

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 Care Act Implementation	4,600	4,697	4,782
Lead Local Flood Authorities	1,281	1,305	1,803
Sustainable Drainage Systems	152	155	158
	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

3.31 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:

		2017/18	2018/19	Change		
				Primary	Secondary	Total
				£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 Age Weighted Pupil Unit (AWPU)	Key Stage 3	3,750	3,860	6,741	6,816	25,278,750	26,309,760	1,031,010
	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								
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:

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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.

DRAFT