad Debt Provision. This is based on 1.6% of the rental income due and allows 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.	470	470

HOUSING REVENUE ACCOUNT - RISK ASSESSMENT

Risk Event	Impact	Risk Level	Likelihood	Max. Impact £000	Min. Provision £000
Interest rates - Cost of Capital	Under self financing the risks associated with changes in interest rates impact directly on the HRA.	L 60%	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.	100	60
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 £41,900.	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	As the transfer proposals are progressing to the next stage then the HRA will incur costs associated with this.	H 100%	The 2015/16 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
				1105	1005

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REPORT FOR DECISION



Agenda Item	
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DECISION OF:	OVERVIEW & SCRUTINY COMMITTEE CABINET COUNCIL
DATE:	11 FEBRUARY 2015 25 FEBRUARY 2015 25 FEBRUARY 2015
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2015/16
REPORT FROM:	LEADER & CABINET MEMBER FOR FINANCE
CONTACT OFFICER:	MIKE OWEN, EXECUTIVE DIRECTOR OF RESOURCES & REGULATION STEPHEN KENYON, ASSISTANT DIRECTOR OF RESOURCES & REGULATION (FINANCE AND EFFICIENCY)
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	The report is for publication
SUMMARY:	<p>The report sets out the suggested Strategy for 2015/16 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"> • treasury limits in force which will limit the treasury risk and activities of the Council; • prudential and treasury indicators; • the current treasury position; • prospects for interest rates; • the borrowing strategy; • the borrowing requirement;

	<ul style="list-style-type: none"> • debt rescheduling; • the investment strategy; • the minimum revenue provision policy; <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 2015/16 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. Some long term loans (over 10 years) may be undertaken to replace debt which matures in the year. 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 2015/16, 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>OPTIONS & RECOMMENDED OPTION</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"> • Prudential Indicators forecast for 3 years • Treasury Management Strategy for 2015/16 • Minimum Revenue Provision Policy for 2015/16 • Schemes of Delegation and Responsibility attached at Appendices 2 and 6 <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>
IMPLICATIONS:	
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	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.
Statement by Executive Director of Resources & Regulation:	There are no additional resource implications.
Health & Safety implications:	There are no direct Health & Safety implications
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Overview & Scrutiny Committee

TRACKING/PROCESS

EXECUTIVE DIRECTOR: Mike Owen

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
	Leader / Finance		
Scrutiny Committee		Committee	Council
Overview & Scrutiny 11/2/15		Cabinet 25/2/15	Council 25/2/15

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 2014/15 the average rate of return on investments is 0.61% as at 31st December 2014.

1.6 Treasury Management Strategy for 2015/16

1.6.1 The strategy for 2015/16 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 2015/16 – 2017/18

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	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Non-HRA	16,120	14,819	9,829	6,849	2,600
HRA	7,181	13,356	12,290	12,576	0
Total	23,301	28,174	22,119	19,425	2,600

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	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
CFR – non HRA	127,649	122,743	119,584	118,942	114,125
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
Total CFR	246,433	241,526	238,368	237,726	232,909

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 2015/16 as it did in 2014/15. 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 £89,700 in 2012/13, £77,100 in 2013/14 and is expected to generate further savings in 2014/15 and 2015/16.

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.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	3.21%	3.10%	3.03%	2.95%	2.85%
HRA	14.60%	14.18%	13.61%	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:

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax -Band D	-£3.62	-£0.44	-£1.99	-£0.21	-£1.61

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:

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Weekly housing rent levels	£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 2015/16 the Council's current treasury portfolio position (at nominal value) is detailed below:

	31st March 2014			Forecast 31st March 2015		
	Principal		Avg. Rate	Principal		Avg. Rate
	£0	£0		£0	£0	
Fixed rate funding						
PWLB Bury	146,362			140,553		
PWLB Airport	4,078			3,308		
Market Bury	57,500	207,940		57,500	201,361	
Variable rate funding						
PWLB Bury	0			0		
Market Bury	0	0		0	0	
Temporary Loans / Bonds	2,003	2003		3	3	
Total Debt	209,943		3.96%	201,364		3.95%
Total Investments	45,050		0.78%	35,950		0.61%

3.2.2 The forecast accumulated capital financing requirement at the end of 2014/15 is £241.5m. The forecast borrowing at the end of 2014/15 is £201.4m meaning that the Authority is under borrowed by £40.1m.

3.2.3 The investment portfolio after the Capital Programme has been spent during 2014/15 is estimated to be around £36m. 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 2014/15 is 0.61% against Capita Asset Services' suggested investment earnings rate for returns on investments placed, for periods up to three months in 2014/15, 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	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	241,500	238,400	237,700	232,900
Other long term liabilities	7,000	6,700	6,400	6,400
Total	248,500	245,100	244,100	239,300

- 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.

Authorised limit	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	276,500	273,400	272,700	267,900
Other long term liabilities	7,000	6,700	6,400	6,400
Total	283,500	280,100	279,100	274,300

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.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

- 3.4.2 UK GDP grew during 2013 and the first half of 2014. Since then it appears to have subsided however is expected to continue into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views

on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

3.4.3 The US, the biggest world economy, has generated growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This gives an outlook for strong growth going forwards and it very much looks as if the US is now on the path of recovery from the financial crisis of 2008. Consequently, it is now expected that the US will be the first major western economy to start on central rate increases by mid 2015.

3.4.4 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the recent general election on 25 January 2015 saw the election of a political party which is both anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;
- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low 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. 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 2015/16 and beyond;
- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- 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 2015/16 treasury operations. The Assistant Director of Resources & Regulation (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%
Maturity structure of new fixed rate borrowing 2014/15			
	Upper	Lower	
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.

	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Alternative financing	0	0	749	886
Replacement borrowing	6,059	11,280	14,494	2,577
Borrowing Requirement	6,059	11,280	15,243	3,463

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 some of the replacement borrowing. The rest will be financed by long term borrowing (over 10 years) as 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.

Affordable Borrowing Limit	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Increase in Council tax	£0.00	£0.00	£0.00

The increase in Council Tax in 2015/16 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 Introduction: changes to credit rating methodology

4.1.1 The main rating agencies (Fitch, Moody’s and Standard & Poor’s) have, through much of the financial crisis, provided some institutions with a ratings “uplift” due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these “uplifts”. This process may commence during 2014/15 and / or 2015/16. The actual timing

of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

- 4.1.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.
- 4.1.3 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.
- 4.1.4 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.
- 4.1.5 As a result of these rating agency changes, the credit element of Capita's future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that Capita have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, Capita will continue to utilise CDS prices as an overlay to ratings in their new methodology.

4.2 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 applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties, which will also enable diversification and thus avoidance of concentration risk.
- 4.1.3 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.
- 4.1.4 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.

- 4.1.5 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.
- 4.1.6 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.
- 4.1.7 In light of low investment returns, the Executive Director of Resources & Regulation has obtained Cabinet approval to investigate alternative forms of investment; primarily property, which will yield a sustainable rental income at a higher rate than can be obtained via UK high street banks.

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

4.2.3 Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalent) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally

lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.2.4 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.

4.2.5 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 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

4.4.3 There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be upside risk.

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 eight years are as follows:

2015/16	0.60%
2016/17	1.25%
2017/18	1.75%
2018/19	2.25%

2019/20	2.75%
2020/21	3.00%
2021/22	3.25%
2022/23	3.25%
Later years	3.50%

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.

Maximum principal sums invested > 364 days			
£m	2014/15	2015/16	2016/17
Principal sums invested > 364 days	£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 has now moved (wef February 2015) from the Co-operative bank to Barclays bank for it’s current account.

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 MIKE CONNOLLY
LEADER & CABINET MEMBER FOR FINANCE**

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APPENDIX 1: Interest Rate Forecasts 2014 – 2018

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PW IB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PW IB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PW IB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PW IB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PW IB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PW IB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PW IB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PW IB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-
Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012													

APPENDIX 2: Economic Background

1 The UK Economy

1.1 After UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that any recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has been at a low level since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

1.2 Inflation (CPI), reached 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. A return to growth has lowered forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

2 The Global Economy

2.1 The Eurozone (EZ)

The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low 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 for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited

amounts of bonds of countries which ask for a bailout 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 (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some 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 likely to continue 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.

2.2 Greece

The outcome of the general election on 25 January 2015 saw a political party which is anti EU and anti-austerity come to power. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify. 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 which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

2.3 The USA

The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% suggest strong growth going forward. It is therefore forecast that the first increase in the Fed. rate will occur by the middle of 2015.

2.4 China

Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over 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.

2.5 Japan

Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

3 Capita Asset Services Forward View

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. 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, or the safe haven of bonds.

The overall 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 eventual economic recovery is also likely to compound this effect as recovery will encourage investors to switch 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 sustainable any growth will be; 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. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur 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 weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an 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, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp 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 larger 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 to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.

- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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
DMADF – UK Government	N/A	100%	6 months
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
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- Netherlands
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium
- Saudi Arabia

(note the Council only invests in the highest rated UK institutions)

APPENDIX 5: DELEGATION AND RESPONSIBILITY

The following personnel are involved on a regular basis in Treasury Management: -

Executive Director of Resources & Regulation (Mike Owen)	Overall supervision of Treasury Management function and cashflow. Regular reviews of Treasury Management Strategy.
Assistant Director of Resources & Regulation (Finance & Efficiency) (Steve Kenyon)	Deputise for the Executive Director of Resources & Regulation. 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 & Regulation
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 & Regulation
Steve Kenyon	Assistant Director of Resources & Regulation (Finance & Efficiency)
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.