

AGENDA FOR

CABINET

Contact: Julie Gallagher
Direct Line: 0161 253 5134
E-mail: julie.gallagher@bury.gov.uk
Web Site: www.bury.gov.uk

To: All Members of Cabinet

Councillors: R Shori (Leader and Cabinet Member for Business Engagement and Regeneration (Chair)), Simpson (Deputy Leader and Cabinet Member Health and Wellbeing), S Briggs (Cabinet Member for Children and Families), J Kelly (Cabinet Member Corporate Affairs and Regulatory Services), E O'Brien (Cabinet Member Finance and Housing), A Quinn (Cabinet Member for Environment) and T Tariq (Cabinet Member for Communities)

Dear Member/Colleague

Cabinet

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

Date:	Wednesday, 21 February 2018
Place:	Bury Town Hall
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 MINUTES *(Pages 1 - 6)*

Minutes of the meeting held on the 31st January are attached.

5 MONTH 9 2018/2019 CORPORATE FINANCIAL MONITORING REPORT *(Pages 7 - 38)*

A report from the Cabinet Member for Finance and Housing is attached.

6 HOUSING REVENUE ACCOUNT 2018/2019 *(Pages 39 - 58)*

A report from the Cabinet Member for Finance and Housing is attached.

7 REVENUE BUDGET & CAPITAL PROGRAMME 2018/2019. TO 2019/2020 *(Pages 59 - 128)*

A report from the Cabinet Member for Finance and Housing is attached

8 TREASURY MANAGEMENT STRATEGY 2018/2019 *(Pages 129 - 152)*

A report from the Cabinet Member for Finance & Housing is attached.

9 URGENT BUSINESS

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

Minutes of:	THE CABINET
Date of Meeting:	31 st January 2018
Present:	Councillor R Shori (in the Chair) Councillors K S Briggs, J Kelly, A Quinn, E O'Brien, A Simpson and T Tariq
In Attendance:	Councillors Daly and Pickstone
Apologies:	There were no apologies for absence.
Public attendance:	3 members of the public were in attendance.

CA.01 DECLARATIONS OF INTEREST

There were no declarations of interest

CA.02 PUBLIC QUESTION TIME

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

No questions were received.

CA.03 MINUTES**Delegated decision:**

That the minutes of the meeting held on 13th December 2017 be approved and signed by the Chair as a correct record.

CA.04 HEALTH AND SAFETY ANNUAL REPORT

The Leader and Cabinet Member (Economic Growth and Human Resources) submitted the health and safety annual report. The report represents a core element of the Council's health and safety management system. The report provides details of the significant projects carried out in 2017 which include; health and safety policy updates, drafting a policy framework, ageing workforce and the development of an e-learning and testing package for employees that carry out work related driving activities.

Delegated decisions:

That the Cabinet endorse the future work themes detailed in paragraph 8.1 of the report.

Reason for the decision:

The actions identified through the report and associated actions are designed to improve health, safety and welfare management arrangements and standards.

Other options considered and rejected:

To reject the recommendation.

CA.05 HOMELESSNESS 2018 AND BEYOND

The Cabinet Member for Finance and Housing submitted a report which provided details of the current picture of homelessness within the Borough and outlines preparations undertaken by the Council with regards to the Homelessness Reduction Act which will take effect on 3rd April 2018. Homelessness is one of the key priorities of the new GM Mayor, due to a national increase in homelessness work is being driven, locally regionally and nationally. The Council has changed its approach from a traditional service, to one that puts the customer at the centre, the council is committed to working to end homelessness within the Borough

Delegated decisions:

The report be noted.

Reason for the decision:

A robust approach to homelessness is essential. Failure to address homelessness issues presents a risk to individuals, and a potential financial risk and service pressure to the Council.

Other options considered and rejected:

To reject the recommendation.

CA.06 PROPOSED COMPULSORY PURCHASE ORDER RELATING TO LAND AND AIR SPACE AT KAY STREET BRIDGE IN SUMMERSEAT

The Cabinet Member for Corporate Affairs and Regulatory Services submitted a report containing a proposal to compulsory purchase the land and air space at Kay Street bridge in Summerseat. Following the damage to the bridge in the Boxing day floods of 2015, the bridge was left with no physical barrier and has been subsequently closed to vehicular traffic. The Council proposes to carry out remedial works to repair the damaged bridge to include a parapet and widen it for the provision of a separate footway.

Delegated decision:

Cabinet agreed to:

1. Undertake the highways works necessary to facilitate the re-opening of Kay Street Bridge, Summerseat.
2. Authorise the Head of Property and Asset Management and Interim executive Director of resources and regulation in consultation with the Cabinet member for Finance and Housing to negotiate and acquire the necessary land and air space by agreement.
3. Authorise the making of a Compulsory Purchase Order (CPO) under the Highways Act 1980 and the Acquisition of Land Act 1981 to acquire land and air space adjacent to Kay Street Bridge as shown shaded in pink on

the attached plan for highway purposes and to acquire associated access rights over the land and air space shown shaded in blue on the attached plan.

4. Authorise the Council's Assistant Director of Legal and Democratic Services to make, if necessary, minor or technical amendments to the CPO boundary as shown on the attached plan.
5. Authorise the Council's Assistant Director of Legal and Democratic Services to seal the Order and map and to take all necessary steps (including, without limitation, the publication of all required advertisements and statutory notices, the preparation of all necessary ancillary documents, dealing with any objections and inquiries and making any necessary modifications to the Order) to secure confirmation of the Order by the Secretary of State for Transport.
6. Authorise the Council's Assistant Director of Legal and Democratic Services (in the event that the Secretary of State for Transport notifies the Council that it has been given power to confirm the Order) to advertise and confirm the CPO, if satisfied that it is appropriate to do so and to secure the subsequent vesting and registration of the ownership of the land in the Council by the most appropriate means (including the agreement and payment of appropriate compensation).

Reason for the decision:

Wherever possible the Council should seek to acquire the necessary land and air space by agreement, there is a compelling case in the public interest for making a Compulsory Purchase Order, there are no financial, physical, planning, legal or other impediments to the highway works proceeding and there is a reasonable prospect that they will proceed.

Other option considered and rejected:

Not to proceed with the Compulsory Purchase Order as outlined in the report and leave the bridge closed to vehicular traffic.

CA.07 ASSET MANAGEMENT STRATEGY FOR THE PUBLIC HOUSING STOCK PF BURY COUNCIL 2018 -2021

The Cabinet Member for Finance and Housing submitted a report the purpose of which is to provide members with the final version of the Asset Management Strategy and a three year investment programme. The over-arching aim is therefore to: provide well maintained, energy efficient homes and neighbourhoods that meet the needs of current and future customers through sustainable investment.

Delegated decision:

Approve the Asset Management Strategy and approve an alternative Investment Plan (as per options 1,2 or 4) ; noting that the decision in relation to the capital programme of £9.8m per annum will flow through into reports for decisions at Council in February 2018 as part of the broader Council Capital Programme and Housing Revenue Account budget setting.

Reason for the decision:

The strategy sets out the investment priorities as well as 4 No. levels of investment each with an estimation of the level of financial resource required:

Investment Option 1 - £14.31M per annum
Investment Option 2 - £12.01M per annum
Investment Option 3 - £ £9.83M per annum
Investment Option 4 - £8.17M per annum

This option is the recommended option after consultation with Housing Strategy Programme Board (HSPB) and STH Board. The option is also felt to be the affordable option in terms of the Housing Revenue Account sustainability.

The decision in relation to the capital programme of £9.8m per annum will flow through into reports for decisions at Council in February 2018 as part of the broader Council Capital Programme and Housing Revenue Account budget setting.

Other option considered and rejected:

Option 1:

Approve the Asset Management Strategy for the Public Housing stock of Bury Council – 2018-2021 and a 3 year Investment Plan of £9.83M per annum; noting that the decision in relation to the capital programme of £9.8m per annum will flow through into reports for decisions at Council in February 2018 as part of the broader Council Capital Programme and Housing Revenue Account budget setting.

Option 2:

Do not approve the Asset Management Strategy or the Investment Plan of £9.83M per annum.

CA.08 APPOINTMENT OF MAYOR 2018/2019

The Chair reported that Councillor Jane Black had been proposed as the Mayor of Bury for 2018/2019.

Recommendation to Council:

That Councillor Jane Black be proposed as the Mayor of Bury for 2018/2019.

CA.09 RADCLIFFE MARKET –OPERATING CONCESSION

The Leader and Cabinet Member (Economic Growth and Human Resources) submitted a report advising members of the procurement process followed to secure an independent operator for Radcliffe Market. The overriding objectives of procuring a successful market operator is to create additional footfall within Radcliffe Town Centre and for the operation of the market to become budget neutral for the Council. The Council will be looking to appoint an operator to undertake a range of services in order to create a successful market.

Delegated decision:

To note the content of the report.

Reason for the decision:

These measures seek to address the trading deficit incurred in operating the market, and to stimulate the events which have been successfully piloted.

Other option considered and rejected:

To reject the recommendations.

CA.10 EXCLUSION OF PRESS AND PUBLIC

Delegated decision:

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

CA.11 RADCLIFFE MARKET –OPERATING CONCESSION

The Leader and Cabinet Member (Economic Growth and Human Resources) submitted a report providing information in respect of the bids submitted to run the operating concession at Radcliffe Market.

Delegated decisions:

To approve the granting of an Operating Agreement, as outlined in the report, to Impact Management Solutions.

Reason for the decision:

These measures seek to address the trading deficit incurred in operating the market, and to stimulate the events which have been successfully piloted. A compliant procurement process has been followed.

Other option considered and rejected:

Other options:

- Not to approve the granting of the concession
- For the Council to continue to manage Radcliffe Market Hall.

CA.12 FOR INFORMATION MINUTES OF THE ASSOCIATION OF GREATER MANCHESTER AUTHORITIES / GREATER MANCHESTER COMBINED AUTHORITY

COUNCILLOR R SHORI

Chair

(Note: The meeting started at 6.00pm and ended at 6.35pm.)

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NOTICE OF KEY DECISION


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

DATE: **14 FEBRUARY, 2018
21 FEBRUARY, 2018**

SUBJECT: **CORPORATE FINANCIAL MONITORING REPORT –
APRIL 2017 TO DECEMBER 2017**

REPORT FROM: **CABINET MEMBER FOR FINANCE AND HOUSING**

CONTACT OFFICER: **STEVE KENYON, INTERIM EXECUTIVE DIRECTOR
OF RESOURCES & REGULATION**

TYPE OF DECISION: **FOR INFORMATION**

**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 2017 to December 2017 and projects the estimated outturn at the end of 2017/18.

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 2017.

IMPLICATIONS:

**Corporate Aims/Policy
Framework:**

Do the proposals accord with Policy Framework? Yes.

Statement by the s151 Officer:

The report has been prepared in accordance with all relevant Codes of Practice. There may be risks arising from remedial action taken to address the budget position; these will be identified by Directors at Star Chamber meetings. Additionally, a series of measures was drawn up in 2016/17 to address the extremely difficult financial

situation facing the Council. These have continued into 2017/18 and are detailed in par.3.6 on page 4 of this report.

Statement by Interim 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 will be examining these areas in more detail at the departmental Star Chamber meetings.

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

EXECUTIVE DIRECTOR: Steve Kenyon

Chief Executive/ Strategic Leadership Team	Cabinet	Overview & Scrutiny Committee	Council	Ward Members	Partners
05/02/18	22/02/18	14/02/18			

1.0 INTRODUCTION

- 1.1 This report informs Members of the forecast outturn for 2017/18 based upon current spend for the period 1 April 2017 to 31 December 2017 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 exist in some key areas and it will be necessary to continue to examine options for improving the situation further.

2.0 BUDGET MONITORING PROCESSES

- 2.1 Reports are presented quarterly to facilitate close monitoring of spend and implementation of action plans during the year.
- 2.2 Reports are also presented to the Strategic Leadership Team on a monthly basis and detailed monitoring information will also be discussed at joint SLT / Cabinet 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	77,557	78,641	+1,084
Resources & Regulation	(497)	1,031	+1,528
Children, Young People & Culture	30,095	33,070	+2,975
Non Service Specific	28,175	24,426	(3,749)
TOTAL	135,330	137,168	+1,838

- 3.2 The projected overspend of £1.838m represents approximately 1.36% of the total net budget of £135.330m.
- 3.3 An overview of the reasons for this variance is outlined in the table overleaf; more detailed analysis is provided in section 4 of the report.

Month 9 Variance	Children Young People & Culture	Communities & Wellbeing	Resources & Regulation	Non Service Specific	TOTAL
Reason	£'000	£'000	£'000	£'000	£'000
Demand Pressures	2,512	2,861	0	561	5,934
Delayed Achievement of Cuts Options	793	2,799	219	0	3,811
Non-Achievement of Cuts Options	564	0	52	0	616
Income Shortfall	0	38	1,512	0	1,550
Planned use of one-off funding	0	(3,811)	0	0	(3,811)
Continued Impact of 10 Control Measures	(100)	0	(255)	0	(355)
Other	(794)	(803)	0	(4,310)	(5,907)
TOTAL	2,975	1,084	1,528	(3,749)	1,838

- 3.4 Members need to be aware that financial reporting involves an element of judgement, and this particularly applies to the treatment of budget pressures. Often an area of overspending identified at this point in the year has been resolved before the end of the year following appropriate remedial action.
- 3.5 However it is felt appropriate to alert Members to potential problems at this stage so that they can continue to monitor the situation and take ownership of the necessary remedial action and this is the basis on which the report is written.
- 3.6 Due to the extremely difficult financial situation that the Council faced in 2016/17 the Senior Leadership Team agreed and drew up an action plan with some immediate additional spending controls over & above usual controls. These have continued in 2017/18.

These include:

1. Recruitment freeze on staff and new agency placements (exceptions to be signed off by SLT);
2. Release of all existing casual / agency staff (exceptions to be signed off by SLT);
3. Cease overtime / additional hours (exceptions to be signed off by SLT);
4. Enter into no new training commitments, and review existing arrangements (exceptions to be signed off by SLT);
5. Re-launch Work Life Balance options around reduced hours / purchase of leave;

6. Cease spend on discretionary budgets; stationery, office equipment etc;
7. Cease spend on IT / Communications (exceptions to be signed off by SLT);
8. Any spend greater than £250 to be signed off by Executive Director;
9. Any new contractual commitments greater than £5,000 (lifetime value of contract) to be signed off by SLT;
10. Consider "in year" budget options – e.g. previously unidentified efficiencies, review of non-key services.

3.7 These were communicated to staff in 2016/17 and compliance with these will continue to be monitored throughout the year. It is expected that these actions will not only help to reduce the financial burden facing the Council within the current year but also for the coming years.

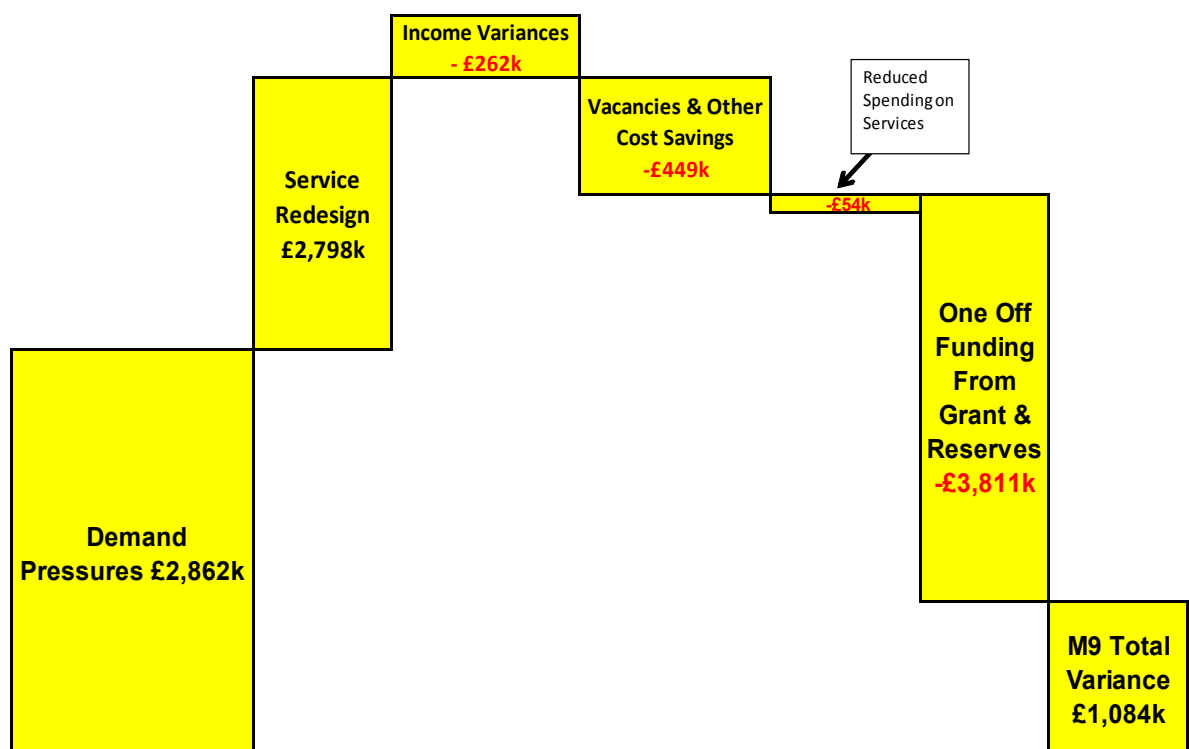
3.8 In addition to these measures, Executive Directors have been tasked with preparing "turnaround" plans as a matter of urgency for their Departments, to ensure that levels of expenditure are controlled and sustainable going forward.

4.0 SERVICE SPECIFIC FINANCIAL MONITORING

4.1 COMMUNITIES AND WELLBEING

4.1.1 The current projected overspend for Communities and Wellbeing is **£1.084m.**

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



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

Theme	Variance £'000	Reason	Action Being Taken
Demand Pressures		Care in the Community budgets- £2,042k (Reason: Pressure largely around Domiciliary Care, Residential Care and Self Directed Support Budgets).	This Pressure is offset by 2017/18 Improved Better Care Fund (IBCF) Grant.
		Falcon & Griffin Care Home - £87k (Reason: Staffing Budget Pressure).	This pressure is currently unavoidable but the utilisation of offsetting underspends will be employed where possible.
		Local Reform & Community Voices - £59k (Reason: Additional cost re Deprivation of Liberty safeguarding (DoLS) assessments).	The DoLS pressure is unavoidable and would be even higher without one off IBCF support. Completion of DoLS assessments is a local authority statutory function. Attempts are ongoing to ensure costs of assessments are reduced/kept to a minimum and requests for authorisations are starting to plateau. The overspend reported is expected to remain for the next few years until legislation change.
		Persona Contract - £235k.	One off pressure linked the contract held with Persona. This pressure is offset by support from the IBCF grant.
		Reviewing Team - £100k (Reason: Staffing Budget Pressure).	This pressure is being offset by a one off contribution from reserves.
		Strategic Safeguarding Team - £170k (Reason: The pressure is related to DOLS assessments).	This pressure is being offset by a one off contribution from the IBCF Grant.
		ACS Senior Management £50k (Reason: Staffing Budget Pressure).	The pressure will be offset by a one off contribution from reserves.
		ACS Training - £70k (Reason: Insufficient budget provision to cover training facilities at Bury Adult Learning	Various options are being considered to reduce the overspend; a re-measure of Bury Adult Learning centre is being undertaken to reallocate

Theme	Variance £'000	Reason	Action Being Taken
		Centre).	the cost based on current usage.
		Street Cleaning £10k (Reason: No budget provision for fly tipped asbestos).	Reduced spend on non-essential budgets where possible.
		Winter Maintenance £39k (Reason: increase cost of gritting).	Reduced spend on non-essential budgets where possible.
Sub Total	+2,862		
Service redesign (Note: A number of Budgets have yet to achieve savings target against specific schemes, as a consequence this is partly/wholly the reason for the overspends)		Reablement - £1,315k (Reason: The pressure largely relates to unachieved savings within the ASC operations service.	The Reablement budget currently hosts the whole of the ASC operations service savings target. However, this pressure is currently being offset by one off contributions from the IBCF and ASC Support Grant plus a contribution from reserves.
		Disability Service – Pennine - £7k (Reason: Staffing Budget Pressure).	The pressure will be offset by a one off contribution from reserves.
		Civics - £100k (Reason: Income Shortfall).	Ongoing service review as well as new initiatives to support income generation.
		Beverage and Cafe Service - £95k (Reason: Income Shortfall).	The Beverage service is being reviewed in line with the Civic review.
		Environment - £170k (Reason: Savings target still to be identified).	A service review across a number of services across the Council has been implemented and workshops have been set up.
		Leisure - £501k (Reason: Delay in achieving savings).	The pressure will be partly offset by a £102k one-off contribution from reserve.
		Waste Management-£610k (Reason: Delay with achieving	A service delivery plan is in place for short term savings Following the completion of detailed condition surveys the longer term strategic direction for leisure facilities is being developed.
			The review of waste management is ongoing. A governance structure is in

Theme	Variance £'000	Reason	Action Being Taken
		savings).	place including a project team and strategic review group. <u>Note:</u> The savings target relate to <u>all</u> of Waste Management which also includes Street Cleaning and Public Convenience.
Sub Total	+2,798		
Income Variances		ACS Carelink -£14k (Reason: Additional income from carelink services).	To be used to offset overspends within ACS Operations
		Employment Support - £58k (Reason: Increased income from personal budgets used with BEST.	To be used to offset overspends within ACS Operations
		Accommodation Team -£51k (Reason: Additional income from the accommodation of Asylum Seekers).	To be used to offset other overspends within CWB
		Inclusion -£17k (Reason: Some staff salaries are being funded from the Homelessness grant).	To be used to offset other overspends within CWB
		Grounds Maintenance - £20k (Reason: Income shortfall due to direct schools/brokerage schools leaving the service).	Review remaining in year expenditure activity.
		Transport - £151k (Reason: Income from recharge for damaged vehicles).	To be used to offset other pressures within CWB.
		Vehicle Workshop -£9k (Reason: increased income from workshop).	To be used to offset other pressures within CWB.
		Trade Waste - £18k (Reason: Income Shortfall.	Options under review to increase Council's share of the trade waste market. The service is profitable but has a challenging income target.

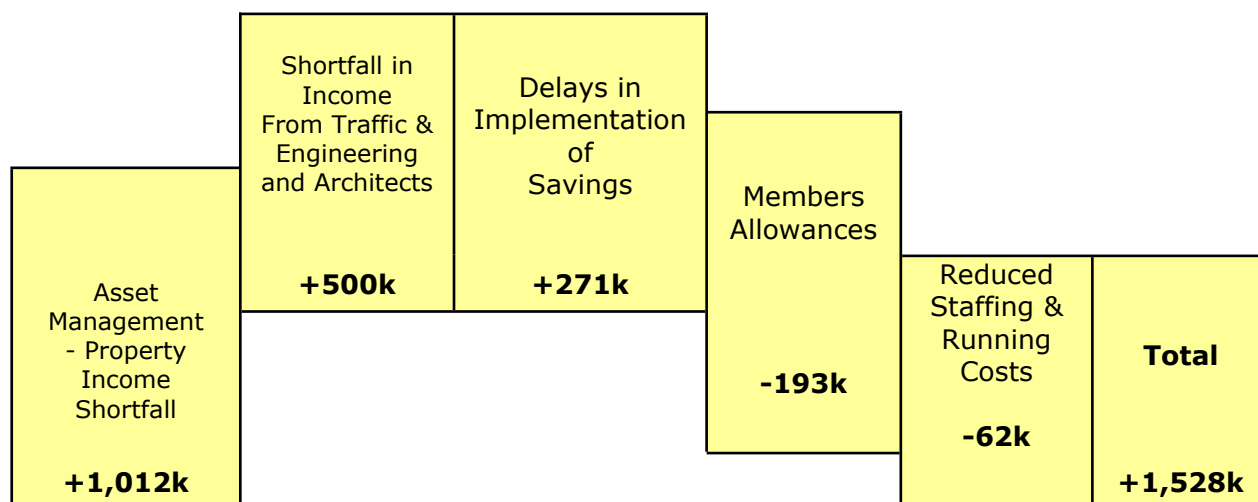
Theme	Variance £'000	Reason	Action Being Taken
Sub Total	-262		
Vacancies and Other Staff Cost Savings		ICES Store Seedfield - £17k (Reason: Staffing vacancies).	Underspend being used to offset pressures within other areas of ASC Operations.
		Older People Fieldwork -£36k (Reason: Staffing Vacancies).	Underspend being used to offset pressures within other areas of ASC Operations.
		Quality Assurance & Service Development -£2k (Reason: Staffing Vacancies).	Underspend being used to offset pressures within other areas of ASC Operations.
		Assessment & Care Management -£138k (Reason: Staffing Vacancies).	Underspend being used to offset pressures within other areas of ASC Operations.
		Head of Commissioning & Strategy -£56k (Reason: Staffing Vacancies).	To be used to offset overspends within Commissioning and Procurement (Other).
		ASC Finance -£17k (Reason: Staffing Vacancies).	Underspend may be used to offset pressure within other areas of CWB budgets.
		Policy & Improvement -£68k (Reason: Staffing Vacancies).	To be used to offset overspends within other areas of CWB.
		ACS Transport - £25k (Reason: Staffing Vacancies).	Underspend may be used to offset pressure within other areas of CWB budgets.
		Awareness Team - £90k (Reason: Staffing Vacancies).	Underspend to be used to offset pressure within Waste Management.
Sub Total	-449		
Reduced Spending on Services		ASC Care Link - £36k (Reason: Cut back on care pool plus sourcing extra income for Carelink services).	Underspend may be used to offset pressure within other areas of CWB budgets.
		LSSG Preventing Homelessness -£18k (Reason: delayed start on Health Screening and mediation services).	Underspend may be used to offset pressure within other areas of CWB budgets.
Sub Total	-54		
One Off Funding from		The -£3,811k is	

Theme	Variance £'000	Reason	Action Being Taken
Grant & Reserves		analysed as follows: Improved Better Care Fund (IBCF) – -£2,407k. Adult Social Care Support Grant -£820k. Adult Social Care Reserves -£482k. Neighborhood & Leisure Reserves -£102k.	The IBCF funding is non recurrent and is being used (in line with funding conditions) to ensure that Adult Social Care needs are met, pressures are reduced on the NHS and that the local social care provider market is supported. This is a one off grant being used to support pressures within the ASC operations service. One off support towards Adult Social Care Budgets. One off support towards Leisure Service Budgets.
Sub Total	-3,811		
Total	+1,084		

4.2 RESOURCES AND REGULATION

4.2.1 The Resources & Regulation Department is forecasting an overall overspend of **£1.528m.**

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



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

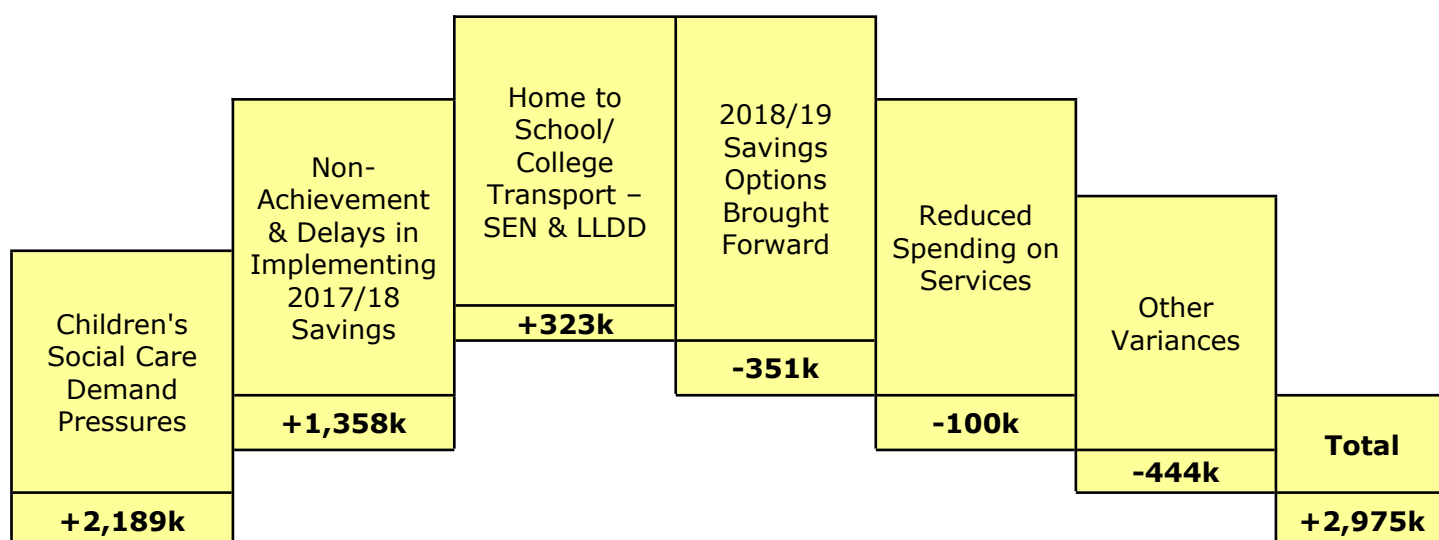
Activity	Variance £'000	Reason	Action Being Taken
Property Services	+1,012	Shortfall in rent income due to property sales (£209,000), property voids (£326,000), Town Centre lettings (£269,000), shortfall in income from investment properties (£228,000) plus shortfall in Markets income (£90,000) partially offset by salary savings (£62,000) and savings on rates following revaluations / refunds (37,000) plus various minor underspends (£11,000).	The Council has introduced two important strategies which will address the instability in property income. Through implementing the Estates Strategy the Council will identify high risk and underperforming investment assets and these will be disposed of. Initial tranche of properties identified. The Investment Acquisition Strategy will see the Council utilise existing capital currently invested in low return investments and receipts received from disposals. Four properties already acquired – expected to produce £415,000 p.a. in new income.
Reduced Income from Traffic & Engineering and Architectural Services	+500	Estimated shortfalls in income relating to off-street parking (£314,000), Greater Manchester Road Activities Permit Scheme (GMRAPS) (£43,000), bus lane enforcement (£82,000), coring (£64,000). These are offset by estimated surpluses in Council parking permits (£38,000), on-street parking receipts (£40,000), decriminalised parking fines (£11,000) and savings in traffic management (£55,000). Plus minor overspends of £5,000. Additionally, reduced income in Architectural Services of £136,000.	Monitor income levels, and adjust expenditure where possible. GMRAPS scheme to be examined further.
Delayed Implementation of Savings Targets	+271	Within Finance and Efficiency (£100,000), Legal Services (£37,000), Property Services (£32,000), Customer Support & Collections (£50,000) and Localities (£52,000).	Revised means of achieving the targets being considered. Awaiting outcome of reviews of services.
Members Allowances	-193	Payments expected to be less than budget.	To be used to assist in reducing the estimated overspend within the department in 2017/18.

Reduced Staffing and Running Costs	-62	Vacant posts not filled and tightening of controllable expenditure across the department. Salaries savings in Planning & Development Control and Finance & Efficiency.	To be used to assist in reducing the estimated overspend within the department in 2017/18 and part included within the 2018/19 cuts.
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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 **£2.975m.**

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 - £2,189,000 (on-going)			
Leaving Care	+649	Spending on housing and further education of 19+ year old students who have left our care.	This budget is forecast to overspend significantly on housing as the service continues to support more young people in high cost placements who were previously accommodated within the Children's Agency Budget. There has been an increase in the number of unaccompanied asylum seeker children, funding for which is nearly wholly through external grants provided by the Government. Any social worker support costs tend to be paid for by the local taxpayer.

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Safeguarding	+250	Increased costs.	The forecast overspend is due to the requirements of the Ofsted Action Plan, coupled with a significant increase in external legal fees, mainly due to an increase in cases.
Children's Agency	+1,290	Continuing increased demand.	The service is largely demand led and continues to support a large number of complex and high cost cases. These high cost fieldwork residential placements range between £2,000 and £8,000 per week.
Non-achievement and delays in Implementing Savings - £1,358,000 (one-off - £833,000; on-going - £525,000)			
School Catering	+160	Savings shortfall (2016/17 savings – Management Restructures) (Probable on-going £120,000) Possible one-off £40,000)	Catering - reduced numbers of pupils having a school meal as well as a number of schools choosing alternative catering providers has had a significant impact on the financial position of the service. In addition, managers have chosen to buy more expensive food without a corresponding increase in income to offset the additional costs. The CYPAD system is still struggling to achieve financial efficiencies that will fund the annual cost of the system.
Arts	+139	On-going savings shortfall.	An income budget was added to this budget in 2013 prior to the transfer to CYP&C. This large income budget has not been achieved since its introduction and no alternative saving is feasible.
Libraries	+193	Savings shortfall (probable one-off) (2017/18 savings).	Delays in agreeing the plans for the future of the Library service will lead to the savings target not being met in 2017/18.
Children's Agency	+600	Savings shortfall.	Delays in the Adolescent Support Unit becoming fully operational had a consequential knock-on effect on the Children's Agency budget as more expensive residential provision is still necessary to meet the needs of a number of young people in high cost placements. Alternative arrangements for the housing of the unit are actively being explored.

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Statutory & Regulatory	+266	Savings shortfall.	At the beginning of 2016, it became apparent that the financial problems within the Dedicated Schools Grant meant that the 2016/17 savings option "External Funding Optimization" amounting to £900,000 would not be completely achieved. The shortfall in the required budget savings was treated as a generic budget saving and distributed amongst the Department. Although almost $\frac{3}{4}$ of the 2016/17 savings target has been met, it has not been feasible to identify alternative provision for the remainder mainly due to the demand pressures as shown above that CYP&C is currently encountering.
Home to School/College Transport (SEND & LLDD) - £323,000 (on-going)			
Home to School Transport – SEND (Special Educational Needs & Disabilities)	+264	Continuing increased demand.	The overspending is due to increases in demand for Transport for SEND pupils that have continually occurred during recent years. In addition, there is a forecast overspending of £350,000 on Home to School Transport for SEND pupils attending out-of-borough placements funded by the Dedicated Schools Grant. The total forecast overspending is approx. £600,000. And is expected to continue at this level in the next financial year.
Home to College Transport – LLDD (Post-16 Learners with Learning Difficulties & Disabilities)	+59	Continuing increased demand.	The forecast overspending is in line with previous years' levels.
Reduced Spending on Services – (£100,000)			
Family Support	-100		This forecast reflects the current level of support for children with disabilities, the underspending occurring through elements of Direct Payments being funded through the High Needs Block of the Dedicated Schools Grant.

2018/19 Savings Options brought forward – (£351,000)			
Pension payments to former teachers and lecturers	-84	Declining numbers of former employees eligible to be members of the Teachers' Pension Scheme.	These enhanced lifetime pension benefits above the standard scheme were mainly awarded prior to April 1993 as a means of reducing the number of staff employed in schools and FE colleges. NB. This underspending is in addition to the 2017/18 savings requirement of £120,000.
Early Years	-217		Filling of vacancies, as well as expenditure plans, are on hold awaiting decisions on the savings options. NB. This underspending is in addition to the 2017/18 savings requirement of £100,000.
Financial Services & HR	-50		1 member of staff took VER coupled with the non-filling of admin posts, along with changes in working practices, means that the services are making more savings than was originally estimated. NB. This underspending is in addition to the 2017/18 savings requirement of £80,000.
Other – (£444,000)			
Family Support	-217		This includes the Short Breaks Service, Children's Domestic Violence and the Reach Out project. Short Breaks Service is subject to demand pressures, which are currently lower this financial year than in previous years. The other 2 services are in the midst of restructuring and being developed, which is temporarily showing underspendings through the non-filling of vacancies and limiting spending decisions.
Other	-227		The non-filling of vacancies and reduced staffing and running expenses in a number of services throughout the department.

Activity	Variance £'000	Reason	Action Being Taken
Dedicated Schools Grant - £1,483,000			
Independent Special Schools	+846	Continuing demand pressures of SEND pupils requiring complex and high cost places that cannot be provided within maintained schools in Bury	SEN team endeavours to provide extra support to children to try and keep as many within Bury schools that meets their complex needs – see below the 'Pupils with SEN' overspending. This forecast is above the current budget of £5.6 m and includes the cost of home to school transport provided by the independent institutions, which is estimated to annually cost £350,000. (See above comment within Home to School Transport for SEN pupils)
Post-16 Commissioned Places	+397	Continuing demand pressures of LLDD students requiring complex and high cost places in post-16 provision	The responsibility for provision for Learners with Learning Difficulties and Disabilities (LLDD) up to the age of 25 was transferred to local authorities some 4 years ago. Unfortunately insufficient funding monies were transferred to Bury to meet all of the on-going requirements of these vulnerable students. NB this forecast overspending is the impact in 2017/18 only. Previous years' funding shortfalls are included in the summary position shown below.
Looked After Children (Education)	+80		As part of the 2017/18 Savings Options, the cost of the Looked After Children (Education) team were to be funded through external monies. Subsequently the DfE's funding criteria has changed and not all of the team can be included within the external funding leading to a shortfall in the savings options impacting on the DSG.
Pupils with SEN	+388		There are a number of Education and Health Care plans that occur after the budget has been set at the start of the financial year. These require funding and in some cases "top-up" funding for those pupils with more complex needs. As shown above, the SEN team endeavour to try and keep pupils within provision within Bury schools.
Activity	Variance £'000	Reason	Action Being Taken
Summary Position of the Department's overspendings – £11,436,000 NB – Schools' Sickness Insurance remnant amount of £884,000 is not included in this figure as it being transferred from the Balance Sheet to the Revenue Account by the end of the financial year.			

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General Fund	+2,975		See detailed statements above.
Dedicated Schools Grant – 2017/18 only	+1,483		See detailed statements above. The current SEND review and recommended outcomes will help to address the funding position by containing expenditure within the approved annual revenue budget.
Dedicated Schools Grant – previous years' overspendings	+6,978		Overspendings by services funded through the Dedicated Schools Grant are carried forward into the next financial year. The continuing demand pressures and lack of funding for several years of pupils and students up to the age of 25 are the main reasons why the carry forward deficit of has grown and continues to increase to levels that are significantly above the levels of schools' surplus balances. The changes being introduced through the National Funding Formula (NFF) will enable some of the High Needs spending to be met from the additional monies that will be allocated to schools though component factors of the NFF.
Schools' Sickness Insurance Scheme	+884	Remnant amount on the Balance Sheet	The Insurance Scheme ceased to be offered as a traded service to schools at the end of the 2016/17 financial year as it has been in deficit for 5 years. During the 3 month cessation period several schools submitted claims that increased the level of the deficit above the 2016/17 premiums and these are unrecoverable in 2017/18. Consequently it is proposed to transfer the remnant amount off the Balance Sheet to the DSG Revenue Account by the end of the financial year. The recovery plan is to clear the deficit from the additional monies being provided by the National Funding Formula over the next few years.

4.4 NON-SERVICE SPECIFIC

- 4.4.1 There is a forecast net underspend of **£3.749m**. This relates primarily to the Council's Treasury Management activity (see Section 8.0, page 22 for further details), return from 2016/17 Business rates Pool (£0.332m), an increase in investment income, a projected underspend on grants to voluntary organisations (£0.250m) and a reduced need in provisions of £2.5m.

5.0 CAPITAL BUDGET

5.1 CAPITAL PROGRAMME

5.1.1 The revised estimated budget for the Capital Programme 2017/18 at the end of December is shown in the table below:

2017/18	£m
Original Capital Programme	20.281
Approved Slippage from 2016/17	28.253
In year adjustments and contributions	6.602
Revised Capital Allocation at Quarter 3	55.136
Estimated re-profiled projects into 2018/19	(18.886)
Revised working budget for Year at Quarter 3	36.250

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 2017/18 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 **£18.886m** of the 2017/18 budget has been identified for re-profiling into 2018/19. 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 £7.674m.

5.1.5 The remainder is attributable to Housing Development Schemes, Haworth Close Extra Care, Mayfair and Radcliffe Times schemes to a total of £5.306m and an amount of £0.588m for Disabled Facilities Grant projects.

5.2 Expenditure

5.2.1 The Forecast Outturn as at Month 9 is indicated to be **£36.569m** and Budget Managers have reported that they expect to spend up to this amount by 31 March 2018.

5.2.2 The actual expenditure after accruals, realised by the end of Month 9 totals **£16.558m**.

5.2.3 The main areas to record expenditure shown at the end of the third quarter are:

- Housing Development schemes £3.732m
- Children's, Young People and Culture - £3.227m
- Older People £1.991m
- Highways Schemes £3.125m
- Housing Public Sector - £3.320m

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 overspend for the Programme of £0.319m. This amount is not material in relation to the size of the programme and it is expected to reduce by the year end as schemes are finalised and expenditure is recorded in the Council's ledgers. The projects that are forecasted to overspend are monitored and analysed by budget managers. There are a number of remedial actions that can be taken if required and which will be applied as soon as the risk is assessed and deemed to negatively affect the programme or its outcomes.

5.3.2 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 2017/18.

5.4.2 The principal source of funding for Capital schemes approved for the 2017/18 programme is made of external resources including those carried forward from previous years. The Council and Cabinet have also approved allocations for the year to a value of **£3.5m** towards the Highways Improvement works (as part of a three year programme) and **£0.100m** for projects to tackle Environmental Crime that will be funded by Council's own resources from capital receipts and borrowing.

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 2018/19 and the expected resources to be supported by the Council as at the end of Quarter 3 of the year.

2017/18 Use of Council Resources for Capital Investment	£m
Revised Capital Programme allocation for the year	36.250
Use of external funding and contributions	24.822
Balance of programme relying on Council resources	11.428
Use of Capital receipts and earmarked reserves	1.882
Use of Prudential Borrowing (2017/18 approved schemes)	4.386
Use of Prudential Borrowing (2016/17 schemes brought forward)	5.160
Total Council Resources used to support the Capital Budget for Year	11.428

5.5 Capital Programme Monitoring

5.5.1 The programme will be closely monitored during the last quarter of the year by CPMG and Management Accountancy with an aim to deliver the schemes on cost and time with minimum slippage into 2018/19.

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 £1.020m at the end of 2017/18. The projected outturn shows a working balance carried forward of £1.195m. See Appendix B.
- 6.3 There are a number of variations that contribute to the projected outturn position but there are no areas where the variance exceeds 10% and £50k. However explanation of two of the variations may be helpful to members:
- Revenue contributions to capital – the quarter 1 report showed a projected underspend of £0.316m this reflecting the additional contributions made to fund works in 2016/17. However Six Town Housing are making a one off contribution of £0.460m to the HRA towards the funding of major works. This contribution has been shown as a reduction in the Six Town Housing Management Fee to aid transparency.
- 6.4 The HRA acquired 4 affordable rent properties at the end of the last financial year. 3 properties have been acquired this financial year with the aim being to purchase 6 more before the end of March. In addition work is ongoing on the new Extra Care scheme which will provide 60 units in the next financial year. The HRA will need to take loans before the end of this financial year to fund part of the development costs of the scheme and to ensure that the minimum level of balances is maintained. There will therefore be some additional costs for loan interest, which are not currently reflected in the projected outturn, however these are not expected to be significant.
- 6.5 The main impacts on the HRA year-end balance are normally **void levels**, the **level of rent arrears** and the **level of Right to Buy sales**.

Voids:

The rent loss due to voids for April to December was on average 1.18% which is better than the 1.6% void target level set in the original budget. If this performance was to continue for the rest of the year there would be an increase in rental income of £125k over the original budget; the projections of rental income in Appendix B have been calculated on this basis. Performance has continued to improve (running at an average of 1.04% over the period October to December) therefore the increase in rental income could be even higher; this will be taken into account when setting the target level for the next financial year.

Six Town Housing continue to review the voids processes and the various factors affecting demand.

Arrears:

The rent arrears at the end of December totalled £1.486m, an increase of 20% since the end of March. Of the total arrears £0.526m relates to former tenants and £0.960m relates to current tenants. Approximately £0.226m of current tenant arrears are in cases where either the under occupancy charge applies or the tenants are in receipt of Universal Credit rather than Housing Benefit.

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 £0.356m to be made.

The 2017/18 HRA estimates allow for additional contributions to the provision totalling £0.477m, £0.179m for uncollectable debts and £0.298m to reflect the potential impact that welfare benefit changes could have on the level of rent arrears. Therefore there is a potential underspend of £0.121m. The projected outturn has not been amended to reflect this as rent arrears are volatile and the impact of increased numbers of Universal Credit cases coupled with further benefit changes is ongoing.

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 47 sales in 2015/16 and this increased to 55 sales last year.

The forecast for 2017/18 was set at 70, this being an increase of 16 on the level of sales assumed for Bury in the Government's self-financing valuation.

From July 2014 the maximum Right to Buy discount increased to £77,000 and the maximum percentage discount on houses increased from 60% to 70% (in line with the discounts allowed on flats). The maximum discount now stands at £78,600.

From 26th May 2015 the qualifying period for Right to Buy was reduced from 5 years to 3 years.

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 £3,900.

There have been 46 sales in the period April to December. This is the same number as at this point last year. Whilst the number of applications currently proceeding is higher than at this point last year (74 compared to 60) it would seem likely that the total number of sales will be below the original forecast.

The forecast has been amended from 70 to 60, with the reduction of 10 forecast sales resulting in a potential increase in rental income of around £19k in the current year; the projections of rental income in Appendix B have been calculated on this basis.

- 6.6 The Welfare Reform and Work Act requires a 1% reduction in social housing rents for 4 years from 2016/17 which has a significant impact on future HRA resources; it has recently been announced that following this period there will be a return to the previous rent policy i.e. increases of Consumer Price Inflation (CPI) plus 1%.

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 2017/18 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 2017/18 (approved by Council on 22 February 2017) with the revised projections as at 31 December 2017. The variances can be seen in the Appendix together with explanatory notes. The Prudential Indicators were not breached during the first nine months of 2017/18.

8.0 TREASURY MANAGEMENT

8.1 Investments:

- 8.1.1 At the 31st December 2017 the Council's investments totalled £20.9m and comprised:-

Type of Investment	£ M
Call Investments (Cash equivalents)	9.9
Fixed Investments (Short term investments)	11.0
Total	20.9

- 8.1.2 All investments were made in line with Capita's suggested credit worthiness matrices and the approved limits within the Annual Investment Strategy were not breached during the third quarter of 2017/18.

- 8.1.3 The Council has earned the following return on investments:

Quarter 1	0.24%
Quarter 2	0.18%
Quarter 3	0.32%

- 8.1.4 This figure is slightly higher than Sector's suggested budgeted investment earnings rate for returns on investments, placed for periods up to three months in 2017/18, of 0.27%

8.2 Borrowing:

- 8.2.1 No new external borrowing was undertaken in the quarter to 31st December 2017.

- 8.2.2 At 31st December 2017 the Council's debts totalled £194.853 m and comprised:-

		31 December 2017		
		Principal		Avg. Rate
		£000	£000	
Fixed rate funding				
	PWLB Bury	131,453		
	PWLB Airport	897		
	Market Bury	60,500	192,850	
Variable rate funding				
	PWLB Bury	0		
	Market Bury	0	0	
Temporary Loans / Bonds		2,003	2,003	
Total Debt			194,853	3.96%

- 8.2.3 The overall strategy for 2017/18 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 2017/18, 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 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 2017 per Accounts	8.393
Less : Minimum balances to be retained in 2017/18	-4.250
Less : Forecast overspend at Month 9	-1.838
Forecast Available Balances at 31 March 2018	+2.305

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 2017/18 and using information currently to hand on the likely achievement of cuts options, there is no reason at present to take the minimum level of balances above the existing level of £4.250m.

9.3 In light of the above assessment it is recommended that the minimum level of balances be retained at **£4.250m**.

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.

Councillor Eamonn O'Brien, Cabinet Member for Finance and Housing

List of Background Papers:-

Finance Working Papers, 2017/18 held by the Interim Executive Director of Resources & Regulation.

Contact Details:- Steve Kenyon, Interim Executive Director of Resources & Regulation, Tel. 0161 253 6922, E-mail: S.Kenyon@bury.gov.uk

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Bury MBC: Capital Budget Monitoring Statement
Month 9 - 2017/18

APPENDIX A

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		2017/18 Original Approved	Slippage	Adjust- ments	Revised Estimate Before Reprofile	Reprofiled to Future Years	Revised Estimate After Reprofile Col.4- Col.5 £000's	Forecast Outturn 2017/18	2017/18 Month 09 Actual	Month 9 Variance / (Underspend) or Overspend Col.7-Col.6
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Children, Young People & Culture	Support Services -Council Capital Programme		51	9	61	-	61	75	75	14
Children, Young People & Culture	DFES - Devolved Formula	500	764	(41)	1,223	(782)	441	441	331	0
Children, Young People & Culture	NDS Modernisation	1,637	8,919	1,924	12,480	(6,725)	5,755	5,815	2,719	60
Children, Young People & Culture	Access Initiative		8		8	-	8	8	1	-
Children, Young People & Culture	Targetted Capital Funds		76		76	(64)	12	12	12	-
Children, Young People & Culture	Children Centres		7		7	(7)	-	-	-	-
Children, Young People & Culture	Free School Meal Capital Grant		22		22	-	22	22	-	-
Children, Young People & Culture	Early Education Fund		215		215	(86)	129	129	79	-
Children, Young People & Culture	Protecting Play Fields		13	8	20	(10)	10	10	10	-
Communities & Wellbeing	Contaminated Land	-	21		21	-	21	21	-	-
Communities & Wellbeing	Air Quality	-	9	-	9	-	9	9	-	-
Communities & Wellbeing	Heat Network In Bury TC		54		54	-	54	54	-	-
Communities & Wellbeing	Environmental Crime	100			100	-	100	100	0	-
Communities & Wellbeing	Parks			102	102	(33)	69	69	42	-
Communities & Wellbeing	Play Areas	-	21		21	-	21	30	26	9
Communities & Wellbeing	Demolition of Radcliffe Pool		44		44	-	44	44	12	-
Communities & Wellbeing	Learning Disabilities	-	3	-	3	-	3	9	9	7
Communities & Wellbeing	Improving Info.Management	-	7	80	87	-	87	87	5	-
Communities & Wellbeing	Older People		483	1,629	2,111	-	2,111	2,111	1,991	-
Communities & Wellbeing	Social Care Single Capital Pot	455	26	(455)	26	-	26	19	-	(7)
Communities & Wellbeing	Empty Property Strategy	-	610	-	610	(68)	542	542	252	-
Communities & Wellbeing	Housing development - Urban Renewa	-	8,800	2,563	11,362	(5,306)	6,057	6,144	3,732	87
Communities & Wellbeing	Disabled Facilities Grant	968	172	(20)	1,120	(588)	532	532	338	-
Communities & Wellbeing	Waste Management	-	53		53	-	53	53	-	-
Resources & Regulation	Flood Repair & Defence		801	1,887	2,688	(840)	1,848	1,855	1,261	7
Resources & Regulation	Street Lighting LED Invest to Save	1,046	278		1,324	-	1,324	1,324	384	(0)
Resources & Regulation	Traffic Management Schemes	-	349	70	419	(349)	70	70	20	-
Resources & Regulation	Prestwich Town Centre	-	1,761		1,761	-	1,761	1,761	381	-
Resources & Regulation	Planned Maintenance	5,322	3,170	(1,793)	6,699	(977)	5,722	5,722	885	-
Resources & Regulation	Bridges	-	320		320	-	320	320	195	-
Resources & Regulation	Traffic Calming and Improvement	188	559	(28)	719	-	719	719	1	0
Resources & Regulation	Planning Environmental Projects	4	411	189	604	(251)	353	353	127	(0)
Resources & Regulation	Development Group Projects	-	83	10	93	-	93	93	2	0
Resources & Regulation	Corporate ICT Projects	71	-	393	463	(256)	207	207	70	-
Resources & Regulation	Corporate Property Initiatives		191		191	-	191	414	197	223
Resources & Regulation	Radcliffe Market Redevelopment		(100)		(100)	-	(100)	-	-	100
Resources & Regulation	Tile Street Refuse Removal		10		10	-	10	-	-	(10)
Resources & Regulation	Seedfield				-	-	-	5	5	5
Resources & Regulation	Radcliffe TC Redevelopment				-	-	-	15	15	15
Resources & Regulation	12 Tithebarn Street		43		43	-	43	-	6	(43)
Resources & Regulation	Q Park Airspace Development			27	27	-	27	-	37	(27)
Resources & Regulation	East Lancs Paper Mill master planning			50	50	-	50	41	41	(9)
Resources & Regulation	Chamberhall Development					-	-	-	30	-
Housing Public Sector	Housing programme Major works (HR)	9,991			9,990	(2,545)	7,446	7,446	3,320	0
Total Bury Council controlled programme		20,281	28,253	6,602	55,136	(18,886)	36,250	36,682	16,611	432

Funding position:										14	ELR bal.fig.
Capital Receipts		100	337	1,525	1,962	(80)	1,882	1,882		3,211	Cap.Rec.Forecast =(RTB Auth.Share + Allowable Debt to Qtr.3) + General Receipts to Qtr.3
Reserve / Earmarked Capital Receipts		71	1,885	464	2,420	-	2,420	2,420			
General Fund Revenue		-	44	271	315		315	315			
Housing Revenue Account		9,991	-	1,326	11,317	(2,545)	8,772	8,772			
Capital Grants/Contributions		5,733	17,337	3,010	26,080	(12,765)	13,315	13,748			
HRA/MRA Schemes		-		-	-		-	-			
Supported Borrowing											
Unsupported Borrowing		4,386	8,650	6	13,042	(3,496)	9,545	9,545			
		20,281	28,253	6,602	55,136	(18,886)	36,250	36,682			

Key for budget monitoring reports

Projected Overspend (or Income Shortfall)

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

Bury MBC: Capital Budget Monitoring Statement
Month 9 - 2017/18

APPENDIX A

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		2017/18 Original Approved	Slippage	Adjust- ments	Revised Estimate Before Reprofile	Reprofiled to Future Years	Revised Estimate After Reprofile Col.4- Col.5	Forecast Outturn 2017/18	2017/18 Month 09 Actual	Month 9 Variance / (Underspend) or Overspend Col.7-Col.6
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Children, Young People & Culture	Support Services -Council Capital Programme		51	9	61		61	75	75	14
Children, Young People & Culture	DFES - Devolved Formula	500	764	-41	1,223	-782	441	441	331	0
Children, Young People & Culture	NDS Modernisation	1,637	8,919	1,924	12,480	-6,725	5,755	5,814	2,719	59
Children, Young People & Culture	Access Initiative		8		8		8	8	1	0
Children, Young People & Culture	Targetted Capital Funds		76		76	-64	12	12	12	0
Children, Young People & Culture	Children Centres		7		7	-7	0	0	0	0
Children, Young People & Culture	Free School Meal Capital Grant		22		22		22	22	0	0
Children, Young People & Culture	Early Education Fund		215		215	-86	129	129	79	0
Children, Young People & Culture	Protecting Play Fields		13	8	20	-10	10	10	10	0
Communities & Wellbeing	Contaminated Land		21		21		21	21	0	0
Communities & Wellbeing	Air Quality		9		9		9	9	0	0
Communities & Wellbeing	Heat Network In Bury TC		54		54		54	54	0	0
Communities & Wellbeing	Environmental Crime	100			100		100	100	0	0
Communities & Wellbeing	Parks			102	102	-33	69	69	42	0
Communities & Wellbeing	Play Areas		21		21		21	30	26	9
Communities & Wellbeing	Demolition of Radcliffe Pool		44		44		44	44	12	0
Communities & Wellbeing	Learning Disabilities		3		3		3	9	9	7
Communities & Wellbeing	Improving Info.Management		7	80	87		87	87	5	0
Communities & Wellbeing	Older People		483	1,629	2,111		2,111	2,111	1,991	0
Communities & Wellbeing	Social Care Single Capital Pot	455	26	-455	26		26	19	0	-7
Communities & Wellbeing	Empty Property Strategy		610		610	-68	542	542	252	0
Communities & Wellbeing	Housing development - Urban Renewal		8,800	2,563	11,362	-5,306	6,057	6,144	3,732	87
Communities & Wellbeing	Disabled Facilities Grant	968	172	-20	1,120	-588	532	532	338	0
Communities & Wellbeing	Waste Management		53		53		53	53	0	0
Resources & Regulation	Flood Repair & Defence		801	1,887	2,688	-840	1,848	1,855	1,261	7
Resources & Regulation	Street Lighting LED Invest to Save	1,046	278		1,324		1,324	1,324	384	0
Resources & Regulation	Traffic Management Schemes		349	70	419	-349	70	70	17	0
Resources & Regulation	Prestwich Town Centre		1,761		1,761		1,761	1,761	381	0
Resources & Regulation	Planned Maintenance	5,322	3,170	-1,793	6,699	-977	5,722	5,722	885	0
Resources & Regulation	Bridges		320		320		320	320	195	0
Resources & Regulation	Traffic Calming and Improvement	188	559	-28	719		719	719	2	0
Resources & Regulation	Planning Environmental Projects	4	411	189	604	-251	353	353	127	0
Resources & Regulation	Development Group Projects		83	10	93		93	93	2	0
Resources & Regulation	Corporate ICT Projects	71	0	393	463	-256	207	207	70	0
Resources & Regulation	Corporate Property Initiatives		191		191		191	251	101	60
Resources & Regulation	Radcliffe Market Redevelopment		-100		-100		-100	0	0	100
Resources & Regulation	Tile Street Refuse Removal		10		10		10	0	0	-10
Resources & Regulation	Seedfield				0		0	5	5	5
Resources & Regulation	Radcliffe TC Redevelopment				0		0	15	15	15
Resources & Regulation	12 Tithebarn Street		43		43		43	0	6	-43
Resources & Regulation	Adult Learning Service - Pottery Facility at Radcliffe Library						0	1	1	1
Resources & Regulation	Demolition of Millwood School, Fletcher Fold Road, BL9 9RX						0	14	14	14
Resources & Regulation	Aldi, Whitefield - Disturbance Payments						0	3	3	3
Resources & Regulation	Q Park Airspace Development			27	27		27	0	37	-27
Resources & Regulation	East Lancs Paper Mill master planning			50	50		50	41	41	-9
Resources & Regulation	Chamberhall Development						0	0	30	0
Resources & Regulation	Property Management / Sale of Assets						0	32	27	32
Housing Public Sector	Housing programme Major works (HR)	9,991			9,990	(2,545)	7,446	7,446	3,320	0
Total Bury Council controlled programme		20,281	28,253	6,602	55,136	(18,886)	36,250	36,569	16,558	319

Funding position:

Capital Receipts	100	337	1,525	1,962	(80)	1,882	1,882
Reserve / Earmarked Capital Receipts	71	1,885	464	2,420	-	2,420	2,420
General Fund Revenue	-	44	271	315		315	315
Housing Revenue Account	9,991	-	1,326	11,317	(2,545)	8,772	8,772
Capital Grants/Contributions	5,733	17,337	3,010	26,080	(12,765)	13,315	13,635
HRA/MRA Schemes	-		-	-		-	-
Supported Borrowing							
Unsupported Borrowing	4,386	8,650	6	13,042	(3,496)	9,545	9,545
	20,281	28,253	6,602	55,136	(18,886)	36,250	36,569

Key for budget monitoring reports

Projected Overspend (or Income Shortfall)

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

HOUSING REVENUE ACCOUNT

Appendix B

April 2017 - December 2017

	2017/18 Original Estimate £	2017/18 Latest Estimate £	2017/18 Projected Outturn £	2017/18 Variation Over/(Under) £
INCOME				
Dwelling rents	29,342,200	29,342,200	29,490,400	(148,200)
Non-dwelling rents	204,800	204,800	198,800	6,000
Heating charges	48,700	48,700	46,639	2,061
Other charges for services and facilities	896,100	896,100	945,400	(49,300)
Contributions towards expenditure	40,600	40,600	34,900	5,700
Total Income	30,532,400	30,532,400	30,716,139	(183,739)
EXPENDITURE				
Repairs and Maintenance	0	0	0	0
General Management	822,700	822,700	817,451	(5,249)
Special Services	833,800	833,800	829,700	(4,100)
Rents, rates, taxes and other charges	98,000	98,000	107,300	9,300
Increase in provision for bad debts - uncollectable debts	178,800	178,800	179,100	300
Increase in provision for bad debts - impact of Benefit Reforms	298,200	298,200	298,400	200
Cost of Capital Charge	4,432,600	4,432,600	4,463,600	31,000
Depreciation/Impairment of fixed assets - council dwellings	7,926,900	7,926,900	7,926,900	0
Depreciation of fixed assets - other assets	42,400	42,400	51,149	8,749
Debt Management Expenses	40,600	40,600	40,600	0
Contribution to/(from) Business Plan Headroom Reserve	470,400	470,400	470,400	0
Total Expenditure	15,144,400	15,144,400	15,184,600	40,200
Net cost of services	(15,388,000)	(15,388,000)	(15,531,539)	(143,539)
Amortised premia / discounts	(11,400)	(11,400)	(11,400)	0
Interest receivable - on balances	(52,300)	(52,300)	(43,000)	9,300
Interest receivable - on loans (mortgages)	(500)	(500)	(43)	457
Net operating expenditure	(15,452,200)	(15,452,200)	(15,585,982)	(133,782)
Appropriations				
Appropriation relevant to Impairment	0	0		0
Revenue contributions to capital	2,063,600	2,063,600	2,481,900	418,300
(Surplus) / Deficit before ALMO/SHU payments	(13,388,600)	(13,388,600)	(13,104,082)	284,518
Payments to Six Town Housing / Transfers re Strategic Housing Unit excluded from above				
Six Town Housing Management Fee	13,058,600	13,058,600	12,598,600	(460,000)
Contribution to SHU Costs	320,000	320,000	320,000	0
Total	13,378,600	13,378,600	12,918,600	(460,000)
(Surplus) / Deficit after ALMO/SHU payments	(10,000)	(10,000)	(185,482)	(175,482)
Working balance brought forward	(1,010,000)	(1,010,000)	(1,010,000)	0
Working balance carried forward	(1,020,000)	(1,020,000)	(1,195,482)	(175,482)

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 2017/18 and the Original Budget for 2017/18 as approved at Council in February 2017. The Original Budget for 2017/18 is compared with the Forecast Outturn for 2017/18 as at 31st December 2017.

CAPITAL EXPENDITURE	Original Budget 2017/18	Forecast Outturn at 31 December 2017	Variance	Notes
	£'000	£'000		
Estimate of Capital Expenditure				
Non-HRA	6,691	27,779	315.20%	
HRA existing expenditure	9,991	8,772		
TOTAL	16,681	36,551		1
Estimate of Capital Financing Requirement (CFR)				
Non-HRA	116,218	123,875	6.59%	
HRA existing expenditure	40,530	40,531		
HRA reform settlement	78,253	78,253		2
	235,001	242,659		3

AFFORDABILITY	Original Budget 2017/18	Forecast Outturn at 31 December 2017	Variance	Notes
	£'000	£'000		
Estimate of incremental impact of capital investment decisions				
Increase in council tax (band D, per annum)	-£1.10	-£1.02		4
Increase in housing rent per week	£0.00	£0.00		5
Ratio of Financing Costs to net revenue stream				
Non-HRA	3.03%	3.01%	(0.86%)	6
HRA	14.14%	14.47%	2.32%	6
Net External Borrowing only to support the CFR in Medium Term	£'000	£'000		
Net External borrowing over medium term	192,509	192,509		7
Total CFR over Medium Term	235,001	242,660		7
Net External Borrowing < Total CFR	TRUE	TRUE		

EXTERNAL DEBT	Original Budget 2017/18	Forecast Outturn at 31 December 2017	Variance	Notes
	£'000	£'000		
Authorised limit of external debt				
Borrowing	190,700	198,400		
Other long term liabilities	5,000	5,000		
HRA reform settlement	79,300	79,300		
TOTAL	275,000	282,700	2.80%	8
Operational boundary				
Borrowing	155,700	163,400		
Other long term liabilities	5,000	5,000		
HRA reform settlement	79,300	79,300		
TOTAL	240,000	247,700	3.21%	8

TREASURY MANAGEMENT	Original Budget 2017/18	Forecast Outturn at 31 December 2017	Variance	Notes
Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	115%	113%	(1.56%)	9
Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	-15%	-13%	(12.00%)	9
Upper limit for total principal sums invested for > 364 days	£10 m	£10 m		10
Maturity structure of fixed rate borrowing at 30 September 2016	Upper/lower limit	Actual		
Under 12 months	40% - 0%	2.39%		
12 months and within 24 months	35% - 0%	8.36%		
24 months and within 5 years	40% - 0%	8.11%		
5 years and within 10 years	50% - 0%	14.97%		
10 years and above	90% - 30%	66.18%		

Notes to the Prudential Indicators:

1. The original budget shows the approved Capital Programme expenditure of £16,681,000. The forecast outturn of £36,551,000 is higher than budget because of slippage from 2016/17.
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 2017/18 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

MEETING:	OVERVIEW AND SCRUTINY COMMITTEE CABINET COUNCIL
DATE:	14 FEBRUARY 2018 21 FEBRUARY 2018 21 FEBRUARY 2018
SUBJECT:	DRAFT HOUSING REVENUE ACCOUNT 2018/19
REPORT FROM:	CABINET MEMBER FOR FINANCE AND HOUSING
CONTACT OFFICER:	STEPHEN KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION
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 2018/19 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 requirement for a decrease in dwelling rents of 1% for 2018/19 for General Needs and Sheltered/Extra Care properties. Members are reminded that any decrease more than this level would result in a reduction in rental income which will impact on future years and could jeopardise the financial viability of the HRA and the sustainability of the business plan. Cabinet is recommended to note the report and request that the Council should consider all matters relating to the Housing Revenue Account 2018/19, the increase/decrease in Council House and garage rents and changes to other charges.

	Council is recommended to: (a) approve the Housing Revenue Account estimates set out in Appendix 1. (b) decrease the Rents for all HRA dwellings by 1% from the first rent week in April. (c) increase Garage rents by 4.0% from the first rent week in April. (d) increase Sheltered Management and Amenity Charges by 4.0% from the first rent week in April. (e) approve that Sheltered support charges remain unchanged from the first rent week in April. (f) reduce Sheltered heating charges by 20% from the first rent week in April. (g) reduce Furnished Tenancy charges by 5% from the first rent week in April. (h) increase tenancy charges at the Fernhill Caravan Site by 4.0% from the first rent week in April.
IMPLICATIONS:	
Corporate Aims/Policy Framework:	The proposals accord with the Policy Framework
Statement by Section 151 Officer:	Financial and risk implications are detailed in the report.
Statement by Executive Director of Resources:	The report fully details the Housing Revenue Account for 2018/19.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Are there any legal implications?	No
Staffing/ICT/Property:	There are no direct staffing, ICT or property implications arising from this report although the HRA budget impacts on these areas.
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

TRACKING/PROCESS

INTERIM DIRECTOR: STEPHEN KENYON

Chief Executive/ Management Board	Executive Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
14 February 2018	21 February 2018		21 February 2018

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.
- 1.4 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.
- 1.5 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 2017/18 is £13,058,600.
- 1.6 For 2018/19 the HRA is expected to have an average stock of 7,902 social rent formula dwellings. Given the current level of activity the HRA estimates have been prepared on the basis of 60 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.
- 1.7 Approval has been given for the HRA to acquire 13 empty properties; at the time of writing 7 have been acquired, with a further property currently in conveyance. The intention is for all 13 properties to be acquired and refurbished by the end of 2017/18. These properties will be let at affordable rents i.e. 80% of the assessed Market Rent on an individual property basis. The properties are being funded through a combination of Homes and Communities Agency (HCA) grant, S106 monies and HRA reserves.
- 1.8 Construction of the new 60 apartment Extra Care Scheme in Bury is underway. This scheme, which supports the Housing Strategy and the social care agenda, will be funded through a combination of HCA grant and HRA borrowing. The scheme is expected to be completed during the latter half of 2018/19 and the apartments will be let at affordable rents.
- 1.9 Construction has also begun on the Mayfair Avenue ex-garage sites; this development will provide 8 houses to be sold on a shared ownership basis; completion is expected in the 3rd quarter of 2018/19. The scheme is being funded

through HCA grant, HRA borrowing and sale proceeds once the initial shares are purchased.

- 1.10 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.
- 1.11 The implementation of the Government's Welfare Reforms will have an increasing impact on the Housing Revenue Account and on the approximately 64% of tenants who are entitled to support with their rent and charges.
- 1.12 The introduction of the Universal Credit, which 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 57% (59% at this time last year) of HRA rental income comes directly from Housing Benefit meaning that once the current welfare reforms have been fully implemented up to £16.6m 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 2018/19).
- 1.13 There are currently around 401 tenants claiming Universal Credit so at this stage it is still difficult to assess the impact on the HRA for the coming year.
- 1.14 An updated impact assessment of the welfare reforms has been undertaken through the Welfare Reform Board.
- 1.15 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 LEVELS 2018/19

- 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 assumed that convergence had 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.
- 2.4 In July 2015 the Chancellor of the Exchequer announced that social rents would reduce by 1% each year for the next four years. This requirement is contained within the Welfare Reform and Work Act.
- 2.5 At the Council meeting in February of last year the following proposal was agreed:

- rents were decreased by 1% for all HRA dwellings.

- 2.6 For 2018/19 it is proposed that rents are decreased by 1% for all HRA dwellings.
- 2.7 The introduction of the self financing system did mean that the Council had more freedom regarding the level of rents that it set (although the national rent policy continued and the calculation of the debt taken on by Bury assumed the achievement of rent convergence by 2015/16). The requirement within the Welfare Reform and Work Act to reduce rents by 1% for each of the four years from 2016/17 removes this freedom and withdraws resources on an ongoing basis from the Housing Revenue Account. The total resources lost from the HRA over the four year period is estimated to be more than £5.5m.
- 2.8 It has recently been announced that following the period of rent reductions there will be a return to the previous rent policy i.e. CPI plus 1% will apply from 2020/21.
- 2.9 The policy of reletting dwellings at Target rents, which came into effect in April 2016, has resulted in 366 properties being let at target rents in the first 9 months of the current financial year; the average weekly increase in rental income for these properties is £6.31 which equates to approximately £0.140m in a full year.
- 2.10 Bury's rents are currently collected on a 50 week basis with 2 non-collection weeks in December.
- 2.11 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.
- 2.12 The following table shows the difference between the current and proposed rents on the basis of a decrease of 1% applied to the rents of all current HRA Social Rent Formula dwellings.

HRA Social Rent Formula dwellings						
TYPE	NUMBER OF BEDROOMS	VALUATION AT JAN' 1999 VALUES	RENT 2017/18	PROPOSED RENT 2018/19	INCREASE / (DECREASE) OVER ACTUAL 2017/18 RENT	
		£	£	£	£	%
Bed-sit	0	23,235	61.12	60.51	(0.61)	(1.0)
Bungalow	1	30,725	68.88	68.19	(0.69)	(1.0)
Flat	1	28,319	67.91	67.23	(0.68)	(1.0)
House	1	29,467	69.44	68.75	(0.69)	(1.0)
Bungalow	2	39,487	80.24	79.44	(0.80)	(1.0)
Flat	2	29,609	74.51	73.76	(0.75)	(1.0)
House	2	34,586	76.84	76.07	(0.77)	(1.0)
Maisonette	2	32,132	76.60	75.83	(0.77)	(1.0)
Flat	3	29,858	79.66	78.86	(0.80)	(1.0)
House	3	37,534	84.23	83.39	(0.84)	(1.0)
Maisonette	3	33,846	83.44	82.61	(0.83)	(1.0)
House	4/6	38,496	91.46	90.55	(0.91)	(1.0)
		32,471	75.01	74.26	(0.75)	(1.0)

The rents shown in the tables are all on a 50 week basis.

- 2.13 Affordable rents for properties acquired and developed will be set on an individual property basis at 80% of the assessed Market Rent. For those properties that are tenanted before the end of this financial year a 1% reduction will apply for 2018/19.
- 2.14 There are currently 258 HRA owned garages (of which 149 are currently let). Garages are charged for at the rate of £6.66 per week (50 weeks). The last increase was in April 2017. It is proposed that the charge is increased by 4.0% from April, in line with September CPI plus 1%; this results in a weekly increase of £0.27 giving a rate of £6.93 per week (over 50 weeks).

3.0 SHELTERED AND OTHER TENANCY CHARGES

3.1 Sheltered Management and Support Charges

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

- 3.1.2 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.
- 3.1.3 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.
- 3.1.4 Sheltered Management charges are set 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 2018/19 as shown below.

	Current Charge	Proposed Charge
	£	2018/19
		£
Sheltered schemes (other than Extra Care)	10.70	11.13
Extra Care schemes (Falcon House/Griffin House)	20.55	21.37

- 3.1.5 The proposed increase is 4.0% being September CPI plus 1%; this increase is in line with the current Homes & Communities Agency Rent Standard guidance and our established policy.
- 3.1.6 These charges will be eligible for Housing Benefit purposes and it is expected that benefits will be payable to accepted claimants.
- 3.1.7 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. Charges for support costs are not 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.
- 3.1.8 It is proposed that this charge remains unchanged for 2018/19. This charge applies at all Sheltered schemes other than the Extra Care schemes at Falcon House and Griffin House.
- 3.1.9 The Extra Care Sheltered Scheme, covering the Falcon House and Griffin House schemes, has 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 2018/19.

3.2 Sheltered Amenity Charges

- 3.2.1 The Sheltered Amenity Charges were increased by 2.0% for 2017/18. It is proposed that the current charges are increased by 4% from the first rent week in April 2018; this being September CPI plus 1% in line with current guidance and our established policy.

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 below:-

	Current Charge	Proposed Charge 2018/19
	£	£
Clarkshill	16.61	17.27
Elms Close	1.94	2.02
Falcon House	9.70	10.09
Griffin House	9.41	9.79
Harwood House	18.84	19.59
Moorfield	21.56	22.42
Mosses House	17.11	17.79
Stanhope Court	8.68	9.03
Taylor House	19.24	20.01
Top O'th Fields 1	18.55	19.29
Waverley Place	20.39	21.21
Wellington House	27.58	28.68

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

3.3 Net impact of changes in Sheltered Charges and rent reductions

- 3.3.1 Appendix 2 details the total Sheltered Management, Support and Amenity Charges for each scheme alongside the average reduction in weekly rent at each scheme. Those schemes where there is no amenity charge (or only a small one) will see a net reduction in the average weekly charges. The other schemes will see an average net weekly increase ranging between £0.19 and £0.85 (£9.50 to £42.50 for the full year).

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 At the Council meeting in February of last year charges were frozen at the same level as for the previous year. The charges are based on expected contract prices and estimated levels of consumption. On this basis it is proposed that the charges are reduced by 20% for 2018/19.

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

	Present Charge	Proposed Charge	Proposed Increase/ (Decrease)
	£	£	%
Taylor House	14.79	11.83	(20)
Clarks Hill	9.98	7.98	(20)
Harwood House	13.87	11.10	(20)

3.4.4 Heating Charges are not eligible for Housing Benefit however many Sheltered Tenants will be eligible for Winter Fuel Payments; for winter 2017/18 the rates for these are £200 per household for those born on or before 5 August 1953, rising to £300 per household for those born on or before 24 September 1937 (payments may be different depending on the household circumstances).

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 2014/15 the scheme was expanded on a self-funding basis with increases of 20% per annum in the number of furnished tenancies.

3.5.3 It was expected that a 'cap' on rents and charges at Local Housing Allowance (LHA) levels would be introduced in April 2019. In light of this the intention was to review the types/rents of properties used for furnished tenancies to see if the scheme was affordable and sustainable in the longer term. It was announced in October of last year that the 'cap' at LHA levels will no longer be imposed.

3.5.4 Six Town Housing, who manage the furnished tenancies, now intend to review the packages offered 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 scheme will be subject to appropriate consultation and approval.

3.5.5 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 means that there is an increased risk of non-payment of these charges.

3.5.6 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.

3.5.7 However pending the outcome of the review of the scheme and to recognise the continued efficient procurement of furniture and fittings it is proposed that the charges are reduced by 5% for 2018/19.

3.5.8 The current and proposed charges per unit per week are:-

	Present Charge £	Proposed Charge £
1 bed property	17.02	16.17
2 bed property	20.04	19.04
3 bed property	23.07	21.92

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 At the Council meeting in February of last year charges were increased by 2.0% (September 2016 CPI plus 1%). It is proposed that the weekly charges for 2018/19 are increased by 4% in line with our established policy of September CPI plus 1%, therefore the current and proposed charges per plot per week are:

	Current Charge £	Proposed Charge 2018/19 £
Single Plot – pitch fee	55.59	57.81
Double Plot – pitch fee	75.75	78.78
Single Plot – water charge	6.27	6.52
Double Plot – water charge	8.70	9.05

4.0 HOUSING REVENUE ACCOUNT PERFORMANCE

4.1 Voids

- 4.1.1 The rent lost on empty properties is projected to be 1.18% over the course of 2017/18; this will mean an increase in rent income of approximately £125,000 as the original budget allowed for a void level of 1.6%.
- 4.1.2 The level of void loss for 2018/19 has been assumed at 1.2%, which means that recent performance will need to be maintained throughout the coming year; 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 2018/19 allows for this possibility as discussed in section 5.

- 4.1.3 If the target was to be bettered then this would result in an increase in rental income to the HRA which could either be carried forward into 2019/20 or targeted during the coming financial year for service developments.
- 4.1.4 Appendix 3 details the loss or increase in rental income at different void levels if the 1.2% is not achieved in 2018/19.

4.2 Rent Arrears

- 4.2.1 The opening arrears and current levels for 2017/18 are shown in the following table. The figures reflect the fact that around £96,600 of Former Tenant Arrears has been written off during 2017/18. It is anticipated that a further £55,400 could be written off before the end of 2017/18. All write offs are done in accordance with the Corporate Debt Write Off Policy as approved by the then Executive.

	Opening Arrears 2017/18 £	Current Position £	Increase/ (Reduction) in arrears £
Current Arrears	734,100	959,500	225,400
Former Tenant Arrears	501,300	526,200	24,900

	1,235,400	1,485,700	250,300

- 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 £950,700 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 2017/18 allowed for additional contributions to the provision totalling £477,500; £179,100 for uncollectable debts and £298,400 for the impact of benefit reforms. Looking at the arrears position, it is now estimated that the additional provision required in 2017/18 may only be £356,000. All things being equal this suggests that the Provision will stand at £1,154,700 at the end of 2017/18 against arrears of £1,485,700. The reduced requirement has resulted from delays in the implementation of some welfare benefit changes whilst the effects of others have been mitigated through the actions of the Welfare Reform Group and close working with Partners in implementing the Corporate Debt Policy.
- 4.2.5 The 2018/19 estimates allow for additional contributions to the provision, totalling £473,300:
- For uncollectable debts £178,400
This figure represents 0.6% of the rent roll and is a decrease compared to the expected contribution in the current year; this reflects the lower rent levels assumed for 2018/19.

- For the impact of benefit reforms £294,900
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 £366,900 of which £303,400 is debt over 1 year old. Of the debt over 1 year old around £235,800 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 £26,800 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 £269,700.

Taking into account the expected write offs, at the end of 2018/19 the provision will stand at £242,900; this amount will be reduced by the amount of any further write-offs done before the end of 2018/19. 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 2018/19; 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 2018/19 HOUSING REVENUE ACCOUNT (HRA), HRA CAPITAL RESOURCES AND THE HRA WORKING BALANCE

5.1 2018/19 Housing Revenue Account

5.1.1 The Housing Revenue Account Estimates are set out in Appendix 1.

5.1.2 The most significant impacts on the HRA for the coming year and in future years will continue to be from the implementation of rent reductions and welfare reforms; these are key factors in the determination of the HRA working balance.

5.1.3 There is provision within the Housing and Planning Act for enforced payments from the HRA equating to an assessment of expected sales of higher value void properties; whilst this has not as yet been enacted it could be in the future which could significantly impact on future HRA resources.

5.1.4 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 2018/19 is to be frozen at the 2017/18 level i.e. £13,058,600 at least until the end of September 2018, this being the agreed extension period of the Management Agreement. A review of Housing Services is currently underway.
- Springs Tenant Management Cooperative (TMO) are working with the Council around becoming a self-financing, tenant management organisation. The details of how this will work have yet to be finalised, however, there are potential costs associated with setting up a new management agreement and related service level agreements. No provision has currently been made within the HRA for any additional costs that may arise from this agreement.
- The Government is proposing changes to the funding system for Supported Housing from April 2020; consultation on this closed on 23rd January. Changes to the current arrangements could impact on Sheltered schemes within the HRA as well as the new Extra Care development.

5.1.5 The detailed Housing Revenue Account shown in Appendix 1 assumes that the proposals within this report for increases/decreases to rents and other charges are approved.

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 Cabinet at its meeting on 31st January this year approved the Asset Management Strategy for the Public Housing stock 2018-21 and endorsed a 3 year Investment Plan of £9.830m per annum.

5.2.4 This level of investment is affordable and sustainable therefore it is proposed that for each of the 3 years from 2018/19 the resources made available from the HRA for capital expenditure should be £9.830m.

5.2.5 These resources will provide for specific capital schemes (those for 2018/19 are listed in Appendix 4), Disabled Facilities Adaptations and general capital expenditure such as essential renewals arising when properties become vacant and structural works.

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 and the proposed programme.

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 rent reductions and 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 (including additions)	Balance at year end £
2017/18	7,972	797,200
2018/19	7,949	794,900
2019/20	7,928	792,800

- 5.3.5 Appendix 5 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 self-financing system and the implementation of welfare reforms. Therefore the Interim Executive Director of Resources and Regulation (the Council's s151 Officer) is now recommending that for 2018/19 the HRA balances should not be allowed to fall below **£1,030,000**.

Councillor Eamonn O'Brien,
Cabinet Member for Finance and Housing

Contact Details:-

Stephen Kenyon, Interim Executive Director of Resources and Regulation (Tel: 0161 253 5002)
 E-mail : s.kenyon@bury.gov.uk

Draft Housing Revenue Account 2018/19**APPENDIX 1****HOUSING REVENUE ACCOUNT**

	2017/18		2018/19
	Original Estimate £	Revised Estimate £	Original Estimate £
INCOME			
Dwelling rents	29,342,200	29,490,400	29,206,600
Non-dwelling rents	204,800	198,800	195,600
Heating charges	48,700	46,600	39,000
Other charges for services and facilities	896,100	945,400	935,900
Contributions towards expenditure	40,600	34,900	34,900
Total Income	30,532,400	30,716,100	30,412,000
EXPENDITURE			
Repairs and Maintenance	6,865,100	6,405,100	6,870,100
General Management	7,020,500	7,015,300	7,028,800
Special Services	1,149,500	1,145,400	1,172,900
Rents, rates, taxes and other charges	98,000	107,300	111,400
Increase in provision for bad debts - uncollectable debts	178,800	179,100	178,400
Increase in provision for bad debts - impact of Benefit Reform	298,200	298,400	294,900
Cost of Capital Charge	4,432,600	4,463,600	4,625,600
Depreciation of fixed assets - council dwellings	7,926,900	7,926,900	8,230,800
Depreciation of fixed assets - other assets	42,400	51,100	51,100
Debt Management Expenses	40,600	40,600	40,600
Contribution to/(from) Business Plan Headroom Reserve	470,400	645,900	107,700
Total Expenditure	28,523,000	28,278,700	28,712,300
Net cost of services	(2,009,400)	(2,437,400)	(1,699,700)
Amortised premia / discounts	(11,400)	(11,400)	(7,700)
Interest receivable - on balances	(52,300)	(43,000)	(47,100)
Interest receivable - on loans (mortgages)	(500)	(100)	0
Net operating expenditure	(2,073,600)	(2,491,900)	(1,754,500)
Appropriations			
Appropriation relevant to depreciation and MRA		0	0
Revenue contributions to capital	2,063,600	2,481,900	1,744,500
(Surplus) / Deficit	(10,000)	(10,000)	(10,000)
Working balance brought forward	(1,010,000)	(1,010,000)	(1,020,000)
Working balance carried forward	(1,020,000)	(1,020,000)	(1,030,000)

Sheltered Support and Amenity Charges
Current charges 2017/18 and proposed charges 2018/19

Scheme	Management Charge 2017/18 £	Support Charge 2017/18 £	Amenity Charge 2017/18 £	Total Charges 2017/18 £	Proposed Management Charge 2018/19 £ 4%	Proposed Support Charge 2018/19 £ 0%	Proposed Amenity Charge 2018/19 £ 4%	Total Proposed Charges 2018/19 £	Increase over current charges £	Average reduction in weekly rent 2018/19 £	Net average weekly increase (decrease) £
Beech Close	10.70	8.33		19.03	11.13	8.33		19.46	0.43	(0.72)	(0.29)
Chelsea Avenue	10.70	8.33		19.03	11.13	8.33		19.46	0.43	(0.68)	(0.25)
Clarkshill	10.70	8.33	16.61	35.64	11.13	8.33	17.27	36.73	1.09	(0.65)	0.44
Elms Close	10.70	8.33	1.94	20.97	11.13	8.33	2.02	21.48	0.51	(0.71)	(0.20)
Falcon House	20.55		9.70	30.25	21.37	0.00	10.09	31.46	1.21	(0.67)	0.54
Griffin Close	10.70	8.33		19.03	11.13	8.33		19.46	0.43	(0.66)	(0.23)
Griffin House	20.55		9.41	29.96	21.37	0.00	9.79	31.16	1.20	(0.67)	0.53
Hampson Fold	10.70	8.33		19.03	11.13	8.33		19.46	0.43	(0.70)	(0.27)
Harwood House	10.70	8.33	18.84	37.87	11.13	8.33	19.59	39.05	1.18	(0.61)	0.57
Limegrove	10.70	8.33		19.03	11.13	8.33		19.46	0.43	(0.67)	(0.24)
Maple Grove	10.70	8.33		19.03	11.13	8.33		19.46	0.43	(0.74)	(0.31)
Moorfield	10.70	8.33	21.56	40.59	11.13	8.33	22.42	41.88	1.29	(0.69)	0.60
Mosses House	10.70	8.33	17.11	36.14	11.13	8.33	17.79	37.25	1.11	(0.57)	0.54
Stanhope Court	10.70	8.33	8.68	27.71	11.13	8.33	9.03	28.49	0.78	(0.59)	0.19
Taylor House	10.70	8.33	19.24	38.27	11.13	8.33	20.01	39.47	1.20	(0.62)	0.58
Top O'th Fields 1	10.70	8.33	18.55	37.58	11.13	8.33	19.29	38.75	1.17	(0.73)	0.44
T O'th F 2 (Welcomb Walk)	10.70	8.33		19.03	11.13	8.33		19.46	0.43	(0.79)	(0.36)
Waverley Place	10.70	8.33	20.39	39.42	11.13	8.33	21.21	40.66	1.24	(0.63)	0.61
Wellington House	10.70	8.33	27.58	46.61	11.13	8.33	28.68	48.14	1.53	(0.68)	0.85

HRA VOID LEVEL OPTIONS - 2018/19

NB Springs TMO has a fixed voids allowance - currently 2%

VOIDS	RENT LOSS	DIFFERENCE FROM ASSUMED VOIDS LEVEL (1.2%)
%	£	£
0.50	146,708	-205,392
0.60	176,050	-176,050
0.70	205,392	-146,708
0.80	234,733	-117,367
0.90	264,075	-88,025
1.00	293,417	-58,683
1.10	322,758	-29,342
1.20	352,100	0
1.30	381,442	29,342
1.40	410,783	58,683
1.50	440,125	88,025
1.60	469,467	117,367
1.70	498,808	146,708
1.80	528,150	176,050
1.90	557,492	205,392

Proposed Specific Capital Projects 2018/19

Internal Schemes

St Thomas's internals
Dumers Lane internals phase 2
Bent Hill internals phase 3
Chesham Fold internals phase 2 inc Pimhole
Limefield internals phase 2
Littlewood internals phase 4
Brandlesholme internals phase 3
Carr Clough internals phase 2
Polefield internals phase 2

External Schemes

Elms Estate roofing phase 4C
Limefield roofing
Hazel Hall Roofs/Cladding

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. £3,700 in lost rental income in a full year. A loss of 50 properties throughout the year would cost around £93k.	H 100 %	Budget 2018/19 assumes 60 sales. Current sales levels are around this level but further changes to discounts and eligibility coupled with the promotion of Right to Buy could significantly increase interest and	95	95
Higher level of void (empty) properties - increase loss of rental income	A 0.75% increase in void loss costs the HRA £220k in a full year.	H 100 %	Budget 2018/19 assumes 1.2% void rental loss. Whilst current performance is meeting this target it may prove difficult to maintain.	220	220
Numbers of properties moving to target rents not as high as anticipated	A property moving to target rent will increase the weekly rental income by an average of £6.25.	H 100 %	The numbers of properties moving to target rent will depend on how many properties become void during the year and whether their rents are already at target level	35	35
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 2018/19 allows for contributions of £473k to the Bad Debt Provision. This is based on 1.6% of the rental income due and allows for the potential impact of benefit changes. However the level of arrears can be volatile and the timing and impact of benefit changes is still estimated	295	295
Interest rates - Cost of Capital	Under self financing the risks associated with changes in interest rates impact directly on the HRA. A 0.4% increase across the assumed HRA borrowing (excluding the loans taken for self financing) would cost	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. Borrowing for new developments could be at a higher rate than when the	190	115

HOUSING REVENUE ACCOUNT - RISK ASSESSMENT

Risk Event	Impact	Risk Level	Likelihood	Max. Impact £000	Min. Provision £000
Capital Investment requirements - newly arising need.	Under self financing the resources for capital investment in the housing stock come directly from the HRA.	L 60%	The capital investment requirements have been determined on the basis of the recent Stock Condition Survey however it is felt prudent to allow for the possibility of any unforeseen or urgent investment requirements.	200	120
Increase in Management Fee paid to Six Town Housing - pay costs	Six Town Housing can request additional pay costs as an addition to the Management Fee however this is subject to negotiation with the Council (it is not an automatic payment).	L 60%	The STH Management Fee has been frozen at the 2017/18 level until the outcome of the current review of Housing Services therefore it is felt prudent to allow for a 2% increase over and above that provided for in the 2018/19 budget.	130	80
Other HRA expenditure	There are costs and charges within the HRA that are outside of the Management Fee paid to Six Town Housing; 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	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.	35	30
Springs Tenant Management Co-operative - potential progress towards self financing TMO.	As these proposals progress there may be costs that fall on the HRA associated with this.	H 100 %	The 2018/19 budget does not contain any provision for these costs as the timing and extent of such costs has not yet been fully	40	40
				1240	1030

REPORT FOR DECISION

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

DATE: **14 FEBRUARY 2018
21 FEBRUARY 2018
21 FEBRUARY 2018**

SUBJECT: **BUDGET 2018/19 to 2019/20**

REPORT FROM: **CABINET MEMBER FOR FINANCE & HOUSING**

CONTACT OFFICER: **S Kenyon – Interim Executive Director of
Resources & Regulation**

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 2018/19 to 2020/21 (section A) and the Revenue Budget for 2018/19 to 2019/20 (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.

Section B addresses the revenue budget and also outlines;

- the Local Government Finance Settlement for 2018/19 to 2019/20
- Forecast outturn for 2017/18
- The budget strategy for 2018/19 to 2019/20 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.

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 / use of reserves.

**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 2018/2019, and cuts proposals for the period 2018/19 to 2019/20 at its meeting on 21st February 2018.

Council is recommended to:

Section A – Capital Programme

1. Approve the Capital Programme for 2018/19 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 Final Settlement Funding Allocation (SFA) for 2018/19 to 2019/20.
4. Note the level of repayment of principal on General Fund debt at the minimum of 2% in line with the current Minimum Revenue Provision policy;
5. Note that under delegated powers the Interim Executive Director of Resources & Regulation has calculated the amount of 52,850 as the Council Tax base for the year 2018/19 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 2017/18;
7. Approve that the minimum level of balances for 2018/19 be set at £4.250m in view of the Council's risk profile;
8. Approve, amend or reject the draft Revenue Budget for 2018/19 to 2019/20 as shown in the report;
9. Reaffirm the programme of cuts for delivery over the

3 year period 2017/18 to 2019/20 as approved by Council on 22nd February 2017, and as set out at Appendix 5;

10. Note the recommendations of the Schools' Forum around education funding issues;
11. Endorse the statements by the Interim Executive Director of Resources & Regulation on the robustness of budget assumptions and on the minimum level of balances;
12. Determine the level of the Council Tax / Social Care Precept for 2018/19.

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 Interim 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 2018. Legal issues are set out in Appendix 2.

Wards Affected: All

Scrutiny Interest: Overview & Scrutiny Committee

TRACKING/PROCESS

INTERIM EXECUTIVE DIRECTOR: Steve Kenyon

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
29/1/2018	31/1/18		
Scrutiny Committee	Cabinet	Committee	Council
Overview & Scrutiny 14/2/2018	21/2/2018	Corporate JCC Teachers JCC 15/2/18	21/2/2018

SECTION A

CAPITAL PROGRAMME

1.0 BACKGROUND

- 1.1 This report outlines the proposed approach in respect of the Capital Programme 2018/19 to 2020/21 and sets out a strategy recommended by the Strategic Leadership Team and endorsed previously by the Cabinet.

2.0 PROGRESS AGAINST THE 2017/18 PROGRAMME

- 2.1 Details of spend against the 2017/18 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report presented to the Cabinet on 21st February 2018.

3.0 CAPITAL RESOURCES FOR 2018/19

- 3.1 The Capital Programme can be funded from four main sources:
- Borrowing
 - Capital grants from Government Departments / contributions from external agencies / partners
 - Capital receipts from the sale of assets
 - Revenue contributions and reserves
- 3.2 Borrowing to fund the capital programme consists of Unsupported borrowing that is allowed through the workings of the Prudential Code for Capital Finance in Local Authorities. This method permits authorities to undertake borrowing as required as long as certain tests of prudence can be satisfied.
- 3.3 A consequence of any borrowing made is that revenue implications, such as costs to repay principal and interest, will fall wholly on the authority's revenue budget and this should be considered alongside borrow to fund decisions.
- 3.4 The Settlement for 2018/19 allows for capital grants only. This follows the approach adopted by the Coalition Government between 2011/12 and 2015 and continued since by the current Conservative Government to limit borrowing by Local Authorities; encouragement is in this way given to Authorities to structure local needs and circumstances to their Councils' levels of affordability for borrowing – under the Prudential Code.
- 3.5 Furthermore, capital grants and external contributions have reduced as a consequence of the more recent Government Spending Reviews and the level of overall investment would have to be amended accordingly.
- 3.6 The other main funding source is capital receipts, generated from the sale of Authority's land and property. Whilst property market conditions remain challenging for all of the interested parties, the Council anticipates generating capital receipts from a number of identified surplus sites in the future.

4.0 PROPOSED CAPITAL PROGRAMME 2018/19

- 4.1 In line with last year's Capital Programme, and the Council's Medium Term Financial Strategy, it is recommended that the 2018/19 – 2020/21 Capital Programme is restricted to fully funded schemes / schemes which are self-financing based upon a viable, proven "Invest to Save" Business Case. The proposed Programme is outlined at Appendix 1.
- 4.2 In the event that Grant allocations change later in the year, the specification of schemes will be reviewed to ensure no under / overspend.
- 4.3 Invest-to-save schemes will continue to be considered in year, and in line with the Council's 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.
- 4.4 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.

5.0 FUNDING THE CAPITAL PROGRAMME

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

Expenditure per year	2018/19 £	2019/20 £	2020/21 £	Total £
Gross Cost	24,518,444	24,139,289	10,986,291	59,644,025
Financed by:				
Grants / External Funding	10,018,744	10,949,132	968,169	21,936,045
HRA Headroom reserve	9,830,000	9,830,000	9,830,000	29,490,000
Earmarked Reserves	70,000	0	0	70,000
Capital Receipts Reserves	1,099,700	360,157	188,122	1,647,979
Borrowing (Invest to Save)	3,500,000	3,000,000	0	6,500,000
Total	24,518,444	24,139,289	10,986,291	59,644,024

- 5.2 The table shows a limited programme for 2019/20 and 2020/21; at this stage due to the absence of longer term funding information on government grants.

6.0 RISKS

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

6.1.1 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.

6.1.2 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.

6.1.3 Scheme costs increase after approval of budget.

Whilst not unusual and unlike slippage, implications are more than just timing issues, therefore cost increases cannot be mitigated without a direct 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 the schemes by the use of risk assessment approaches.

- 6.2 The Programme is monitored throughout the year by the Capital Programme Management Group who meets on a monthly basis and management reports are considered by the Strategic Leadership Team, Cabinet and Overview & Scrutiny Committee on a quarterly basis.
- 6.3 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 Local Government Finance Settlement for 2018/19 to 2019/20 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2017/18 and the draft Revenue Budget for 2018/19 to 2019/20. It provides details of the 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 19th December 2017, outlining figures for 2018/19, and indicative allocations for 2019/20. Final Settlement figures were confirmed on 6th February 2018.
- 1.5 Setting the budget for 2018/19 to 2019/20 will be a difficult exercise and so to assist Members the Assistant Director (Legal and Democratic Services) has prepared a note (attached at Appendix 2) setting out in detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning personal and prejudicial interests and goes on to specify the responsibilities of the Interim Executive Director of Resources & Regulation 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 for 2017/18 to 2019/20 were approved by full Council in February 2017. Further details are given in section 7.

2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2018/19 to 2019/20

- 2.1 The Draft Local Government Finance Settlement for 2018/19 (the Settlement) was released on 19th December 2017 and confirmed on 6th February 2018. The Settlement provides details of the authority's income from Central Government, and incorporates a number of fundamental changes.

Local Retention of Business Rates / Move to 100% Retention

- 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 **From April 2017, Greater Manchester Authorities have piloted a 100% retention scheme.**

2.5 This new approach presents a number of opportunities to the Council;

- Alongside the obvious social / economic benefits, there is now a “budgetary” incentive for the Council to stimulate business growth in the Borough
- The Council is taking this opportunity forward positively under its Growth Strategy, and the wider Greater Manchester Growth Plan

2.6 Equally however, the approach presents risks;

- Losses on Appeals – now have to be funded 100% by the Council
- Reliefs – The Council is also now liable for 100% of the cost of charitable / empty reliefs.
- 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

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, and Chester & Cheshire West Councils.

2.11 The 2016/17 Pool returned **£332,290** to the Council in 2017/18. Figures for the 2017/18 pool are not yet finalised, and the 2018/19 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 2018/19 scheme was approved at Council in December 2017; largely unchanged – however incorporating disregards for MEN arena bomb victims, and recipients of DWP Bereavement Payments – this brings the policy in line with the national approach to Housing Benefit.
- 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.

Social Care Precept

- 2.15 Last year, the Government announced that over a 3 year period, Local Authorities responsible for Adult Social Care “will be given an additional 6% flexibility on their current council tax referendum threshold to be used entirely for Adult Social Care”. The 2017/18 budget utilised 3% of this allowance, and the budget report is written assuming the remaining 3% will be utilised in 2018/19; leaving 0% for 2019/20 – subject to ratification by Members.
- 2.16 Members should note that the proposed precept has a neutral effect as it can only be used to support Adult Social Care pressures (which greatly exceed the funding raised through the precept).
- 2.17 Similarly, the precept represents no “new” Government funding for these pressures – it is a charge borne by local taxpayers.

Overview of Settlement

- 2.18 Bury’s 2018/19 “Settlement Funding Allocation” (SFA), and indicative allocations for future years are as follows;

	SFA (Dec 2016)	SFA (Feb 2018)	Additional s31 Grant	Total	Change
	£m	£m	<i>(reflecting RPI to CPI uplift of Business Rates)</i> £m	£m	%
<i>2017/18</i>	48.940	48.940	0	<i>48.940</i>	
<i>2018/19</i>	45.490	45.417	289	<i>45.706</i>	-6.6%
<i>2019/20</i>	42.160	41.622	288	<i>41.910</i>	-8.3%

- 2.19 Figures vary from those announced in December 2016 due to changes in the inflation indices applied to Business Rates; this is compensated for through additional grant (s31).
- 2.20 The figures above are based upon a 50:50 share of Business Rates for comparison purposes (as per Government Spending Power tables). The Government has announced a move to 100% retention by Local Authorities by 2020, and this approach has been piloted by Greater Manchester from 2017/18.
- 2.21 This will require a "reworking" of settlement figures, however the overall resources available will be unchanged as the Government have given a commitment that the move to 100% will be "fiscally neutral". Essentially Local Authorities will receive more in business rates, offset by less (or nil) in the way of RSG and other specific grants e.g. Public Health.
- 2.22 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. The table below highlights funding per head, and additional resources that would be available if comparable funding levels were applied;

	SFA 2018/19 Per Head	SFA 2018/19 Extra
	£	£m
Bury	£241.10	
Greater Manchester Average	£328.76	£16.5m
CIPFA "Family" Average	£270.66	£5.6m
England Average	£282.24	£7.8m

Rolled in Grants

- 2.23 Values for grants previously rolled in have been revised in the settlement. The draft budget has been structured in line with the assumptions of the settlement i.e. any increases are passed onto services;

Grant	2017/18 £'000	2018/19 £'000	2019/20 £'000
Homelessness Prevention Grant	457	458	457
Learning Disability / Health Reform	4,600	4,697	4,782
Care Act Implementation	1,281	1,305	1,803
Lead Local Flood Authorities	152	155	158
Sustainable Drainage Systems	9	9	9
	6,499	6,624	7,209

Change		+125	+585
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- 2.24 Other rolled in grants have reduced in the Settlement e.g. Early Intervention Grant (from £4.235m to £3.893m), and the Public Health Grant (from £11.940m to £11.632m). The budget is structured on the basis that the indicative 2018/19 levels will apply – ie no protection at historic levels.
- 2.25 Funding for the Local Welfare Provision (£0.513m) was removed in the 2016/17 settlement

Other Specific Grants

- 2.26 In addition to the overall Settlement, a number of specific grants are made available. These grants effectively form part of the Council's mainstream budget, and have seen reductions in the 2018/19 Settlement; these grants have been protected at the 2017/18 level in drafting the 2018/19 budget;

Grant	2017/18 £'000	2018/19 £'000	2019/20 £'000
Education Service Grant (LA element)	753	0	0*
Housing Benefit Admin Subsidy Grant	640	567	0*
Council Tax Support Admin Grant	261	252	0*
	1,654	819	0
Change		-835	-819

*Unconfirmed **

- 2.27 Allocations for other unprotected specific grants have not been confirmed at the time of writing. By their nature, these grants each have their own terms and conditions and are therefore not available to support the wider Council budget, and any reductions must be absorbed by the service.
- 2.28 The final settlement also outlined a new adult Social Care Grant of £510k for Bury; assumed to be one-off at this stage.

Better Care Fund

- 2.29 The Better Care Fund currently stands at approximately £12m (this operates as a pooled budget with Bury CCG).
- 2.30 Indicative figures from the Government suggest that this will be increased by £5.1 million by 2020;
- A further £2.6m in 2018/19

- A further £2.5m in 2019/20

2.31 It should be noted that additional resources for the Better Care Fund have been sourced from reductions to the New Homes Bonus and do not represent “new” Government funding.

3.0 FORECAST OUTTURN 2017/18

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 2017 (i.e. month 9):

Department	Budget £'000	Forecast £'000	Variance £'000
Communities & Wellbeing	77,557	78,641	+1,084
Resources & Regulation	(497)	1,031	+1,528
Children, Young People & Culture	30,095	33,070	+2,975
Non Service Specific	28,175	24,426	(3,749)
TOTAL	135,330	137,168	+1,838

3.4 The forecast shows a net overspend of **£1.838m (1.36%)** 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 month 9 position is higher than the 2016/17 year end position, however represents an improvement upon previous quarters as follows;

2016/17 Outturn	2017/18 Quarter 1	2017/18 Quarter 2	2017/18 Quarter 3
+£1.670m	+£3.651m	+£3.491m	+£1.838m

3.6 The overall budget is supported by the continued strong performance of the Council's Treasury Management function, and returns from the 2016/17 Business Rates Pool.

- 3.7 The Strategic Leadership Team and Cabinet meet regularly and pay close attention to the overspend, and actions been taken. The situation is also closely monitored by the Overview & Scrutiny and Audit Committees.

4.0 DRAFT REVENUE BUDGET 2018/19 – 2019/20

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

- The budget forecast
- “Golden Rules” supporting the budget strategy
- Assumptions behind the draft budget
- The potential Council Tax position
- The draft budget for 2018/19 – 2019/20

- 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.
- 4.4.2 This report focuses on the 2018/19 to 2019/20 Budget, based upon an assessment of income, expenditure, pressures, and Government Funding.
- 4.4.3 There is no information beyond 2020, however Members are warned that further budget cuts will be required to address continuing demand pressures and funding reductions.
- 4.4.4 The nature of repeated cuts requirements means that each year cuts to services will become more visible, and harder hitting as “efficiency savings” are exhausted.

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, **or to support wider regeneration / growth initiatives.**
- Pressures and savings will be assessed on a 3-year, rather than a one year basis.

4.5.2 The Interim Executive Director of Resources & Regulation / 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.

4.6 Assumptions

4.6.1 The report outlines the budget for 2018/19 to 2019/20. This approach has been taken using funding data released under the Government's "4 Year Offer". Members are asked to note that the Government has heavily caveated the funding allocations going forward.

4.6.2 Budget cuts options were drafted in a three year window and approved by Council in February 2017. Options recognised that simple expenditure reductions are no longer available, and fundamental service redesign is required to deliver savings. This by its nature is not always achievable in a single financial year, often requiring a significant "lead in" time.

The draft Budget for the coming year has been prepared by rolling forward and re-pricing the current year's budget as follows:

- Adding the effects of contractually binding inflation and other allowable cost increases to the current year's budget;
- 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.

4.6.3 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.

- 4.6.4 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.
- 4.6.5 In determining the assumptions to be used to underpin the 2018/19 budget the following considerations have been taken into account; subject to approval by Council:

	Note	2018/19
Pay	1	2.0%
Pensions (increase in employers' contribution rate)	2	0.0%
Prices	3	0.0%
Waste levy	4	Actual
Transport levy	5	Actual
Rise in income from fees and charges	6	0.0%
Council Tax base (no. of Band Ds)	7	52,850
Assumed Council Tax rate rise	8	1.94%
Assumed Social Care Precept	9	3.00%

Notes:

- 1. Pay** - the current budget forecast makes a 2% provision for pay inflation in 2018/19 – based upon current pay award offers. The impact of the Government's intentions for a Living Wage on the Council's paybill has also been recognised.
- 2. Pensions** – based on the latest 3-year actuarial review of the GM Pension Fund (part of the national Local Government Pension Scheme) the rate at which Bury Council as an employer is required to contribute (as a % of pensionable pay) is forecast to be 20.5% to 31 March 2020.
- 3. Prices** – 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. A provision has also been made to contribute to the additional costs the Council may bear as a result of the Government's Living Wage proposals in respect of bought in / commissioned services
- 4. Waste Levy** - Following termination of existing contractual arrangements, the Council will see a £145,000 reduction in its waste levy for 2018/19, followed by an increase of £567,000 in 2019/20 (based upon current tonnages). The budget has been structured on this basis.

These figures compare to projected increases of £1,045,000 and £375,000 (for 2018/19 and 2019/20 respectively) prior to termination.

The budget also reflects the reversal of the £77m switch in resources between the WDA and GMCA Transport budgets in 2017/18.

5. **GMCA / Transport Levy** – following robust budget scrutiny, the 2018/19 Transport Levy will see a reduction of £179,708 (factored into budget). The 2019/20 budget incorporates a working assumption of a 3% rise – however this is purely for forecasting purposes; the actual level will be determined through the 2019/20 budget scrutiny process. Other GMCA activity will see a reduced contribution (ongoing) of £45,436 for 2018/19 – this is also factored into the budget. Alongside this there will be a £54,251 refund of former AGMA reserves; as this is a one-off return, it is not factored into the base budget.
6. **Income** – the target uplift has been set at 0% reflecting the pressures upon income budgets. Directors / Portfolio Holders are free to decide how much prices may increase depending on their individual circumstances, legislative increases, and the market sensitivity of prices.
7. **Council Tax Base** - acting under delegated powers, the Interim Executive Director of Resources & Regulation has calculated the amount of **52,850** Band D equivalent properties as the Council Tax base for the year 2018/19 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This compares to 52,350 in 2017/18.
7. **Council Tax rate** – this report is drafted on the basis of an assumed 1.94% Council Tax rise, plus a further 3% in respect of the Adult Social Care precept; this is an assumption and it should be stressed that the actual level of Council Tax will be determined by Council.

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 2018/19, the Government has indicated that any Council Tax increase "at or above 3%" would trigger a referendum.

Similarly, Councils are allowed to raise an Adult Social Care Precept of up to 3% (previously 2%) for earmarked spending on Adult Social Care pressures.

- 4.6.6 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.

4.6.7 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.

4.6.8 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 level of cuts made (& delivered) - £78 million since 2010
- 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.

4.6.9 The Interim Executive Director of Resources & Regulation 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 2018/19

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 table below summarises the initial draft 'standstill' budgets for 2018/19 and 2019/20:

	2018/19 £000	2019/20 £'000
Opening Budget	123,390	124,580
Add: one-off cuts from previous year	0	0
Add: losses on grants now rolled in to settlement	125	585
Add: losses on protected specific grants	835	819
Inflation:		
Pay	2,215	2,340
Contractual Commitments (incl. Living Wage)	4,038	4,990
Energy Costs	190	208
Income	0	0
Adult Social Care Support Grant		
Grant Income	-510	0
Expenditure	510	0
Other Pressures	225	0
Staffing costs:		
Increments	466	230
Levies:		
Combined Authority (incl Transport)	-225	400
Waste Disposal	-145	567
Corporate / Technical Items:		
Investment Income	-900	-382

Surplus on Collection Funds	-38	0
Reprofiling of Minimum Revenue Provision	165	158
New Homes Bonus	852	477
Cessation of Transition Grant	30	0
Estimated Budget	131,223	134,972
Less:		
Settlement Funding Assessment (incl s31)	45,706	41,910
Council Tax	78,874	81,164
Estimated Resources	124,580	123,074
TOTAL CUTS REQUIRED	6,643	11,898

**** This estimate is based upon an assumed 1.94% Council Tax increase (plus 3% Social Care Precept in 2018/19); it should be noted that the actual level of Council Tax is determined annually by Full Council.***

- 4.7.3 Changes in grant profiles, and other significant items e.g. pay awards and levies have revised the profile of cuts over the period 2018/19 to 2019/20, however the total cuts remain unchanged overall for the period to 2020. On this basis, the budget options approved by Council in February 2017 still stand. Timing differences will be dealt with by short term contributions to / from reserves.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Original Profile	13,335	9,454	9,087	31,876
Revised Profile	13,335	6,643	11,898	31,876
Difference to (-) / from (+) reserves	0	-2,811	2,811	0

- 4.7.4 Total cuts from 2010 are summarised below;

2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total £'000
9,575	8,656	9,871	9,652	15,807	11,579	13,335	78,475

5.0 SCHOOLS' ISSUES

1.1 Dedicated Schools Grant (DSG)

1.1.1 This is a ring-fenced grant provided to local authorities and can only be spent on schools and specified areas as determined by the Department for Education (DfE), which issues an annual Statutory Instrument that governs school funding.

1.1.2 The DSG is split into four blocks, with only the Schools Block ring-fenced to spending by schools:

- Schools
- Early Years
- High Needs
- Central Schools Services

1.1.3 Local authorities can switch resources from the three other blocks into the Schools Block. There is a maximum of ½% that can be switched from the Schools Block to any of the other blocks, which requires the agreement of the Schools Forum. Any proposals above the ½% threshold require the specific approval of the Secretary of State for Education.

1.1.4 There is no proposal by Bury to switch resources between any of the blocks in 2018/19 and 2019/20.

1.2 External Funding

1.2.1 In addition to the DSG, there are a variety of other externally funded grants provided by the DfE to local authorities and schools.

1.2.2 The DSG is wholly distributed to local authorities by four separate funding formulae for allocation to schools, academies and other providers. Other externally funded grants are distributed based on the number, ages and characteristics of pupils.

1.2.3 The following table shows the total amounts allocated and to be allocated for each type of external funding from 2014/15 to 2020/21, when the schools' National Funding Formula is scheduled to be fully implemented.

	2014/15	2015/16	2016/17 re- baselined	2017/18 re- baselined	2018/19 'soft NFF'	Estimated 2019/20 'soft NFF'	Estimated 2020/21 'hard NFF'
	£m's	£m's	£m's	£m's	£m's	£m's	£m's
Dedicated Schools Grant							
- Schools Block	111.1	117.7	119.8	116.0	120.2	122.5	124.9
- Early Years Block	9.0	8.9	8.6	12.4	13.4	13.4	13.4
- High Needs Block	24.1	24.3	24.4	29.1	29.4	29.6	29.6
- Central Schools Services Block				0.7	0.8	0.8	0.9
Total DSG	144.2	150.9	152.8	158.2	163.8	166.3	168.8
Other Grants							
- Pupil Premium	7.9	8.3	8.4	8.8	8.8	8.8	8.8
- Universal Infant Free School Meals	1.2	2.4	2.3	2.3	2.3	2.3	2.3
- Other incl Primary PE		0.6	0.7	1.2	1.2	1.2	1.2
Total Funding	153.3	162.2	164.2	170.5	176.1	178.6	181.1

1.3 National Funding Formula (NFF)

- 1.3.1 Over the next few years, the Department for Education (DfE) will be introducing separate NFF for distributing nationally provided funding to schools and pupils and students designated with 'High Needs'.
- 1.3.2 The DfE's priority is to fund every school and academy throughout England on the same basis, bearing in mind the category of school, pupil numbers and the characteristic of each pupil in formula funding terms.
- 1.3.3 The Schools' NFF is scheduled to be fully implemented in 2020/21 with the DfE determining the monetary value of each component within the funding formula. This has been designated as the 'hard formula' by the DfE.
- 1.3.4 For 2018/19 and 2019/20, local authorities are still empowered to determine the local funding formula for its schools, with the agreement of the Schools Forum. This has been designated as the 'soft formula' by the DfE.
- 1.3.5 The 'soft formula' is subject to transitional arrangements as there are limits to the amount of money available before the NFF can be fully implemented at the start of the next decade.
- 1.3.6 After a full consultation with all schools and academies, the Schools Forum endorsed the local formula factors for 2018/19 and 2019/20 at their meeting on 16th January 2018. These are shown below in detail in the section entitled "School Funding Formula Values".
- 1.3.7 NB on the deadline day of the formula submission the DfE rejected Bury's proposed transitional arrangements and have clearly said that there is no appeal against the Secretary of State's decision.
- 1.3.8 Although our proposal would have moved towards the NFF factors with some schools' funding protected by our proposed transitional arrangements, we will maintain the current local formula value of the Primary schools' Lump Sum at £125,000. NB this benefits 2018/19 but complicates future formula values.
- 1.3.9 The 'High Needs' NFF is scheduled to be fully implemented by 2022/23. This NFF uses different formula components from the Schools NFF and is still subject to further reviews, on which Bury is represented. Crucially the High Needs NFF includes a 'funding floor' to protect the current spending levels of many local authorities, including Bury.
- 1.3.10 Currently Bury's 'floor' is £4.6 million out of a total High Needs allocation of £29.4 million. NB this aspect of the formula restricts the amount of additional funding needed to meet increasing demand pressures in future years.

- 1.3.11 The Early Years National Funding Formula was introduced in 2017/18, with transitional arrangements, to prepare for the introduction of the DfE's policy of providing up to 30 hours of free entitlement for 3 and 4 year olds beginning in September 2017.

1.4 Funding Formula Component Changes

- 1.4.1 The DfE's priorities within the proposed NFF are to move funding from the universal factors of the Basic Entitlement per pupil and the Lump Sum per school regardless of size to Deprivation, Low Prior Attainment and English as an Additional Language (EAL).
- 1.4.2 The DfE's school funding formula factors have formed the basis of how much each local authority will receive in 2018/19 through to when the schools' NFF is fully implemented. Consequently it is difficult to increase or maintain an existing factor without disadvantaging other funding factors.
- 1.4.3 Overall there is a funding increase of approx. £4.2 million in 2018/19, but of this £2.5 million is required to meet the DfE's conditions about the "Mandatory Cost Threshold" for the first £6,000 of a pupil's Statement/EHC plan to be met from the school's delegated budget and increased spending within schools for EAL pupils.
- 1.4.4 Compared to Bury's 2017/18 formula factors, the DfE's proposals distribute over £1 million to the Key Stage 3 factor, while the Primary Key Stages are reduced by approx. £1¼ million. As key aspects of the schools' funding formula these changes will be limited by the following transitional arrangements.

1.5 Funding Formula – Minimum Funding Guarantees & Capping Gains

- 1.5.1 In July 2017, the then Secretary of State announced that there would be at least a ½% increase in per pupil funding in 2018/19 and this would rise to a 1% increase in 2019/20. This will mean a minimum of £3,500 for every Primary pupil and a minimum of £4,800 for every Secondary pupil by 2019/20. NB these figures include all aspects of per pupil funding and not just the Basic Entitlement factor. Previously the per pupil Minimum Funding Guarantee was 'minus 1½%', which is now being replaced by the above factors.
- 1.5.2 Although additional money for the schools' NFF is being provided by the DfE this will be phased over the next 3 years before the NFF is fully implemented. Apart from those schools starting from a low base, the maximum increase in per pupil funding in 2018/19 is 3%.

- 1.5.3 For 2019/20, the maximum increase in per pupil funding will be 6.1%, which will see an additional £2½ million being added to the Schools Block of the DSG. Once fully implemented a further £2½ million will be available for schools and academies in Bury.

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1.6 Funding Formula – Summary Position

1.6.1 This table shows the changes in funding between Bury's current funding formula and the proposed allocations using the DfE's formula factors:

				Change		
		2017/18	2018/19	Primary	Secondary	Total
		£m's	£m's	£m's	£m's	£m's
Total		115.967	120.124	1.918	2.239	4.157
Universal Factors						
Basic Entitlement	Primary	50.962	49.801	-1.161		-0.511
	Key Stage 3	25.279	26.310		1.031	
	Key Stage 4	19.229	18.847		-0.381	
Lump Sum	Primary	7.875	7.875	0.000		-0.195
	Secondary	1.625	1.430		-0.195	
Pupil Specific						
Deprivation	Primary	3.458	4.555	1.098		3.379
	Secondary	3.172	5.453		2.281	
Low Prior Attainment	Primary	0.654	2.582	1.929		3.378
	Secondary	2.050	3.499		1.449	
English as an Additional Language	Primary	0.115	0.388	0.273		0.571
	Secondary	0.054	0.352		0.298	
Other						
Business Rates & Mobility	Primary	0.602	0.574	-0.028		-0.089
	Secondary	0.776	0.715		-0.061	
MFG/Capping						
	Primary	0.056	-0.137	-0.193		-2.375
	Secondary	0.061	-2.121		-2.182	
Summary						
	Primary	63.721	65.639	1.918		4.157
	Secondary	52.246	54.485		2.239	

1.7 Pupil Numbers

- 1.7.1 This table shows the increased numbers of pupils attending mainstream Bury schools and academies, i.e. not including early years and High Needs providers. All the figures are based on the October census of the previous year.

Pupil Numbers	14/15	15/16	16/17	17/18	18/19
Primary schools	14,929	14,568	14,595	14,828	13,763
Secondary schools	10,687	10,742	10,801	11,014	10,369
Primary Academies	660	1,217	1,624	1,701	3,005
Secondary Academies	0	0	0	0	750
Totals	26,276	26,527	27,020	27,560	27,887

- 1.7.2 Although there is a total increase of 327 pupils, there are almost a quarter of schools with falling rolls, which will have a negative effect on the amount of money these schools will receive in 2018/19 when compared to the previous financial year.

1.8 Funding Issues

- 1.8.1 The funding changes brought about by the DfE's priorities outlined above mean that most schools will not receive enough of an increase in their 2018/19 funding to meet all of the cost pressures that will occur in that financial year.
- 1.8.2 It is forecast, based on DfE pronouncements, that when the NFF is fully implemented there will be a £5 million increase in the funding available for Bury schools as the Capping Criteria ceases. At the same time, it is anticipated that the required levels of the 'Mandatory Cost Threshold' and English as an Additional Language will remain static meaning that the additional £5 million will be available to contribute to schools in 2019/20 and beyond.
- 1.8.3 The impact on individual schools in 2019/20 is uncertain at the moment, but we will endeavour to produce an indicative schools funding formula in time for the start of the budgeting cycle beginning in March 2018.

- 1.8.4 In order to help those schools that encounter budgeting problems, we will adopt a multiple year budgeting approach that will 'tolerate' schools having relatively small deficits in 2018/19 because of the funding shortfall.
- 1.8.5 As part of these arrangements, schools will have to produce a viable action plan which will show that the school will have a balanced budget by 2020/21, including paying off any accumulated deficit.
- 1.8.6 In addition to the potential funding shortfall, there are added complications for schools with falling rolls as schools' funding is heavily based on the number of pupils in each school. It is appreciated that it takes time to implement changes to the school's budget but there will have to be a robust action plan in place to ensure that the school will have a balanced budget by 2020/21.
- 1.8.7 Where a school is in a deficit position and 'enforced' academisation occurs, the deficit does not transfer to the converting academy. Please note that the local authority does not have sufficient monies to "write-off" these types of deficit, which will be recovered from financial resources that the Authority receives on behalf of academies before these are distributed.
- 1.8.8 Overall these arrangements are in accordance with the approved Scheme for Financing Schools as endorsed by the Secretary of State.

1.9 Primary School Funding Formula Values

1.9.1 The Schools Forum at their meeting of 16th January 2018 agreed the funding formula factors for 2018/19, which will also be applicable for 2019/20. These funding arrangements will be endorsed by the Council at its budget setting meeting on 21st February 2018.

Factor	Sub-level	2017/18	2018/19	Number of Pupils		2017/18	2018/19	Total Variance (£)
Basic Entitlement Age Weighted Pupil Unit (AWPU)	Primary (including reception)	3,080	2,970	16,546	16,768	50,961,680	49,800,960	-1,160,720
Deprivation		Amount per pupil (£)		Number of Pupils		Sub Total (£)		Total Variance (£)
FSM - Ever 6	Primary FSM	0	250	0	3,933	0	983,295	983,295
FSM	Primary FSM	65	190	2,462	2,457	160,482	466,851	306,369
IDACI Primary	IDACI F	200	200	2,035	2,053	407,022	410,586	3,564
	IDACI E	300	281	1,671	1,678	501,196	471,607	-29,589
	IDACI D	400	387	2,110	2,150	843,939	831,939	-12,000
	IDACI C	600	531	732	778	439,301	412,871	-26,429
	IDACI B	800	675	784	840	630,188	567,136	-63,053
	IDACI A	1,000	861	472	478	475,547	411,170	-64,377
Additional Education Needs Factors		Amount per pupil (£)		Number of Pupils		Sub Total (£)		Total Variance (£)
Low cost, high incidence SEN	Low Attainment Primary <73	120	429	5,446	6,019	653,533	2,582,275	1,928,742
English as an Additional Language (EAL)	EAL 3 Years Primary	65	214	1,767	1,813	114,977	387,895	272,918
Mobility	Primary pupils starting school outside of normal entry dates	500	500	90	110	44,837	55,016	10,179
School Factors		Amount per pupil (£)		Number of eligible Schools		Sub Total (£)		Total Variance (£)
Lump Sum	Primary	£125,000	£125,000	63	63	7,875,000	7,875,000	0
Rates	Estimated Primary	n/a	n/a	n/a	n/a	557,385	519,138	-38,248
Total Primary						63,665,087	65,775,739	2,110,651
Minimum Funding Guarantee (MFG) + MFL + Capping	Primary	n/a	n/a	n/a	n/a	56,157	-136,773	-192,930
Total Primary						63,721,245	65,638,966	1,917,721

1.10 Secondary School Funding Formula Values

1.10.1 The Schools Forum at their meeting of 16th January 2018 agreed the funding formula factors for 2018/19, which will also be applicable for 2019/20. These funding arrangements will be endorsed by the Council at its budget setting meeting on 21st February 2018.

Factor	Sub-level	2017/18	2018/19	Number of Pupils		2017/18	2018/19	Total Variance (£)
Basic Entitlement	Key Stage 3	3,750	3,860	6,741	6,816	25,278,750	26,309,760	1,031,010
Age Weighted Pupil Unit (AWPU)	Key Stage 4	4,500	4,380	4,273	4,303	19,228,500	18,847,140	-381,360
Deprivation		Amount per pupil (£)		Number of Pupils		Sub Total (£)		Total Variance (£)
FSM - Ever 6	Secondary FSM	0	785	0	3,019	0	2,369,781	2,369,781
FSM	Secondary FSM	5	440	1,613	1,589	8,070	699,160	691,090
IDACI Secondary	IDACI F	400	290	1,288	1,301	515,056	377,278	-137,778
	IDACI E	500	390	1,068	1,085	533,757	423,333	-110,424
	IDACI D	600	515	1,350	1,366	809,996	703,599	-106,397
	IDACI C	800	560	508	510	406,315	285,606	-120,710
	IDACI B	1,000	600	517	526	516,871	315,730	-201,142
	IDACI A	1,200	810	318	344	382,132	278,620	-103,512
Additional Education Needs Factors		Amount per pupil (£)		Number of Pupils		Sub Total (£)		Total Variance (£)
Low cost, high incidence SEN	Secondary pupils not achieving (KS2 level 4 English and Maths)	900	1,550	2,275	2,257	2,049,872	3,498,751	1,448,879
English as an Additional Language (EAL)	EAL 3 Years Secondary	250	1,385	216	254	54,027	352,356	298,329
Mobility	Secondary pupils starting school outside of normal entry dates	0	0	0	0	0	0	0
School Factors		Amount per pupil (£)		Number of eligible Schools		Sub Total (£)		Total Variance (£)
Lump Sum	Secondary	£125,000	£110,000	13	13	1,625,000	1,430,000	-195,000
Rates	Estimated Secondary	n/a	n/a	n/a	n/a	775,924	714,616	-61,309
Total Secondary						52,184,270	56,605,730	4,421,460
Minimum Funding Guarantee (MFG) + MFL + Capping	Secondary	n/a	n/a	n/a	n/a	61,404	-2,120,829	-2,182,233
Total Secondary						52,245,674	54,484,901	2,239,227

1.11 Pupil Premium

1.11.1 The Pupil Premium Grant is additional funding provided by Government and is extra to the Dedicated Schools Grant apart from the Early Years PPG, which is included within the Early Years block of the DSG.

1.11.2 The Department for Education have maintained the same amounts per category for 2018/19 as occurred in 2017/18, apart from the 2 Looked After Children categories, and these are:

PPG element	2017/18	2018/19
	£	£
Free School Meals 'Ever 6' - Primary	1,320	1,320
Free School Meals 'Ever 6' - Secondary	935	935
Looked After Children	1,900	2,300
Formerly Looked After Children	1,900	2,300
Children of Service Personnel	300	300
Early Years PPG	300 (£0.53 per hour)	300 (£0.53 per hour)

1.12 Other Specific Grants

1.12.1 There are a number of grants provided by the Department for Education that are for specific purposes, and these include:

- **School Improvement** – the monitoring and brokering grant was announced in November 2016 and it is estimated that Bury's share in 2018/19 will be approx. £¼ million.
- **Universal Infant Free School Meals** – approx. £2.3 million. This is based on a meal rate of £2.30 for the 2017/18 academic year, and the DfE will make further details available shortly.
- **Primary PE and Sport** - this will continue in 2018/19. The DfE will continue to advise schools on sustainable and effective ways to use their funding, and will make further details available shortly.

1.13 High Needs

1.13.1 As previously indicated the 'High Needs' NFF is scheduled to be fully implemented by 2022/23. To ease the transitional arrangements the DfE have included a 'funding floor' to protect current spending levels within local authorities.

1.13.2 In 2018/19 Bury's 'floor' is £4.6 million out of a total High Needs allocation of £29.4 million. NB this aspect of the formula restricts the amount of additional funding needed to meet increasing demand pressures in future years.

1.13.3 Bury's High Needs block increased by £0.3 million, or 1%, for 2018/19 when compared to 2017/18. This is insufficient to meet increased cost pressures, such as pay awards, annual increments or demand pressures of increased pupil numbers.

1.13.4 NB the estimated increased funding for 2019/20 and 2020/21 amounts to a further £0.2 million and it will be a challenge to fund any increases in these years.

1.14 Early Years

1.14.1 The Early Years National Funding Formula was introduced in 2017/18, with transitional arrangements, to prepare for the introduction of the DfE's policy of providing up to 30 hours of free entitlement for 3 and 4 year olds that began in September 2017.

1.14.2 Maintained funding for 3 & 4 year olds at £4.30 per hour and £5.30 for 2 year olds at the 2017/18 levels – additional funding of £1 million in 2018/19 full year effect of Sept 2017.

1.15 Budget/Cost Pressures

1.15.1 These include:

- ☐ Falling Pupil Numbers
- ☐ Increased pupil numbers
- ☐ Public Sector Pay Awards 2%
- ☐ Pensions Increase
- ☐ National Living Wage – ranging between 5% & 9%
- ☐ Incremental Progression & Performance Pay Progression
- ☐ Apprenticeship Levy
- ☐ Rates re-valuations
- ☐ Energy prices
- ☐ Insurance Premiums

- ❑ Price increases – goods and services

6.0 OPTIONS FOR BALANCING THE 2017/18 TO 2019/20 BUDGET

- 6.1 The table at 4.7.3 highlights the need to make ongoing cuts to service budgets totalling **£31.879** million over a 3 year period in response to the Council's reduced funding position, and known pressures.

Three year approach

- 6.2 Given the scale of cuts already made, and further cuts required, options are now much more radical, requiring fundamental service redesign – a process which may not be possible within a single year.
- 6.3 The Council has therefore approached this challenge within a 3 year timescale, as approved by Full Council in February 2017. This approach recognises the longer lead-in time of some options, and accepts that temporary use of balances may be required between financial years.
- 6.4 A priority led model was used in determining options and sought 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
- 6.5 In examining ways of achieving cuts, Cabinet Members and Directors have considered:
- 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
- 6.7 Directors and Cabinet Members have also been mindful of the Council's updated strategic "***Vision, Purpose & Values***" policy document in developing budget proposals;
- 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
- 6.8 The total proposed cuts for 2017/18 to 2019/20; as approved in February 2017 are summarised by Department in the table overleaf;

Department	2017/18	2018/19	2019/20	Total
	£m	£m	£m	£m
Communities & Wellbeing	7.068	5.011	4.816	16.895
Children, Young People & Culture	3.200	2.269	2.181	7.650
Resources & Regulation	3.067	2.174	2.090	7.331
Total	13.335	9.454	9.087	31.876

- 6.9 Further details are included in the "Information Pack" at Appendix 4, which formed the basis of resident / stakeholder consultation.
- 6.10 The next section of this report expands further upon the approach taken to the consultation process.

7.0 CONSULTATION PROCESS

- 7.1 A full budget consultation exercise on the three year budget options ran from 8th December 2016 to 31st January 2017 as follows;
- 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 special interest groups e.g. Carers Group
- 7.2 This exercise engaged with **158** stakeholders and generated **114** comments / responses.
- 7.3 Whilst cuts options for 2017/18 to 2019/20 were approved by full Council in February 2017, residents and stakeholders have been given further opportunity to submit comments up to 6th February 2018 through a web based "Budget Conversation".
- 7.4 Likewise, as the budget proposals run to 2020, there will be further opportunities throughout 2018/19.
- 7.5 Many of the proposals are high level, and subject to service reviews. As these take place, they will be subject to their own consultation exercises, and decisions will be made at by Cabinet, with the option for Overview & Scrutiny to review decisions.

8.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES

- 8.1 In line with the provisions of s25 of the Local Government Act 2003, the Interim Executive Director of Resources & Regulation 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 years; subject to a number of caveats.

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, and the increasing challenge of implementing "year on year" cuts.

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 focussing on the current budgetary position / strategy, and also invest to save developments (Killelea House, and a second Extra Care Scheme) that are aimed at reducing costs, managing risks and restructuring services and care packages.

8.4.4 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.

8.4.5 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.

- 8.4.6 Council Tax collection is wholly within the control of the Council. The budgeted level of "in year" collection in 2018/19 is 97.05%, 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 and the Council Tax Support scheme.
- 8.4.7 Fees and charges (excluding Council House rents) are budgeted to raise over £50m of income in 2018/19 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.
- 8.4.8 These risks have been recognised, and the 2018/19 budget assumes no increase in income targets, however individual charges may be increased where appropriate.
- 8.4.9 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.
- 8.4.10 It is clear from monitoring that has taken place during 2016/17 that the difficult economic climate continues to have a downward effect on various charging streams such as property services income, car park fees etc. There is provision within the minimum level of balances calculation to reflect this risk.
- 8.4.11 In terms of general expenditure budgets the single largest area of expenditure is on staff pay. The 2018/19 and 2019/20 budgets have been structured in line with the 2% staff pay offer.
- 8.4.12 An allowance has been built into the budget to contribute to the on-going cost of the national minimum wage in terms of both the Council's pay bill, and the impact on bought in / commissioned services.
- 8.4.13 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)
- 8.4.14 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 provision has been made for unavoidable inflationary costs (e.g. contractual commitments).

8.4.15 The Council exercises sound Treasury Management practices in line with professional guidelines. 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. The Council has responded proactively to this through its Property Investment Strategy where the Council seeks to secure sustainable rental yields from investment in property.

8.4.16 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 (100%) 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. The move to 100% Business Rates retention also presents opportunities to the Council if it is able to grow its Business Rates base.
- Similarly, the Council must now stand 100% 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. 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 revising the Local Council Tax Support scheme – approved by Council in December 2017.

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 450 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, budgetary control, and timely and accurate financial reporting.
- Savings targets may not be achieved. This risk is mitigated by rigorous financial control / budget monitoring. 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.

- 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 Council's strong record of performance and the strength of the budget monitoring process these risks are felt to be controlled for 2018/19. 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 Council's External Auditors (KPMG) have commented favourably on the framework. The Governance Statement and the control framework have been regularly reviewed, most recently by the Audit Committee on 5th December 2017, and no major issues have been identified.

8.7 Conclusion

8.7.1 In light of the above the Interim Executive Director of Resources & Regulation 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 taking into account resources available, assumptions made, delivery of cuts options and the availability of reserves to mitigate "in year" pressures.

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 is 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.

8.7.8 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. These pressures are highlighted in the forecast outturn for 2017/18. It is essential that Members and management continue to address these pressures and implement the measures that have so far been identified.

8.7.9 Subject to;

- Confirmation of Settlement figures
- Unexpected demand pressures
- The achievement of budget cuts options over 2018/19 -2019/20

And, in light of;

- The three year approach taken to the budget
- The effectiveness of the Council's Internal Control framework
- The risk based provision made in the minimum level of General Fund balances
- The Council's overall reserves position

Then I as the section 151 Officer can state that I believe **the budget for 2018/19 to 2019/20 to be robust.**

This statement is in compliance with s25 of the Local Government Act 2003.

9.0 ADEQUACY OF RESERVES

9.1 Under the terms of Part 2 of the Local Government Act 2003, when setting the Council Tax the authority's s151 officer (Interim Executive Director of Resources & Regulation) 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
- Slippage on achievement of cuts options
- 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

	Risk	£000
Pay inflation Cushion: 2018/19 pay negotiations not yet finalised (2% included in the budget).	L	700
Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been set, this contingency assumes a 3.0% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.	M	900
Interest Cushion: Given the fact that the cost of borrowing budget reflects a baseline position in respect of interest rates, that borrowing has been locked in and that the Capital Programme requires no new borrowing then risk in this area is felt to be on the up-side especially with short-term investment rates at an historic low.	M	100
Uncertainty of Income Cushion: Adequate provisions are made for bad debts, however, in the past some income budgets have not been achieved and therefore it is prudent to provide a contingency for all non grant income.	H	400
Business Rate Volatility Cushion: The Council now bears the risk for 100% 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	250
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	H	1,200

been made into 'high risk' budgets and this has helped to mitigate this risk.		
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 slippage which is beyond the Council's control	H	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.	L	190
Contingency for smaller emergencies e.g. highway collapse.	L	190
TOTAL		5,130

9.5 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%	700	420
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%	200	200
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%	380	230
			5,130	4,250

9.6 This would set the minimum balance requirement for 2018/19 at **£4.250m** and it is recommended that Members agree to retain the minimum level of balances at this level, to reflect the risks inherent in the budget strategy, demand pressures, and the increasingly challenging budget reduction targets.

9.7 The forecast position on the General Fund balance at 1 April 2018 is shown in the following table:

	£m
General Fund Balance 31 March 2017 per Accounts	8.393
Less : Forecast overspend 2017/18	-1.838
Less : Minimum balances to be retained in 2017/18	-4.250
Forecast Available balances at 1 April 2018	+2.305

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

9.9 Members should also note that Earmarked Reserves are subject to regular review.

10. FUTURE YEARS

10.1 Announcements from the Government confirm that the deficit reduction plan will continue for the remainder of the Parliament, 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 Members are requested to be mindful of the challenges ahead when considering the 2018/19 – 2019/20 Budget.

COUNCILLOR EAMONN O'BRIEN

CABINET MEMBER FOR FINANCE & HOUSING

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

Steve Kenyon, Interim Executive Director of Resources & Regulation / s151 Officer
Tel: 0161 253 5002
e-mail: S.Kenyon@bury.gov.uk

ADVICE FROM THE ASSISTANT DIRECTOR OF LEGAL & DEMOCRATIC SERVICES AND INTERIM EXECUTIVE DIRECTOR OF RESOURCES & REGULATION

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 Government guidance was issued which says that as Council tax liability applies to the generality of the population; councillors have no unique position in that regard.

Being a council taxpayer or being eligible for a discount under the new local arrangements for council tax support **are not disclosable pecuniary interests** as specified in the regulations.

(Therefore a **councillor does not need to seek a dispensation** in order to participate in discussions or vote on decisions in the council tax setting process or local arrangements for council tax support)

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 retained 100% under the pilot operating within Greater Manchester.

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 2).

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.

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.

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Project Title	3 Y E A R T O T A L S	2018/2019			2019/2020			2020/2021		
	Gross Cost £	Gross Cost £	External £	BC Cost £	Gross Cost £	External £	BC Cost £	Gross Cost £	External £	BC Cost £
<u>CHILDREN AND YOUNG PEOPLE</u>										
Basic need	8,898,203	3,943,361	3,943,361	0	4,954,842	4,954,842	0	0	0	0
Devolved Formula Non-VA schools	921,925	460,963	460,963	0	460,963	460,963	0	0	0	0
School Condition Allocation	4,598,317	2,299,158	2,299,158	0	2,299,158	2,299,158	0	0	0	0
CHILDREN AND YOUNG PEOPLE	14,418,445	6,703,482	6,703,482	0	7,714,963	7,714,963	0	0	0	0
<u>COMMUNITIES AND WELLBEING</u>										
Adult Personal Social Services Capital Allocation - Comm	910,000	455,000	455,000	0	455,000	455,000	0	0	0	0
Grant Funded Major Adaptations - Private Housing - Dis	2,904,507	968,169	968,169	0	968,169	968,169	0	968,169	968,169	0
COMMUNITIES AND WELLBEING	3,814,507	1,423,169	1,423,169	0	1,423,169	1,423,169	0	968,169	968,169	0
<u>RESOURCES AND REGULATION</u>										
LTP H/ways Capital Maintenance	3,280,000	1,640,000	1,640,000	0	1,640,000	1,640,000	0	0	0	0
HWs Maintenance - DfT Incentive Element	410,000	239,000	239,000	0	171,000	171,000	0	0	0	0
Kirklees Valley LNR - WIG	13,093	13,093	13,093	0	0	0	0	0	0	0
Capitalised Salaries	70,000	70,000	0	70,000	0	0	0	0	0	0
H/ways network (Council Approved)	6,500,000	3,500,000	0	3,500,000	3,000,000	0	3,000,000	0	0	0
ICT various (OD approved - free up revenue)	441,050	146,975	0	146,975	146,975	0	146,975	147,100	0	147,100
ICT various (OD approved - no call on reserve)	1,206,929	952,725	0	952,725	213,182	0	213,182	41,022	0	41,022
RESOURCES AND REGULATION	11,921,072	6,561,793	1,892,093	4,669,700	5,171,157	1,811,000	3,360,157	188,122	0	188,122
<u>HOUSING PUBLIC SECTOR</u>										
Housing programme Major works (HRA funded)	29,490,000	9,830,000	9,830,000	0	9,830,000	9,830,000	0	9,830,000	9,830,000	0
HOUSING PUBLIC SECTOR	29,490,000	9,830,000	9,830,000	0	9,830,000	9,830,000	0	9,830,000	9,830,000	0
FULLY FUNDED SCHEMES TOTAL	59,644,025	24,518,444	19,848,744	4,669,700	24,139,289	20,779,132	3,360,157	10,986,291	10,798,169	188,122
PROPOSED CAPITAL PROGRAMME TOTAL	59,644,024	24,518,444	19,848,744	4,669,700	24,139,289	20,779,132	3,360,157	10,986,291	10,798,169	188,122

In addition, the scheme to reinstate Kay Street Bridge in Summerseat was approved by Cabinet on 31st January 2018.

This scheme will be financed from flood damage funding, and added into the programme once final tender costs are established

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Budget Conversation: 2018/2019

Bury Council



Foreword

Thank you for taking time to read the council's **Budget Conversation for the 2018 to 2019 period**.

Last year we carried out a consultation on our proposed three-year budget covering the period 2017 to 2020. This consultation set out our headline cuts programme of **£32 million** for this period. The three-year budget was approved by the council's cabinet in February 2017.

This programme is fixed; however, we would like to update you on a number of issues, and invite you to comment on how and where the programme can be implemented.

As we explained last year, the Government's austerity programme means that councils have had major funding reductions since 2010.

Coupled with increasing demand for services, e.g. in social care, Bury Council has had to make cuts totalling **£65 million** since 2010; this represents 46% of what the council's budget was in 2010.

This trend is likely to continue until at least the end of the current Parliament, with a further 24% reduction in funding proposed, while continuing economic and demographic pressures put ever greater strains on our shrinking resources.

We know that Bury Council will have to make cuts of at least **£32 million** over the period 2017-2020 in order to set a legal, balanced, and sustainable budget and in the first year of this programme of cuts we have already made or identified savings of **£13.3 million** by the end of November 2017.

This pack sets out:

- Important information about the approved council budget 2017-20
- Budget proposals
- Key dates
- How you can be involved

Despite the continuing financial challenges we face, Bury Council has a proud record of delivering quality services, with a high degree of resident satisfaction and underpinned by strong financial management.

We hope you find this document useful and look forward to hearing your views.

Councillor Rishi Shori
Leader of Bury Council

Councillor Eamonn O'Brien
Cabinet member for finance and housing

Context

Councils have had significant funding reductions since 2010, and Bury has been no exception. In addition, Bury has suffered from a particularly low funding base for many years.

As a borough, we have been disadvantaged by government funding formulae for a considerable period, and have consequently not had the level of resources enjoyed by other metropolitan boroughs.

Our population is changing – the total number of residents is going up, and more of us are living longer. An increasing number of elderly residents require council social care support for long-term and increasingly complex conditions.

Service pressures and costs are therefore increasing at the same time as our funding is reducing. The same pressure also applies to other public services in the borough, most notably the NHS.

When we set out our three-year budget proposals, we knew that it was essential for the council and all other relevant agencies to work together to address these demand pressures within the context of reducing resources.

It is equally important that we engage with local residents, as we cannot tackle these challenges alone; we need the support of our communities and neighbourhoods. This is why it is so important that we continue to engage with you and listen to your ideas on how we implement the savings over the coming years.

Council Vision

Our vision is to ***“lead, shape and maintain a prosperous Bury that is fit for the future”*** within the financial constraints forced upon us, ensuring that services are both affordable and sustainable. We will do this through changing the council's approach to public services, focussing on developing resilient neighbourhoods, empowering our communities and residents to self-help where possible, and improving the quality of life.

In doing this, the council has set the following priorities:

- Healthy lives for all
- Bury best for business
- Protect and promote our local environment
- Safe, decent and affordable homes
- Equipping people for lifelong employability through skills and learning
- Safe and supportive communities

Support to the most vulnerable people in the borough runs through all these priorities. The council will increasingly become an enabler of services, rather than directly delivering services in the way we have done previously, in line with the above priorities.

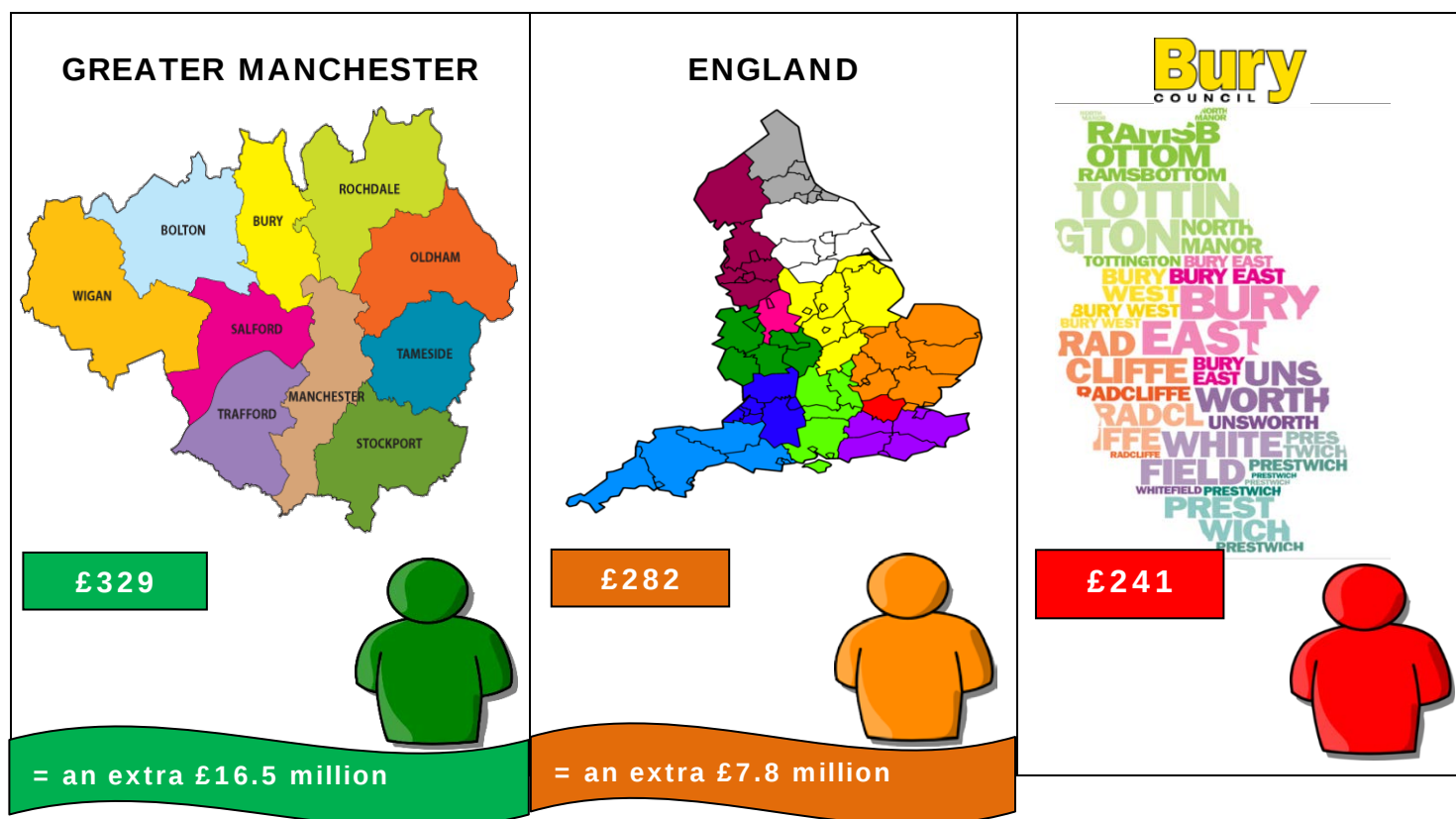
Our Cuts Since 2010

The table below summarises the extent of cuts the council has been required to make, and the forecast cuts to come:

Year	Cut (£m)
2011/12	9.575
2012/13	8.656
2013/14	9.871
2014/15	9.652
2015/16	15.807
2016/17	11.579
2017/18	13.334
2018/19	9.453
2019/20	9.087
TOTAL	97.014

A "Fair Deal" for Bury?

Bury has suffered from a low amount of funding (Settlement Funding Assessment) per head of population for a long period. The illustration below shows what level of resources would be available if we were funded at national and/or regional levels:



What cost increases do we face?

In addition to an already low and significantly reducing level of funding, we face increased costs in the following areas:

- Increased client numbers for Looked after Children and Adult Social Care
- Increasing cost of care packages
- Inflation – pay and prices
- Energy price rises
- Cuts to other “specific” grants that we receive alongside our main settlement

Council Tax

When we set the three-year budget in 2017, it was on the basis that the Council Tax would rise by 1.94% in each of the three financial years it covered: 2017/18, 2018/19 and 2019/20.

The Government has also allowed councils to further increase the Council Tax under a 'Social Care Precept' to meet the rising costs of adult social care. In the current financial year, 2017/18, the precept increase was 3%.

Reserves

As is good practice, councils maintain reserves; these are either legally earmarked for specific purposes, or available to deal with unforeseen circumstances. As a result of continuing low funding levels, Bury's reserves are not as high as those in other authorities. The approved three-year budget prudently assumes no long-term reliance on the use of council reserves; we recognise, though, that temporary use of some reserves may be required to support the budget at some time over the three-year period.

How much do your services cost?

The council delivers more than 150 different services to a population of around 187,500 people (living in approximately 80,000 households).

Every £ we spend is split as follows:

• Adult care services	39p
• Children's services	19p
• Refuse collection/disposal	13p
• Transport levy (TfGM)	10p
• Public health	9p
• Recreation	4p
• Borrowing and capital works	4p
• Highways	3p
• Environmental health	1p
• Planning, economic development, markets	-2p

Cost of social care

- In 2017/18, the amount of Council Tax received by Bury Council was **£74 million**
- In the same year, our spend on adult social care totalled **£52.4 million**
- And our spend on children's social care was **£20.9 million**
- **Together, that equals almost all the Council Tax we receive**
- We provide adult social care for 4,300 people and care packages cost an average of more than £10,000 per person each year
- The cost of care packages have nearly doubled since 2010 - this isn't only due to inflationary pressures but is also due to increased complexity of people being supported through social care.

Budget proposals

Services are delivered from three council departments:

- Resources and Regulation
- Children, Young People and Culture
- Communities and Wellbeing

Plans for each department to address the financial challenges to the year 2020 are summarised in the following pages:

Resources and Regulation (£25 million)

Services provided by this department include:

- Finance
- Human resources
- IT
- Housing benefits / Council Tax / Business Rates
- Highways management
- Planning
- Trading standards
- Property services /markets



Reconfiguration of 'back office' services (£900k): we have a range of 'back office' services including finance, HR, IT etc – all will be reviewed to ensure that structures deliver increasingly efficient and resilient services and make the best use of technology.

Collaborative working (£800k): we will examine areas where services can be provided collaboratively, working with other local authorities and partner organisations.

Rationalisation of council property (£500k): the council's property portfolio has reduced significantly in recent years, and we will continue to rationalise our properties, making further use of technology and 'agile working' practices.

Income generation (£600k): we will seek to provide services to public sector partners and build on our success in trading services inside and outside the borough (e.g. payroll and legal services).

Highways Asset Management (£500k): we will review our approach to managing highways, ensuring structures are efficient and resilient and investment levels are appropriate and affordable.

Investment in digital (£400k): we will make savings through continued investment in new technology.

Facilities management (£750k): we will develop a more corporate approach to facilities management, ensuring assets are managed in a more coordinated manner and statutory obligations continue to be fulfilled.

Enforcement functions (£300k): we will develop a council-wide approach to all enforcement activity.

Treasury management (£1.35m): we will continue to generate surpluses by managing our day-to-day cash flow and our longer term debt / investment portfolio.

Other initiatives (£1.2m): further cost reductions will be generated by reviewing all budget areas over the period to 2020.

Children, Young People and Culture (£30 million)

Services provided by this department include:

- Schools
- Children's social care
- Cleaning and caretaking
- Culture
- Libraries



Optimisation of external funding (£600k): proposed changes to external funding arrangements will enable some services currently directly funded by the council to continue to operate within these funding regimes.

Development of Early Years provision (£1.0m): restructure service provision currently available to all, to a targeted provision available to those in greatest need, mainly through an outreach service.

Looked After Children/Fostering (£1.2m): reducing costs of Looked After Children through investment initiatives and recruiting additional foster carers / adopters to reduce reliance on independent fostering agencies.

Service reviews (£2.6m): continuing reviews of many services within the department with a view to further cost reductions and service reorganisation.

Review of management and administrative structures (£730k): reduced costs through further restructuring of management and administrative functions.

Other initiatives (£720k): includes changes in working practices/arrangements and further central relocation of services from outlying buildings.

Reduced pension liability (£500k): declining number of former employees eligible to belong to the teachers/lecturers' national pension scheme.

Changes to school funding regime (£350k): the Government is eliminating funding for services such as the school improvement service, preferring schools and academies to make their own arrangements funded from their resources.

Communities and Wellbeing (£78 million)

Services provided by this department include:

- Adult social care
- Waste management
- Highways repairs
- Sport and leisure
- Public health
- Environmental health
- Strategic housing



Health and social care integration (£5.7m): closer alignment with the NHS to jointly and robustly manage demand and future service costs.

Review of operational services (£2.1m): all operational services to undergo reviews, ensuring services are increasingly sustainable, affordable, and in line with the council's priorities.

Review of leisure and wellbeing service (£900k): development of a wellbeing service, and working towards a significantly reduced reliance on council support in respect of leisure services and civic halls.

Review of transport arrangements (£300k): reviewing the council's transport fleet requirements in light of service reviews, and seeking the most economic approach to procurement and deployment of vehicles.

Public protection and enforcement (£500k): consolidation of public protection functions, e.g. environmental health, public health, and optimisation of external grants.

Housing-related services (£350k): review of the council's strategic housing services to reduce costs while maintaining appropriate levels of service.

Review of organisational infrastructure (£2.3m): department-wide review of management structures in light of new service delivery models to reduce costs.

Delivery of new models of working with the NHS (£4.0m): Use of funding available under Greater Manchester devolution to support delivery of new working models in partnership with the NHS.

Other initiatives (£850k): review of other service areas to reduce costs and maximise income generating opportunities.

Greater Manchester Devolution

Devolution presents a significant opportunity for the council, with considerable powers and responsibilities devolved from central government to the Greater Manchester region through the elected Mayor of Greater Manchester and the GM Combined Authority. These include:

- Health and social care
- Economic growth
- Planning
- Transport
- Housing
- Skills/employment
- Justice

This is an ongoing process with further devolution arrangements having been confirmed in the national Autumn Budget in 2017.

Greater Manchester has recently published its updated strategy, Our People, Our Place, which highlights wider reforms in the public sector and greater integration in working practices. We will look to take advantage of the best that Greater Manchester devolution has to offer as it develops, while ensuring that our borough retains its local character.

A major opportunity for such integration and new models of delivery is the integration of health and social care. Social care (for adults and children) is the largest service the council provides, accounting for up to 60% of its overall budget. The council is working increasingly closely with the local Clinical Commissioning Group and local health providers as outlined in the borough's Locality Plan. Transformation funding has been secured from Greater Manchester to support delivery of the Locality Plan in our neighbourhoods.

How can I get involved in the conversation?

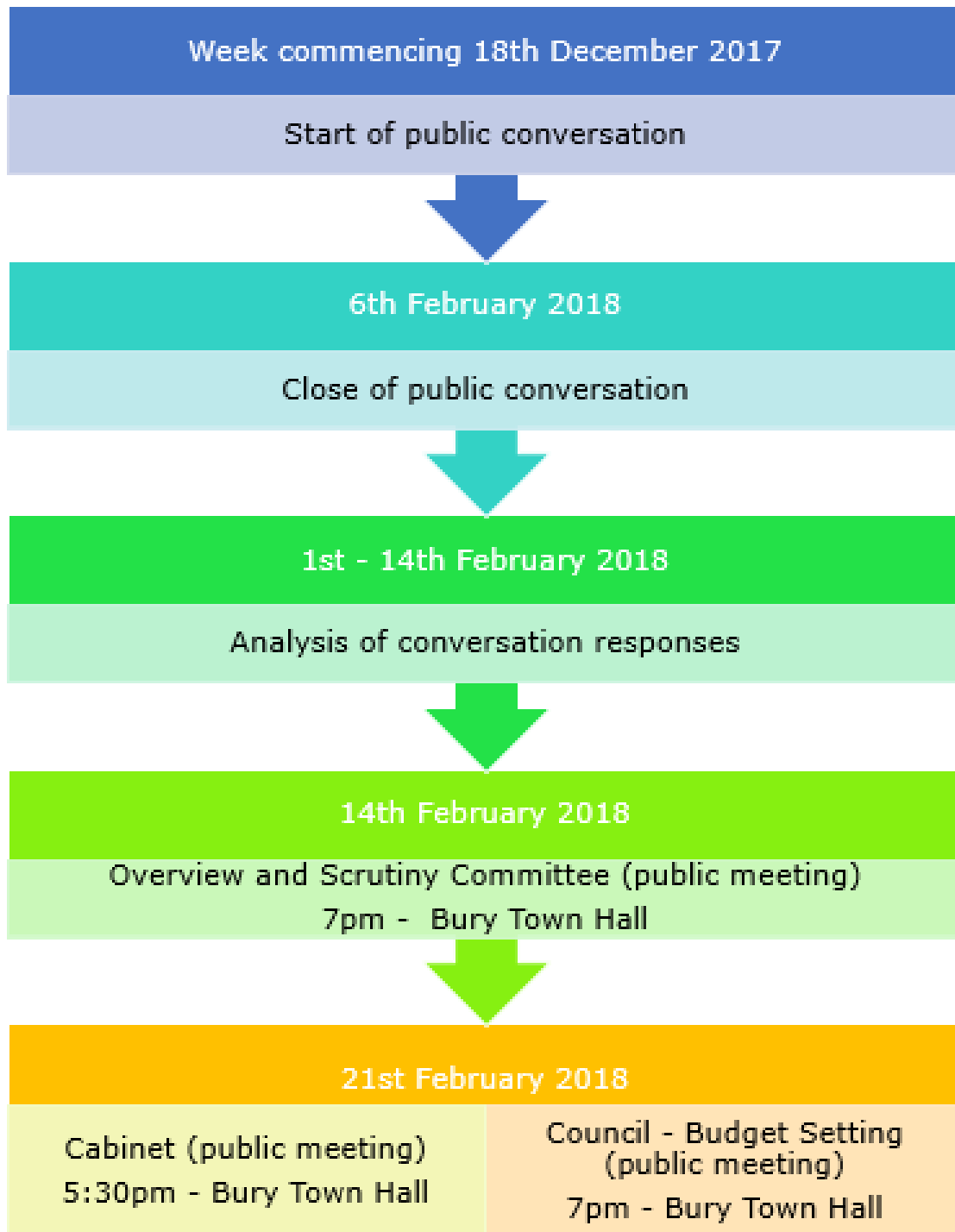
We'd like to hear your thoughts. You can submit these through an online form available on the website below, or by email.

- **Comment online** - www.bury.gov.uk/Budget201720
- **Email us** – BudgetConversation201819@bury.gov.uk

The comments will feed into the budget setting report to Council committees as outlined in the flowchart below. In addition, a summary of the comments received, and analysis of these, will be added to the website in February, once they have been considered.

Large print formats of this document are available upon request – please call 0161 253 5696.

Conversation Process / Key Dates



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REPORT FOR DECISION



Agenda Item	
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DECISION OF:	OVERVIEW & SCRUTINY COMMITTEE CABINET COUNCIL
DATE:	14 FEBRUARY 2018 21 FEBRUARY 2018 21 FEBRUARY 2018
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2018/19
REPORT FROM:	CABINET MEMBER FOR FINANCE & HOUSING
CONTACT OFFICER:	STEPHEN KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION
TYPE OF DECISION:	COUNCIL
FREEDOM OF INFORMATION/STATUS:	The report is for publication
SUMMARY:	The report sets out the suggested Strategy for 2018/19 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: • Capital plans and prudential indicators; • the minimum revenue provision policy; • the current treasury position; • treasury limits in force which will 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 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. The overall strategy for 2018/19 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 2018/19, then savings will be made from running down investments rather than taking out more expensive long term loans. 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.
OPTIONS & RECOMMENDED OPTION	It is recommended that Overview and Scrutiny Committee notes the report; It is recommended that Cabinet approves, for onward submission to Council, the: • Prudential Indicators forecast for 3 years • Treasury Management Strategy for 2018/19 • Schemes of Delegation and Responsibility attached at Appendices 2 and 6 It is recommended that Council approves the report. Reasons for the Decision: It is a requirement of the CIPFA Code that the Council receives an annual treasury management strategy report.
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
KENYON**

EXECUTIVE DIRECTOR: STEVE

Chief Executive/ Senior Leadership Team	Cabinet Member/Chair	Ward Members	Partners
	Leader / Finance		
Scrutiny Committee		Committee	Council
Overview & Scrutiny 14/2/18		Cabinet 21/2/18	Council 21/2/18

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, when it is prudent and economic, 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 2017/18 the average rate of return on investments is 0.26% as at 31st December 2017.

1.6 Treasury Management Strategy for 2018/19

- 1.6.1 The strategy for 2018/19 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
- the 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 Link 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 2018/19 – 2020/21

- 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	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Non-HRA	22,700	27,779	14,688	14,309	1,156
HRA	10,704	8,772	9,830	9,830	9,830
Total	33,404	36,551	24,518	24,139	10,986

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, and so charges the economic consumption of capital assets as they are used.
- 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	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
CFR – non HRA	126,936	123,876	124,704	124,276	120,685
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	245,720	242,660	243,488	243,060	239,469

2.4 Minimum revenue provision (MRP) policy statement

- 2.4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
- 2.4.2 CLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. The Council is recommended to approve the following MRP Statement for the year 2017/18:-
- MRP for supported borrowing will be calculated using 2% over 50 years in equal annual instalments as a variation on the 'Regulatory Method' of calculating MRP.
 - The Asset Life method of calculating repayment provision will be used for unsupported borrowing.

- The Interim Executive Director of Resources and Regulation may from time to time and when it is beneficial to the efficient financial administration of the Council, vary the amounts charged as MRP in the year by making additional and voluntary payments of MRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

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.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Non-HRA	3.10%	3.01%	2.94%	2.87%	2.78%
HRA	14.47%	14.47%	14.47%	14.47%	14.47%

- 2.6.2 The estimates of financing costs include current commitments and the proposals in this budget report.

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 2018/19 the Council's current treasury portfolio position (at nominal value) is detailed below:

		31st March 2017			Forecast 31st March 2018		
		Principal		Avg. Rate	Principal		Avg. Rate
		£0	£0		£0	£0	
Fixed rate funding							
	PWLB Bury	131,453			131,453		
	PWLB Airport	1,726			553		
	Market Bury	62,500	195,679		60,500	192,506	
Variable rate funding							
	PWLB Bury	0			0		
	Market Bury	0	0		0	0	
Temporary Loans / Bonds		3	3		3	3	
Total Debt		195,682	3.95%		192,509	3.95%	
Total Investment Properties		8,313	4.24%		8,313	4.87%	
Total Cash Investments		18,550	0.58%		2,900	0.26%	

- 3.2.2 The forecast accumulated capital financing requirement at the end of 2017/18 is £242.7m. The forecast borrowing at the end of 2017/18 is £192.5m meaning that the Authority is under borrowed by £50.2m.
- 3.2.3 The cash investment portfolio after the Capital Programme has been spent during 2017/18 is estimated to be around £8.5m. 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 2017/18 is 0.26% against the 3 month LIBID investment benchmark of 0.27%.
- 3.2.4 The Council is also investing in properties that deliver a sustainable rental yield; under its "Property Investment Strategy"

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 and the ability to fund under-borrowing by other cash resources.

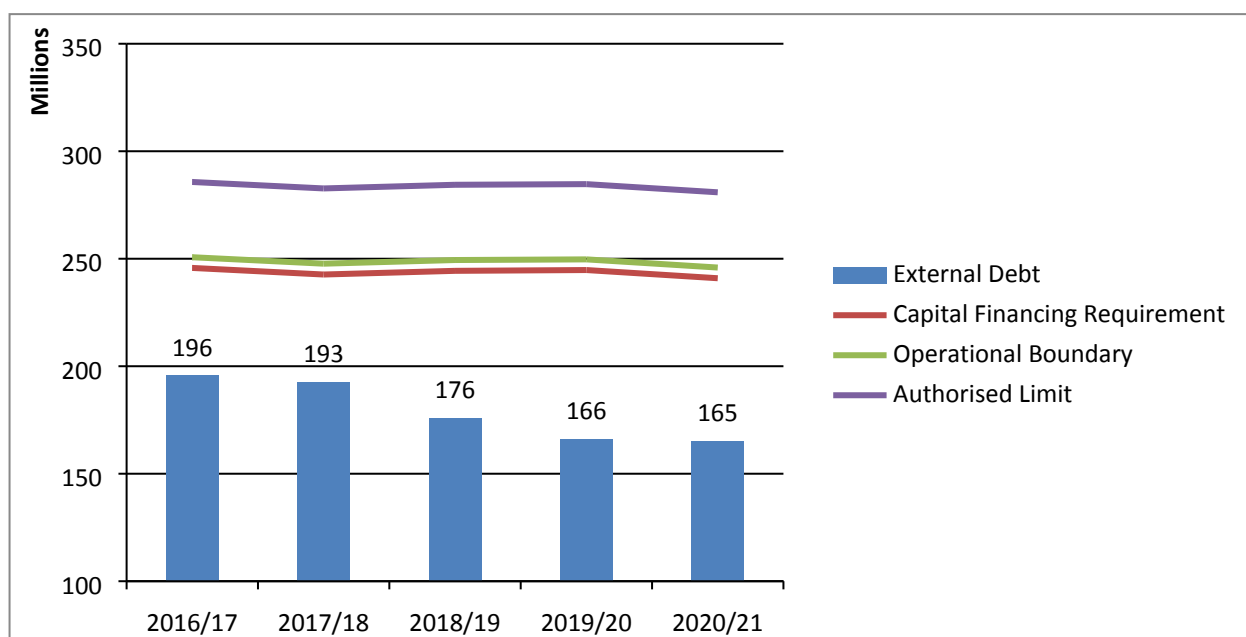
Operational boundary	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	242,700	243,500	243,100	239,500
Other long term liabilities	5,000	5,000	5,000	5,000
Total	247,700	248,500	248,100	244,500

- 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	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	277,700	278,500	278,100	274,500
Other long term liabilities	5,000	5,000	5,000	5,000
Total	282,700	283,500	283,100	279,500



3.4 Prospects for interest rates

3.4.1 The Council has appointed Link 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.

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

3.4.2 The Monetary Policy Committee, (MPC), increased Bank Rate from 0.25% to 0.50% on 2nd November, reversing the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

3.4.3 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led

to a rise in equity values as investors searched for higher returns and took on riskier assets.

- 3.4.4 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
- 3.4.5 From time to time, gilt yields – and therefore PWLB rates – can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.
- 3.4.6 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
- 3.4.7 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.
- 3.4.8 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
 - Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
 - A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
 - Weak capitalisation of some European banks.
 - Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March. Hungary will hold a general election in April 2018.
 - A sharp Chinese downturn and its impact on emerging market countries
- 3.4.9 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within

the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

3.5 Investment and borrowing rates

- 3.5.1 Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- 3.5.2 Borrowing interest rates increased after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectation for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 3.5.3 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.6 Borrowing strategy

- 3.6.1 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 still an issue that needs to be considered.
- 3.6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Interim Executive Director of Resources & Regulation 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in

inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

- 3.6.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.7 Treasury management limits on activity

- 3.7.1 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	2017/18 Upper	2018/19 Upper	2019/20 Upper
Limits for fixed interest rates based on net debt	113%	117%	118%
Limits for variable interest rates based on net debt	-13%	-17%	-18%
Maturity structure of new fixed rate borrowing 2017/18			
	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%	

3.8 Policy on borrowing in advance of need

- 3.8.1 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.

- 3.8.2 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.

3.9 Borrowing Requirement

3.9.1 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.

	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Alternative financing	9,645	3,500	3,000	0
Replacement borrowing	2,427	16,503	10,000	1,000
Borrowing Requirement	12,073	20,003	13,000	1,000

3.9.2 Alternative financing is a combination of running down cash balances and investments and temporary borrowing.

3.9.3 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.

3.10 Debt rescheduling

3.10.1 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).

3.10.2 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).

3.10.3 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.

- 3.10.4 All rescheduling will be reported to the Council, at the earliest meeting following its action.

4.0 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

- 4.1.1 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the 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 MHCLG 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 also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 4.1.3 Ratings will not be the sole determinant of the quality of an institution; 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 achieve this consideration 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..
- 4.1.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 4.1.5 Investment instruments identified for use in the financial year are listed in appendix 2 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.
- 4.1.6 In light of low investment returns, the Interim 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 Ultra Short Dated Bond Funds with a credit score of 1.25
- Light Pink 5 years for Ultra Short Dated Bond Funds 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 The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

4.2.4 All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link 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 daily basis via its Passport website, provided exclusively to it by Link Asset Services. 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 any external support for banks to help support its decision making process.

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 3, 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 stay flat at 0.25% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

4.4.3 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

	Now
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

4.4.3 The overall balance of risks to these forecasts is currently to the upside and are dependent on how strong GDP growth turns out, how quickly inflation pressures rise and how quickly the Brexit negotiations move forward positively.

4.4.5 **Investment treasury indicator and limit** - total principal funds invested for greater than 364/365 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 & 365 days			
£m	2018/19	2019/20	2020/21
Principal sums invested > 364 & 365 days	£10m	£10m	£10m

(This takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.)

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.

4.5 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 Eamonn O'Brien
Cabinet Member for Finance and Housing

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

Steve Kenyon, Interim Executive Director of Resources & Regulation,
Tel: 0161 253 5002
e-mail:s.kenyon@bury.gov.uk

APPENDIX 1: Interest Rate Forecasts 2018 – 2021

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%

APPENDIX 2: 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/ £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating		12 months
UK Government Treasury bills	UK sovereign rating		12 months
Bonds issued by multilateral development banks	AAA (or state your criteria if different)		6 months
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	12 months
Term deposits with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating		

APPENDIX 3: Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Capita Asset Services credit worthiness service.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

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

AA

- Abu Dhabi (UAE)
- France
- U.K.

AA-

- Belgium
- Qatar

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

APPENDIX 4: DELEGATION AND RESPONSIBILITY

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

Interim Executive Director of Resources & Regulation (Steve Kenyon)	Overall supervision of Treasury Management function and cashflow. Regular reviews of Treasury Management Strategy and monitor performance.
Head of Financial Management (Andrew Baldwin)	Deputise for the Interim 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 :-

Steve Kenyon	Interim Executive Director of Resources & Regulation
Andrew Baldwin	Head of Financial Management
Kath Pope	Principal Finance Manager
Jane Bunn	Principal Accountant

APPENDIX 5: 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 6: 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.

The above list of specific responsibilities of the S151 officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). (Officers are recommended to decide whether to extend this section to include the following examples): -

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years – to be determined in accordance with local priorities. Please also note that CIPFA has provided advice that it recognises that it may be too late in the current budget round for 2018/19 for many local authorities to produce a capital strategy this year.)
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees (*We are unclear as to whether CIPFA requires this to be implemented in 2018/19. We are concerned that many local authorities could have difficulty in complying fully with this requirement at this late stage in the 2018/19 budget cycle.*)
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (*TM Code p54*): -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*

- *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
- *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*