REPORT FOR DECISION

Agenda Item	

MEETING:	**OVERVIEW & SCRUTINY COMMITTEE** **CABINET** **COUNCIL**
DATE:	**11 FEBRUARY 2016** **24 FEBRUARY 2016** **24 FEBRUARY 2016**
SUBJECT:	**BUDGET 2016/17**
REPORT FROM:	**DEPUTY LEADER OF THE COUNCIL & 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 2016/17 to 2018/19 (section A) and the Revenue Budget for 2016/17 (section B) and outlines the Council's strategy for tackling the financial challenges ahead.

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

Section B addresses the revenue budget and also outlines;

- the final Local Government Finance Settlement for 2016/17
- Forecast outturn for 2015/16
- The budget strategy for 2016/17 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.

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 2016/2017 at its meeting on 24th February 2016.

Council is recommended to:

Section A – Capital Programme

1. Approve the Capital Programme for 2016/17 and future years, shown in Appendix 1;
2. Approve the proposed financing of the Capital Programme;

Section B – Revenue Budget

3. Note the details of the Settlement Funding Allocation (SFA) for 2016/17;
4. Note the recently approved 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 51,900 as the Council Tax base for the year 2016/17 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 2015/16;
7. Approve that the actual minimum level of balances for 2016/17 be reduced to £4,250,000 in view of the Council's risk profile;
8. Approve, amend or reject the draft Revenue Budget for 2016/17 as shown in the report;
9. Approve the programme of cuts set out at Appendix 5;
10. Note the recommendations of the Schools' Forum around education funding issues;
11. Endorse the statements by the 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 for 2016/17.
13. Accept the 4 year indicative Settlement figures released by the Government; which requires the preparation of an Annual Efficiency Plan.

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 it's 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 2016. 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
1/2/16	Deputy Leader / Finance & Housing		
Scrutiny Committee	**Cabinet**	**Committee**	**Council**
Overview & Scrutiny 11/2/2016	24/2/2016	Special JCCs	24/2/2016

SECTION A

CAPITAL PROGRAMME

1.0 BACKGROUND

1.1 This report outlines the proposed approach in respect of the Capital Programme 2016/17 to 2018/19 and sets out a strategy recommended by the Strategic Leadership Team and endorsed previously by the Cabinet.

2.0 PROGRESS AGAINST THE 2015/16 PROGRAMME

2.1 Details of spend against the 2015/16 Programme are set out in the month 9 Corporate Finance and Performance Monitoring Report presented to the Cabinet on 24th February 2016.

3.0 CAPITAL RESOURCES FOR 2016/17

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

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

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

3.3 The Settlement for 2016/17 makes no allowance for any supported borrowing meaning that the full costs of any additional borrowing will fall against the authority's revenue budget. This follows the approach adopted by the Coalition Government since 2011/12 to limit borrowing by Local Authorities and encourage them to structure local needs and circumstances to their Councils' levels of affordability for borrowing.

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

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

4.0 PROPOSED CAPITAL PROGRAMME 2016/17

4.1 In line with last year's Capital Programme, and the Council's Medium Term Financial Strategy, it is recommended that the 2016/17 – 2018/19 Capital Programme is restricted to fully funded schemes / schemes which are self financing based upon a viable proven Business Case. The proposed Programme is outlined at Appendix 1. In the event that Grant allocations change, the specification of schemes will be reviewed to ensure no under / overspend.

4.2 Invest-to-save schemes will continue to be considered in year, and in line with the Golden Rules will be subject to a verifiable business case that clearly demonstrates that schemes will be self-financing – taking into account any associated borrowing costs.

4.3 Members are reminded that for budgeting purposes capital receipts can only be committed to schemes when the cash from the sale of assets has been received or there is a high level of certainty that the cash will materialise. The extent to which capital receipts are used will be determined to a large degree by property market conditions. This does not hinder development of future schemes, as preparatory work can commence on projects in advance of capital receipts being generated.

4.4 The programme also reflects the Council's continued investment in the Housing Stock to deliver the "Bury Standard"; as approved at Budget Council in February 2014.

4.5 Funding previously made available for works to the A56 corridor in Prestwich remains in the Programme with the balance being carried forward to 2016/17.

5.0 FUNDING THE CAPITAL PROGRAMME

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

Source	2016/17 £	2017/18 £	2018/19 £	Total £
Gross Cost	**25,191,709**	**3,951,100**	**2,436,600**	**31,579,409**
Financed by:				
Grants / External Funding	21,730,509	2,787,900	2,436,600	26,955,009
Earmarked Reserves	1,007,600	70,600	0	1,078,200
S106 Reserves	205,000	207,000	0	412,000
Borrowing (Invest to Save Business Case)	2,248,600	885,600	0	3,134,200
Total	**25,191,709**	**3,951,100**	**2,436,600**	**31,579,409**

5.2 The table shows a limited programme for 2017/18 and 2018/19; this is due to the absence of funding information available at this stage.

6.0 RISKS

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

- **Capital receipts are not realised**. This risk has been addressed through prudent forecasting, in the light of current market conditions however there are no plans to use receipts to fund the Programme.

- **Schemes slip from one year to the next**. This is a normal feature of capital schemes and can occur for a large number of reasons. The risk can be mitigated by slipping corresponding resources between years and is not felt to be high.

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

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

SECTION B

REVENUE BUDGET

1.0 INTRODUCTION

1.1 This section of the report examines the position in respect of the Revenue Budget for the current and future years. The position in respect of the Housing Revenue Account is the subject of a separate paper.

1.2 The report begins by providing Members with details of the final Local Government Finance Settlement for 2016/17 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2015/16 and the draft Revenue Budget for 2016/17. It provides details of the wide-spread consultation process that was undertaken and summarises responses received. Finally it summarises the options identified for meeting the anticipated shortfall on the draft budget.

1.3 Local Government finance is a complex subject and to assist Members a glossary of the main terms and acronyms is attached at Appendix 3.

1.4 A draft settlement was announced on 17th December 2015, outlining figures for 2016/17, and indicative allocations for the following 3 years. Councils can accept these allocations subject to the production of an Annual Efficiency Plan. At the time of writing, final settlement figures have not been confirmed for 2016/17. The report focuses on the 2016/17 Budget; the Medium Term Financial Strategy is being updated to incorporate the indicative allocations provided for 2017/18 to 2019/20.

1.5 Setting the budget for 2016/17 may be a difficult and contentious exercise and so to assist Members the Assistant Director (Legal and Democratic Services) has prepared a note (attached at Appendix 2) setting out in detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning personal and prejudicial interests and goes on to specify the responsibilities of the 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 have been drawn up after a widespread consultation exercise. Further details are given in section 7.

2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17

2.1 The Draft Local Government Finance Settlement for 2016/17 (the Settlement) was released on 17th December 2015 and is due to be confirmed in February 2016. The Settlement provides details of the authority's income from Central Government, and incorporates a number of fundamental changes which took effect on 1st April 2013.

Local Retention of Business Rates

2.2 Historically, Local Authorities collected Business Rates and paid them over to a Central Government "pool"; the Government then redistributed rates income using a formula based approach – relative to perceived need.

2.3 With effect from April 2013, a new approach was introduced whereby Central and Local Government share Business Rates income as follows;

- Government 50%
- Local Authority 49%
- Fire Authority 1%

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

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

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

- Losses on Appeals – now have to be funded 49% by the Council; this includes significant backdating as far back as 2005. The 2016/17 budget assumes a 5% loss in Business Rates yield as a result of appeals. Monthly monitoring already takes place, and this will continue to monitor progress against this assumption.

- Reliefs – The Council is also now liable for 49% of the cost of charitable / empty reliefs. The impact of this is also factored into the Council's estimated Business Rates yield.

- Impact on Business Cases – the consequences of reduced Business Rates yield now have to be factored in to any Business Cases the Council is developing around its own asset base – e.g. rationalisation of office accommodation

- Economic Conditions – make the new approach more of a challenge as any business failures lead to a potential loss of income to the Council

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

- The Council is responding to this opportunity through its Business Engagement Group led by the Interim Executive Director of Resources & Regulation. This groups seeks to "grow" existing Bury businesses and attract new businesses to the Borough.

Move towards 100% Retention

- The Government has stated its intention to move towards 100% retention of Business Rates for Local Authorities by 2020, coupled with the withdrawal of Central Government Support (Revenue Support Grant).

- The impact of this has not been outlined in the settlement data provided, however the Government has stated that this will be "fiscally neutral"; further detail is awaited to establish whether this will be the case for Bury.

- The move to 100% retention increases the risks outlined above, however also provides opportunity / incentive for the Council to grow its Business Rates base.

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 utilisation of any proceeds from this approach has yet to be finally agreed, and the 2016/17 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 2016/17 scheme was approved at Council in December 2015; with no changes.

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 The Spending Review announced that for the rest of the current Parliament, Local Authorities responsible for Adult Social Care *"will be given an additional 2% flexibility on their current council tax referendum threshold to be used entirely for Adult Social Care".* For Bury, an additional 2% equates to £1.353 million.

Overview of Settlement

2.16 Bury's 2016/17 Draft "Settlement Funding Allocation" (SFA), and indicative allocations for future years are as follows;

	Retained Business Rates £m	RSG £m	Total £m	Change %
2015/16	32.683	29.166	61.849	
2016/17	**32.950**	**22.250**	**55.200**	**-10.75%**
2017/18	33.600	15.310	*48.910*	*-11.39%*
2018/19	34.590	10.780	*45.370*	*-7.24%*
2019/20	35.700	6.220	*41.920*	*-7.60%*

2.17 The figures above are based upon a 50:50 share of Business Rates; the Government has announced a move to 100% retention by Local Authorities by 2020. This will see RSG disappear completely, and a scheme is being developed to ensure the proposals are fiscally neutral for Local Authorities.

2.18 The settlement provides indicative allocations for future years (2017/18 – 2019/20). The Government has invited Local Authorities to accept these allocations (with caveats) subject to the preparation of an Annual Efficiency Plan. Members are recommended to accept this offer as whilst future funding cuts remain severe, the proposal offers a degree of certainty to facilitate longer term financial planning.

2.19 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;

	2016/17 £	Additional Resources if funded at this level £m
Bury	**£294.45**	
Greater Manchester Average	£390.99	**£18m**
CIPFA "Family" Average	£326.37	**£6m**
England Average	£342.46	**£9m**

Rolled in Grants

2.20 The settlement has once again seen the "rolling in" of former specific grants – meaning these are now part of the mainstream funding settlement as follows;

Grant	2016/17 £'000
2015/16 Council Tax Freeze Grant	774
Care Act Implementation Grant	1,073
Lead Local Flood Authorities (New element)	27
Sustainable Drainage Systems	9
	1,883

2.21 In addition, 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	2015/16 £'000	2016/17 £'000	Change £'000
Homelessness Prevention Grant	455	456	+1
Learning Disability / Health Reform	4,415	4,508	+93
Lead Local Flood Authorities (existing element)	119	122	+3
	4,989	5,086	**+97**

2.22 The combined effect of this is an additional pressure of **£1.980 million**; this is factored into the draft budget.

2.23 Other rolled in grants e.g. Early Intervention Grant have reduced in value in the settlement. The budget is structured on the basis that the indicative 2016/17 levels will apply – ie no protection at historic levels.

Other Specific Grants

2.24 In addition to the overall Settlement, a number of specific grants are made available. Two of these grants effectively form part of the Council's mainstream budget, and have seen reductions in the 2016/17 Settlement; these grants have been protected at the 2015/16 level in drafting the 2016/17 budget;

Grant	2015/16 £'000	2016/17 £'000	Change £'000
Education Service Grant	2,856	2,611	-245
Housing Benefit Admin Subsidy Grant	1,016	701	-315
	3,872	**3,312**	**-560**

2.25 Allocations for unprotected specific grants have not been confirmed at the time of writing, however significant reductions are anticipated, e.g. Public Health Grant. By their nature, these specific 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.

3.0 FORECAST OUTTURN 2015/16

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 2015 (i.e. month 9):

Department	Budget £'000	Forecast £'000	Variance £'000
Communities & Wellbeing	65,747	66,152	+405
Resources & Regulation	2,633	3,263	+630
Children, Young People & Culture	34,826	35,345	+519
Non Service Specific	30,488	29,538	-950
TOTAL	**133,694**	**134,298**	**+604**

3.4 The forecast shows a net overspend of **£604,000 (0.45%)** against the current budget. Behind this figure, a number of hot-spots remain within specific service areas, particularly around reduced income for some services in light of the prevailing economic conditions and demand pressures in respect of Looked After Children and Vulnerable Adults.

3.5 The overall budget is supported by the continued strong performance of the Council's Treasury Management function.

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

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

4.0 DRAFT REVENUE BUDGET 2016/17

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

- The three year budget forecast
- "Golden Rules" supporting the budget strategy
- Assumptions behind the draft 2016/17 budget
- The potential Council Tax position for 2016/17
- The draft budget for 2016/17

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 2016/17 Budget, and the Council's "Medium Term Financial Strategy" (MTFS) is currently being updated to include the indicative settlement data provided for future years.

4.4.3 It is however clear at this stage that further cuts will be required beyond 2016/17 and the MTFS will be updated to reflect this.

4.5 Golden Rules

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

- The level of General Fund balances retained by the Council to meet unexpected changes in the budget or to fund events that cannot be foreseen will be based on an assessment of the risks faced by the Council but they will not be allowed to fall below the higher of £3m or 2.5% of the net budget (excluding schools). This formula is regularly reviewed and justified in relation to the risk strategy adopted each year.

- The level of one-off options used to support the on-going revenue budget has been successively reduced to the point that there is no longer a reliance on one-off options. It is however recognised temporary funding may be required for some initiatives during their implementation.

- Prudential borrowing will only be undertaken on an Invest to Save basis.

- Pressures and savings will be assessed on a 3-year, rather than a one year basis.

4.5.2 The 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 a single year budget for 2016/17. This approach has been taken as no information was made available for future years until the Draft Settlement was released on 17th December 2015. Indicative funding levels have now been provided for future years.The draft Budget for the coming year has been prepared by rolling forward and re-pricing the current year's budget using a number of specific stages:

- Adding the effects of contractually binding inflation and other allowable cost increases to the current year's budget;
- Calculating the resources that will be available in light of the Government's draft funding settlement and regulations in respect of Council Tax.
- Determining options for addressing the budget deficit, balancing income with expenditure.

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

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

4.6.4 In determining the assumptions to be used to underpin the 2016/17 budget the following considerations have been taken into account; subject to approval by Council:

	Note	2016/17
Pay	1	1.0%
Pensions (increase in employers' contribution rate)	2	0.7%
Prices	3	0.0%
Waste levy	4	cash rise
Transport levy	5	cash rise
Rise in income from fees and charges	6	1.0%
Council Tax base (no. of Band Ds)	7	51,900
Assumed Council Tax rate rise	8	0.0%

Notes:

1. **Pay** - the current budget forecast makes a 1% provision for pay inflation in 2016/17. Further elements are included to recognise the impact of Employers National Insurance increases, and the impact of the Living Wage on the Council's paybill.

2. **Pensions** – based on the latest 3-year actuarial review of the GM Pension Fund the rate at which Bury Council as an employer is required to contribute (as a % of pensionable pay) is forecast to rise from 17.8% to 19.8% between 1 April 2014 and 31 March 2017. Working on a number of technical assumptions around the reduction in the total pay bill and the level of early/ill health retirements it has been agreed with the Fund that this increase can be allocated equally over the three years at 0.7% per annum.

3. **Prices** – it is recognised that inflation is decreasing and given the Council's overall funding position, no provision for general inflation has been made. Directors have been asked to absorb general inflationary pressures and have been invited to bid for funding towards unavoidable/contractual inflationary cost increases. A provision has also been made to contribute to the additional costs the Council may bear as a result of the Living Wage in respect of bought in / commissioned services

4. **Waste Levy –**The Council has embarked upon a recycling initiative which will see residual waste collected on a 3 weekly basis, and the frequencies of recyclable waste collection have increased. The actual levy payable to Greater Manchester Waste Disposal Authority for 2016/17 is estimated to be £12.495m; compared to £11.528m in 2015/16.

   Whilst this is an increase, it is significantly less that the Levy that would have been incurred had the recycling initiative not been introduced.

   Members should also note that individual Districts' shares of the levy are relative, and Bury faces an increase as a number of other Districts are now adopting the 3 weekly collection arrangements introduced by Bury

5. **Transport levy** – the levy comprises two distinct elements. Firstly there is the amount required to fund transport infrastructure improvements across the Greater Manchester area.

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

   The Council's Medium Term Financial Strategy assumed an annual increase of £300,000, however following robust scrutiny of the Combined Authority's budget by Leaders and officers from Bury, Trafford and Wigan Councils, this has been reduced to a net nil increase for Greater Manchester as a whole. This mitigates the extent of cuts the Council is required to make.

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

7. **Council Tax Base** - acting under delegated powers, the Interim Executive Director of Resources & Regulation has calculated the amount of **51,900** Band D equivalent properties as the Council Tax base for the year 2016/17 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This compares to 51,228 in 2015/16.

8. **Council Tax rate** – this report is drafted on the basis of an assumed 0% Council Tax rise; 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 2016/17, the Government has again indicated that any Council Tax increase "at or above 2%" would trigger a referendum.

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

4.6.6 The Council has responded to this challenge through the introduction of its "Investment Strategy" (approved by Cabinet September 2014) which seeks to source additional income through investment in property.

4.6.7 Members' attention is also particularly drawn to towards:

- Ongoing and historical demand led pressures in excess of nominal inflation
- Bury's high VFM rating and comparatively low costs
- The seemingly adverse funding formulae which result in lower funding per head for Bury residents
- The impact of economic conditions on income levels
- The endeavours of the Council to allocate resources in line with residents' wishes and Council priorities.

4.6.8 The 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 2016/17

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 overleaf summarises the initial draft 'standstill' budget for 2016/17:

	2016/17 £000
Opening Budget	**128,642**
Add: one-off cuts from previous year	690
Add: losses on grants now rolled in to settlement	1,980
Add: losses on protected specific grants	560
Inflation:	
Pay	775
Contractual Commitments (incl. Living Wage)	1,910
Energy Costs	254
Income	-424
Staffing costs:	
Increase in employers' pension contribution	570
Increase in National Insurance	1,800
Increments	500
Levies:	
Combined Authority (Transport)	-21
Waste Disposal	967
Corporate / Technical Items:	
Investment Income	-1,000
Reprofiling of Minimum Revenue Provision	-1,855
New Homes Bonus	-900
Estimated Budget	**134,448**
Less:	
Settlement Funding Assessment	-55,200
Council Tax (assumed 0% rise)	-67,669
Estimated Resources	**-122,869**
TOTAL CUTS REQUIRED	**11,579**

** This estimate is based upon an assumed 0% Council Tax increase; it should be noted that the actual level of Council Tax is determined by Council.*

4.7.3 Initial analysis of the 2016/17 Budget in the Medium Term Financial Strategy (approved by Cabinet December 2013) indicated that the Council would have to find cuts of **£15.554m**.

4.7.4 Since this date, a number of corporate / technical measures have been implemented to mitigate the level of cuts required;

- Increases in assumed levels of Investment Income
- Increases in assumed levels of New Homes Bonus
- Reprofiling of the Council's "Minimum Revenue Provision"
- Updated Settlement forecasts in light of subsequent Chancellor's budgets / autumn Statements
- Revised forecasts for levies (Transport & Waste Disposal)
- Updated spend / pressures forecasts

4.7.5 The position is now that the Council is required to make cuts to service budgets totalling **£11.579m**.

4.7.6 Total cuts from 2011/12 are summarised below;

2011/12 **£'000**	2012/13 **£'000**	2013/14 **£'000**	2014/15 **£'000**	2015/16 **£'000**	2016/17 ***£'000***	**Total** **£'000**
9,575	8,656	9,871	9,652	15,807	*11,579*	**65,140**

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

5.0 SCHOOLS' ISSUES

5.1 Dedicated Schools Grant (DSG)

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

5.1.2 The 2016/17 DSG is split into three sub-blocks:

- Schools
- Early Years
- High Needs

5.1.3 Although the DfE provide a funding analysis for each of the three sub-blocks, local authorities can, with the agreement of the Schools Forum, switch resources between each block.

5.1.4 Just before Christmas 2015, the Department for Education (DfE) announced that the 2016/17 amount per pupil would be at the same level as 2015/16.

This is creating substantial problems within schools as there are significant cost increases that schools will have to fund from the same amount per pupil. (see paragraphs 5.5)

	2014/15	2015/16	2016/17
Amount per pupil	£4,229.64	£4,433.88	£4,433.96
Ranking out of 150 LA's	123rd	101st	104th

A change in the technical treatment of non-recoupment academies (NRA) means that Bury's per pupil amount increases by 8p per pupil. In monetary terms the Schools Block increases in total by £2,160 or 0.02%.

As Bury has no NRA's, the funding is static while several other LA's have received larger increases in per pupil funding but with no direct benefit as the technical treatment relates to the funding of academies.

5.1.5 Additional funding recognising the total increase in pupil numbers has been included in 2016/17 DSG amounting to just over £2 million.

5.1.6 Pupil Numbers in Schools and Academies based on the October 2015 census

Pupil Numbers	14/15	15/16	16/17	Variance
Primary schools	14,929	14,568	14,595	27
Secondary schools	10,687	10,742	10,801	59
Academies	660	1,217	1,624	407
Totals	26,276	26,527	27,020	493

5.1.7 The Early Years settlement figure remains indicative until after the January 2016 pupil census and Early Years provider headcounts. The first indicative figures for the 2016/17 Early Years block will be published by the DfE in March.

Bury's per pupil funding remains at £3,123.19 per pupil. In per pupil funding terms, Bury is ranked 149th out of 150 local authorities in England.

5.1.8 The settlement for the High Needs block remains indicative as there is a lack of recognition by the Department for Education for planned growth in Special school places, increased out-borough referrals and some Post-16 growth.
The first indicative figures for the 2016/17 High Needs block will be published by the DfE in March.

Total external grants for schools and academies:

Grant Funding	14/15	15/16	16/17
	£M	£M	£M
Dedicated Schools Grant			
Schools Block	111.0	117.8	119.8
Early Years	9.1	8.6	8.6
High Needs	23.8	24.3	24.3
Other Grants			
Pupil Premium Grant	7.9	8.2	8.2
Universal Infant Free School Meals	1.1	2.2	2.2
Total	152.9	161.1	163.1

5.2 School Funding Formula Values

5.2.1 The Schools Forum at their meeting of 13th January 2015 agreed the funding formula factors for 2015/16. The Forum also agreed to spread the repayment of the £3 million deficit over 2 financial years. Consequently the 2015/16 funding formula factors are also applicable for 2016/17. These funding arrangements were endorsed by the Council at its budget setting meeting on 25th February 2015.

5.2.2 During 2015/16 there has been a significant increase in spending above the budget as a consequence of the demand pressures of additional high needs pupils attending Independent Special schools.

5.2.3 Primary, Secondary and Special school Headteachers were consulted on lowering the "Low Prior Attainment" factor to contribute towards the overspending.

In addition, Central Services funded by the DSG have been asked to contribute to the financial problems over and above funding the large cost increases highlighted in paragraph 5.5.

Following the consultation, which had a 72% response, almost every Primary school accepted the proposals and a majority of Secondary schools also accepted the proposals.

The Schools Forum at their meeting on 19th January 2016 considered the outcomes of the consultation and ratified the results.

5.2.4 The Authority submitted the 2016/17 Schools Block pro-forma to the DfE by the required deadline of 21st January 2016.

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

Factor	Sector	2015/16	2016/17
		£	£
Basic Entitlement	Primary	3,080	3,080
	Secondary KS3	3,750	3,750
	Secondary KS4	4,500	4,500
Deprivation Free School Meals	Primary	65	65
	Secondary	5	5
Deprivation Income Deprivation Affecting Children Indices (IDACI)	Primary		
	Band 1	200	200
	Band 2	300	300
	Band 3	400	400
	Band 4	600	600
	Band 5	800	800
	Band 6	1,000	1,000
	Secondary		
	Band 1	400	400
	Band 2	500	500
	Band 3	600	600
	Band 4	800	800
	Band 5	1,000	1,000
	Band 6	1,200	1,200
Looked After Children (LAC)	Primary	0	0
	Secondary	0	0
Low Prior Attainment	Primary	720	120
	Secondary	1,600	900
English as an Additional Language (EAL)	Primary	65	65
	Secondary	250	250
Lump Sum	Primary	125,000	125,000
	Secondary	125,000	125,000
Pupil Mobility	Primary	500	500
	Secondary	0	0
Sparsity	Primary	0	0
	Secondary	0	0

5.3 Pupil Premium

5.3.1 The Pupil Premium Grant is additional funding provided by Government and is extra to the Dedicated Schools Grant apart from the Early Years PPG.

5.3.2 The amounts per category for 2016/17 are:

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

5.4 Universal Free School Meals for Infants

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

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

5.5 School Funding Issues

5.5.1 In recent months, the Chancellor of the Exchequer and the DfE have clearly stated there will be a real terms increase in school funding in 2016/17, using the GDP deflator as the basis for the increase. The GDP deflator is the HM Treasury's assessment of inflation affecting the UK economy as a whole.

5.5.2 The DfE's announcement just before Christmas 2015 shows **no increase in per pupil funding for 2016/17**, meaning it will be the same level as that in 2015/16.

5.5.3 This means the significant increases in costs will have to be funded from existing budgets and the Institute of Fiscal Studies have estimated that this could be between 5% and 8% of schools' total budgets.

5.5.4 The major increases in costs include –

- Pay awards for teachers and non-teachers; it is proposed that the latter could receive above the 1% pay awards announced for the public sector for the next 2 years
- Living Wage – approx 7% in 2016/17, rising to 34% by 2019/20
- Staff increments
- National Insurance changes – approx 2% increase on the paybill
- FYE Pension Increases
- Running costs, such as energy

5.5.5 There are 493 additional pupils over the numbers in the 2015/16 funding year, which will mean an extra £2 million of funding, but nearly all of this will be used in providing education for these increased numbers.

5.5.6 Deprivation – we principally use data from IDACI (Income Deprivation Affecting Children Index), which was last updated in 2010 when the economy was at a very low point (DfE's view).

The latest review that took place this year is based on a much improved economy and for many schools several of their pupils are now in the lower bandings.

This is resulting in some significant changes for a number of schools, with some of the largest 'losers' triggering funding from the per pupil Minimum Funding Guarantee.

5.5.7 Efficiencies – DfE want schools to achieve approx 2½% of their total budgets through efficiencies in 'back office' staff and procurement and not by savings on front-line staff.

The DfE will be advising schools and academies how these efficiencies can be achieved during 2016. The DfE views that these 'efficiencies' will offset some of the cost increases shown in paragraph 5.5.4.

5.6 Education Services Grant (ESG)

5.6.1 The ESG is provided to LA's and academies, who receive this funding to compensate them for the increased costs of the additional responsibilities they inherit from local authorities when they achieve academy status.

5.6.2 The ESG for LA's is being reduced by £10 from the £87 per pupil in 2015/16 to £77 per pupil in 2016/17. This equates to a £¼ million funding reduction to the Council.

5.6.3 Nationally this equates to approx £80 million throughout England and the Chancellor's recent Budget said that £600 million would be saved, which is assumed to be over the life of this Parliament rather than each year, by 2019/20. This indicates that the ESG will reduce by greater amounts in the next 3 financial years, beginning in 2017/18.

5.6.4 The services classified within the ESG that Bury spends money on are:

- Education Welfare Service/School Attendance
- School Improvement
- Asset Management
- Statutory & Regulatory duties

5.6.5 As more and more schools convert to academy status, then the ESG Bury currently receives is transferred to the academies, which is in addition to the reduced amounts that will occur during the next 3 years.

5.6.6 The DfE will shortly be consulting on what functions local authorities will be required to do in time for implementation for April 2017.

5.6.7 This will be at the same time as the National Funding Formula for schools will begin.

6.0 OPTIONS FOR BALANCING THE 2016/17 BUDGET

6.1 The table at 4.7.2 highlights the need to make ongoing cuts to service budgets totalling **£11.579** million in response to the Council's reduced funding position, and known pressures.

6.2 A priority led model has been used again for the 2016/17 budget and seeks to allocate initial cuts targets between services according to the following factors;

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

6.3 In examining ways of achieving cuts, Cabinet Members and Directors have been asked to question:

- The number of services that they provide
- The quantity of each service
- The quality of each service
- Alternative ways of delivering each service including the use of volunteers
- Options for increasing income

6.4 Directors and Cabinet Members have also been mindful of the Council's new 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

6.5 The total proposed cuts for 2016/17 are summarised by Department in the table below (this now reflects the new Department structure, and savings created from the move from 4 to 3 departments):

Department	2016/17 Cuts £m
Communities & Wellbeing	6.021
Children, Young People & Culture	3.053
Resources & Regulation	2.505
Total	**11.579**

6.6 Cuts are summarised by category in the table below;

Area	Amount £m
Alternative Service Delivery Models	1.990
Grant Optimisation	1.450
Grants to the Voluntary Sector	0.150
Income Generation	1.600
Better Use of Buildings / Assets	0.150
Procurement Savings	1.788
Service Redesign	2.471
Staff Restructuring	1.780
Use of New Technology	0.200
	11.579

6.7 Further details are included in the "Information Pack" at Appendix 4, which formed the basis of resident / stakeholder consultation.

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

7.0 CONSULTATION PROCESS

7.1 A full budget consultation exercise ran from 10th December 2015 to 9th February 2016 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 the BAME Forum
- Health & Wellbeing Board

7.2 In total, the consultation exercise has generated **XXXX** responses; summarised at Appendix 5.

7.3 The Council is proud of its record on consultation and actively seeks to engage with the public and services users. The results of the consultation exercise have been analysed and Members must give the "product" of consultation conscientious consideration when taking a decision.

7.4 The council's ongoing commitment to an open and transparent decision making process and consultation has allowed the council to involve the local community from the very start of the budget setting process and this approach supports the Council's values of 'putting residents first'.

8.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES

8.1 In line with the provisions of s25 of the Local Government Act 2003, the 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 year, and indicative allocations have been provided for future years subject to the Council producing an Annual Efficiency Plan.

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

8.4.3 The approach to managing the issues faced by the Children's Services and Adult Care Services budget has been strengthened in recent years with the relevant Star Chambers focussing on the current budgetary position / strategy, and also future developments (Adolescent Support Unit, Extra Care Schemes) 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 2016/17 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 2016/17 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 Although the budget, through the operation of the cash ceiling scheme, makes a universal assumption that income generated from fees and charges will increase by 1% compared to the previous income budget, the increase in actual fee charging levels, is more responsive and policy-led. As a result, depending on the current income being achieved, market conditions and the particular activity, fees can be increased by more or less than 1%.

8.4.9 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. All overspends at the end of a financial year are a first call on the following year unless agreed otherwise by Members.

8.4.10 It is clear from monitoring that has taken place during 2015/16 that the difficult economic climate continues to have a downward effect on various charging streams such as property services income, car park fees etc. It is important that this is considered by Members and Directors when the budget is set. There is provision within the minimum level of balances calculation to reflect this risk.

8.4.11 In terms of general expenditure budgets the single largest area of expenditure is on staff pay. There remains a clear indication from the Government that Local Authorities should continue to exercise pay restraint, and the 2016/17 proposed budget makes a 1% provision for a pay award. Members should note that there is a £0.9m provision within the Minimum Level of Balances (albeit on a one-off basis) to mitigate the impact in the event of a higher pay award; however the likelihood of this event has been downgraded to low.

8.4.12 An allowance has been built into the budget to contribute to the on-going cost of the 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 (49%) by the Council, and the local business rates yield now has a direct budgetary consequence. A prudent approach to the estimated yield has been adopted. This risk is set in to increase with the move to 100% Business Rates retention, however this move also presents opportunities to the Council if it is able to grow its Business Rates base.

- Similarly, the Council must now stand 49% of the cost of business rate appeals; this applies to appeals already lodged, and any that may be lodged in the future. Clearly the outcome of appeals is unknown, and cannot be estimated. The liability also has the potential to be backdated

as far back as 2005. Provision has been made within the budget to contribute to the cost of appeals.

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

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.

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

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

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

8.5.3 Given the robust nature of the budget strategy, the Council's strong record of performance and the strength of the budget monitoring process these risks are felt to be controlled for 2016/17. However it is important that this level of risk is mitigated and provision has therefore been made within balances to cover these items.

8.6 System of Internal Control

8.6.1 The Council has adopted a Governance Statement that concluded that there are no weaknesses in the authority's overall control framework and the Audit Commission has commented favourably on the framework. The Governance Statement and the control framework have been regularly reviewed, most recently by the Audit Committee on 25 January 2016, 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 and, subject to recessionary pressures/impacts being adequately assessed and resourced, then indications suggest that this is the case.

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

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

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

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

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

8.7.9 In the light of the risk assessment, the details of the budget as set out in this report, the strength of the Council's Internal Control framework and the risk based provision made in the minimum level of General Fund balances then I as the section 151 Officer can state that I believe **the budget for 2016/17 to be robust.** This statement is in compliance with s25 of the Local Government Act 2003."

8.7.10 The Council maintains other reserves alongside the General Fund Balances, however these are earmarked locally for known pressures / liabilities. A number of earmarked reserves are also ring-fenced by statute; for example funds relating to specific grants which are subject to conditions.

9.0 ADEQUACY OF RESERVES

9.1 Under the terms of Part 2 of the Local Government Act 2003, when setting the Council Tax the authority's s151 officer (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
- Changes in inflation
- Unforeseen movements in interest rates

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

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

9.5 On **Boxing Day 2015**, widespread floods were experienced across the Borough; this involved considerable damage, loss of structures and flooding of numerous properties. In addition to the significant human impact upon residents and local businesses, the Council faces a financial burden in respect of reinstatement, and recovery / clean up. These costs are still being assessed at the time of writing.

9.6 The Council will be seeking to recover costs under the "Bellwin Scheme" and through wider Government support. The Bellwin scheme operates like an insurance policy, whereby the Council would be required to pay an "excess" amounting to approximately £250,000 before support is available.

9.7 It is proposed that this excess is funded from the minimum level of balances; reducing the amount held for the "Emergency Expenditure Cushion" from £480,000 to £230,000.

	Risk	£000
Pay inflation Cushion: This represents a sum equivalent to 1%; over and above the level provided for in the 2016/17 draft budget. It should be noted that Pay Awards represent an ongoing cost, whereas use of reserves is only a one-off measure.	L	900
Non-Pay inflation Cushion: Should inflation suddenly rise after the budget has been	M	900

set, this contingency assumes a 3.0% increase in inflation on non-discretionary items and that discretionary items will be kept within budget.		
Interest Cushion: Given the fact that the cost of borrowing budget reflects a baseline position in respect of interest rates, that borrowing has been locked in and that the Capital Programme requires no new borrowing then risk in this area is felt to be on the up-side especially with short-term investment rates at an historic low.	M	100
Uncertainty of Income Cushion: Adequate provisions are made for bad debts, however, in the past some income budgets have not been achieved and therefore it is prudent to provide a contingency for all non grant income.	H	400
Business Rate Volatility Cushion: The Council now bears the risk for 49% of any changes in Business Rates yield (either through appeals, reliefs, or economic conditions). Historical analysis highlights the volatility of this income stream, and it is therefore prudent to provide a contingency.	H	100
Unpredictable and Demand Led Expenditure Cushion: The Council's budgets have had to be kept to a minimum level for a number of years. As a result, the flexibility to compensate for overspends, by reducing spending in other areas is limited. Conversely, significant investment has been made into 'high risk' budgets and this has helped to mitigate this risk. This contingency is now based upon 2.0% of all "demand led" expenditure largely in the areas of Children's and Adult Care Services.	H	1,200
Budget Strategy Risk Cushion: There is always likely to be a level of uncertainty around the Authority's ability to achieve savings options; this provision allows for any slippage which is beyond the Council's control	M	1,250
Emergency Expenditure Cushion: Provision must be made for the cost of emergencies that by their very nature cannot be predicted and for any uninsured losses.	L	190

Contingency for smaller emergencies e.g. highway collapse.	L	190
TOTAL		**5,230**

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

	Risk Level	**Likelihood**	**Provision £000**	**Max. Impact £000**
Pay inflation cushion	L	60%	900	540
Non-pay inflation cushion	M	80%	900	720
Interest cushion	M	80%	100	80
Uncertainty of income	H	100%	400	400
Business Rate Volatility	H	100%	100	100
Demand led expenditure cushion	H	100%	1,200	1,200
Budget strategy cushion – savings	M	80%	1,250	1,000
Emergency expenditure cushion	L	60%	380	230
			5,230	**4,270**

9.9 This would set the minimum balance requirement for 2015/16 at **£4.270m.** The calculation made under the Golden Rules would lead to a minimum level of balances of £3.7m and it is recommended that Members agree to retain the minimum level of balances at the higher level of **£4.250m** (rounded), this being a decrease of £0.250 million from 2015/16.

9.10 The forecast position on the General Fund balance at 1 April 2016 is shown in the following table:

	£m
General Fund Balance 31 March 2015 per Accounts	**11.580**
Less : Minimum balances to be retained in 2015/16 Less : Forecast overspend 2015/16 Less : Earmarked to fund Equal Pay Settlements	-4.500 -0.604 -1.500
Forecast Available balances at 1 April 2016	**4.976**

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

10. FUTURE YEARS

10.1 Announcements from the Government 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 The settlement provides indicative allocations for future years (2017/18 – 2019/20). The Government has invited Local Authorities to accept these allocations (with caveats) subject to the preparation of an Annual Efficiency Plan. **Members are recommended to accept this offer** as whilst future funding cuts remain severe, the proposal offers a degree of certainty to facilitate longer term financial planning.

10.4 The Council's Medium Term Financial Strategy is currently being updated to reflect the position through to 2019/20.

10.5 Members are requested to be mindful of the challenges ahead when considering the 2016/17 Budget.

COUNCILLOR RISHI SHORI

DEPUTY LEADER OF THE COUNCIL &

CABINET MEMBER FOR FINANCE & HOUSING

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