

REPORT FOR DECISION

Agenda Item	
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MEETING: OVERVIEW & SCRUTINY COMMITTEE
CABINET
COUNCIL

DATE: 11 FEBRUARY 2015
25 FEBRUARY 2015
25 FEBRUARY 2015

SUBJECT: BUDGET 2015/16

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

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

TYPE OF DECISION: COUNCIL

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

SUMMARY: The report provides Members with details of the Capital Programme for 2015/16 to 2017/18 (section A) and the Revenue Budget for 2015/16 (section B) and outlines the Council's strategy for tackling the financial challenges ahead.

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

Section B addresses the revenue budget and also outlines;

- the final Local Government Finance Settlement for 2015/16
- Forecast outturn for 2014/15
- The budget strategy for 2015/16 and the approach to balancing the budget.

It also examines the robustness of the assumptions

behind the budget forecast and it contains an assessment of the adequacy of the Council's balances.

The report is prepared on the basis that the Bury element of the Council Tax will be frozen for 2015/16, to be funded (in part) by £0.774m of Central Government grant.

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

**OPTIONS &
RECOMMENDED OPTION**

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

The Cabinet is recommended to note the report and request that the Council consider and determine all matters relating to the Budget, the Capital Programme and the level of the Council Tax for 2015/2016 at its meeting on 25th February 2015.

Council is recommended to:

Section A – Capital Programme

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

Section B – Revenue Budget

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

10. Note the recommendations of the Schools' Forum around education funding issues;
11. Endorse the statements by the Assistant Director of Resources (Finance and Efficiency) on the robustness of budget assumptions and on the minimum level of balances;
12. Determine the level of the Council Tax for 2015/16.

IMPLICATIONS:

Corporate Aims/Policy Framework:

Do the proposals accord with Policy Framework? Yes.

Statement by Section 151 Officer:

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

Statement by Executive Director of Resources & Regulation:

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

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

Health & Safety Implications:

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

Equality/Diversity implications:

In taking financial decisions, the Council must have "due regard" to its duties under the Equality Act. An Initial Assessment of the financial policies of the Authority has been undertaken to determine whether there is any differential impact upon particular groups and whether the impact is adverse. Members are asked to note that no potentially adverse differential impact on particular groups has been identified. It is intended that if any proposals are identified as carrying any significant risks, further consultation and assessment will be undertaken if necessary.

Considered by Monitoring Officer:

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

Are there any legal implications?

The Council has a legal obligation to pass its budget and Council Tax resolutions by March

2015. Legal issues are set out in Appendix 3.

Wards Affected:

All

Scrutiny Interest:

Overview & Scrutiny Committee

TRACKING/PROCESS

EXECUTIVE DIRECTOR: Mike Owen

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

SECTION A

CAPITAL PROGRAMME

1.0 BACKGROUND

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

2.0 PROGRESS AGAINST THE 2014/15 PROGRAMME

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

3.0 CAPITAL RESOURCES FOR 2015/16

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

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

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

3.3 The Settlement for 2015/16 makes no allowance for any supported borrowing meaning that the full costs of any additional borrowing will fall against the authority's revenue budget. This follows the approach adopted by the Coalition Government since 2011/12 to limit borrowing by Local Authorities and encourage them to structure local needs and circumstances to their Councils' levels of affordability for borrowing.

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

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

4.0 PROPOSED CAPITAL PROGRAMME 2015/16

- 4.1 In line with last year's Capital Programme, and the Council's Medium Term Financial Strategy, it is recommended that the 2015/16 – 2017/18 Capital Programme is restricted to fully funded schemes / schemes which are self financing based upon a viable proven Business Case. The proposed Programme is outlined at Appendix 1. In the event that Grant allocations change, the specification of schemes will be reviewed to ensure no under / overspend.
- 4.2 Invest-to-save schemes will continue to be considered in year, and in line with the Golden Rules will be subject to a verifiable business case that clearly demonstrates that schemes will be self-financing – taking into account any associated borrowing costs.
- 4.3 Members are reminded that for budgeting purposes capital receipts can only be committed to schemes when the cash from the sale of assets has been received or there is a high level of certainty that the cash will materialise. The extent to which capital receipts are used will be determined to a large degree by property market conditions. This does not hinder development of future schemes, as preparatory work can commence on projects in advance of capital receipts being generated.
- 4.4 Members are advised that negotiations are now complete with Transport for Greater Manchester to secure funding to implement an agreed option for relocating Radcliffe bus station. This scheme was approved and included in last year's programme, and will be brought forward into 2015/16.
- 4.5 Additional funding (£500,000) made available in the 2014/15 budget for works to the A56 corridor in Prestwich also remains in the programme and any balance will be carried forward to 2015/16.
- 4.6 The programme also reflects the Council's continued investment in the Housing Stock to deliver the "Bury Standard"; as approved at Budget Council in February 2014.

5.0 FUNDING THE CAPITAL PROGRAMME

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

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

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

6.0 RISKS

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

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

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

SECTION B
REVENUE BUDGET

1.0 INTRODUCTION

- 1.1 This section of the report examines the position in respect of the Revenue Budget for the current and future years. The position in respect of the Housing Revenue Account is the subject of a separate paper.
- 1.2 The report begins by providing Members with details of the final Local Government Finance Settlement for 2015/16 and the impact on Bury. It then goes on to provide details of the forecast revenue outturn position for 2014/15 and the draft Revenue Budget for 2015/16. No forecast is provided beyond this date given the lack of detailed information available, and the likelihood of a Comprehensive Spending Review in 2015. It provides details of the wide-spread consultation process that was undertaken and summarises responses received. Finally it summarises the options identified for meeting the anticipated shortfall on the draft budget.
- 1.3 Local Government finance is a complex subject and to assist Members a glossary of the main terms and acronyms is attached at Appendix 3.
- 1.4 A draft settlement was announced on 18th December 2014, outlining figures for 2015/16, however in a departure from recent years, no indicative allocations were given for 2016/17. At the time of writing, final settlement figures have not been confirmed for 2015/16.
- 1.5 Setting the budget for 2015/16 may be a difficult and contentious exercise and so to assist Members the Assistant Director (Legal and Democratic Services) has prepared a note (attached at Appendix 3) setting out in detail Members' individual responsibilities to set a legal budget and how Members should approach the task. It also reminds Members about the rules concerning personal and prejudicial interests and goes on to specify the responsibilities of the Assistant Director of Resources (Finance and Efficiency) who fulfils the role of the Council's section 151 Officer. The paper concludes with specific legal advice over aspects of the budget which potentially may give rise to difficulties. **Members are strongly advised to give their best attention to this advice.**
- 1.6 Members should also be aware that the budget proposals have been drawn up after a widespread consultation exercise. Further details are given in section 7.

2.0 FINAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2015/16

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

Local Retention of Business Rates

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

- 2.3 With effect from April 2013, a new approach was introduced whereby Central and Local Government share Business Rates income as follows;
- Government 50%
 - Local Authority 49%
 - Fire Authority 1%
- 2.4 The Government has established a notional **baseline** (based upon average collections over the last 2 years); uplifted annually by the Retail Price Index.
- 2.5 The combination of Business Rates Baseline, Top Up, and Revenue Support Grant are now referred to as the "**Settlement Funding Allocation**" (SFA) and essentially represent the Authority's baseline income for the year – before Council Tax.
- 2.6 This new approach presents a number of risks to the Council;
- Losses on Appeals – now have to be funded 49% by the Council; this includes significant backdating as far back as 2005. The 2015/16 budget assumes a 5% loss in Business Rates yield as a result of appeals. Monthly monitoring already takes place, and this will continue to monitor progress against this assumption.
 - Reliefs – The Council is also now liable for 49% of the cost of charitable / empty reliefs. The impact of this is also factored into the Council's estimated Business Rates yield.
 - Impact on Business Cases – the consequences of reduced Business Rates yield now have to be factored in to any Business Cases the Council is developing around its own asset base – e.g. rationalisation of office accommodation
 - Economic Conditions – make the new approach more of a challenge as any business failures lead to a potential loss of income to the Council
 - Equally however, in addition to the obvious social / economic benefits, there is now a "budgetary" incentive for the Council to stimulate business growth in the Borough
 - The Council is responding to this opportunity with the creation of a Business Engagement Group led by the Executive Director of Resources & Regulation. This groups seeks to "grow" existing Bury businesses and attract new businesses to the Borough.

Pooling

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

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

Localised Council Tax Benefit Scheme

- 2.12 Historically the Council paid out around £14m in Council Tax benefits and this was funded by central government grant. With effect from 2013/14, the Council Tax Benefit scheme was "localised" allowing Councils to devise their own schemes relevant to local circumstances. Alongside this however, there was an average 10% reduction in grant funding.
- 2.13 The local scheme is reviewed annually; the 2015/16 scheme was approved at Council in December 2014.
- 2.14 Whilst fully costed and affordable now, Members are reminded of the volatility of claimant numbers, and the risk of any increases rests with the Council going forward.

Overview of Settlement

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

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

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

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

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

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

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

Response to Settlement Consultation

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

Rolled in Grants

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

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

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

Other Specific Grants

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

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

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

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

Education Services Grant

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

3.0 FORECAST OUTTURN 2014/15

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

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

3.3 The table below shows a summary of the forecast outturn based on information available at 31 December 2014 (i.e. month 9):

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

- 3.4 The forecast shows a net overspend of **£902,000 (0.6%)** against the current budget. Behind this figure, a number of hot-spots remain within specific service areas, particularly around reduced income for some services in light of the prevailing economic conditions and demand pressures in respect of Looked After Children and Vulnerable Adults.
- 3.5 The overall budget is supported by the continued strong performance of the Council's Treasury Management function.
- 3.6 Star Chambers have continued to pay close attention to the situation as have the Overview & Scrutiny and Audit Committees.
- 3.7 The impact that this position has on the General Fund balance is explained in section 9.

4.0 DRAFT REVENUE BUDGET 2015/16

- 4.1 This section of the budget report will examine a number of issues pertinent to the budget preparation process:
- The three year budget forecast
 - "Golden Rules" supporting the budget strategy
 - Assumptions behind the draft 2015/16 budget
 - The potential Council Tax position for 2015/16
 - The draft budget for 2015/16
- 4.2 The report then goes on to consider the Schools' position, options for balancing the budget, the consultation process and the robustness of the estimates behind the draft budget.
- 4.3 This in turn leads to an assessment of the adequacy of the Council's minimum level of balances which is then linked to an evaluation of the financial implications of the risks that are faced by the Council in relation to it delivering on its priorities and in relation to the budget strategy and assumptions.

4.4 Medium Term Budget Forecast

- 4.4.1 The Council has consistently and successfully taken a medium-term view of its financial position. In doing this it recognises that assumptions and estimates become less reliable further into the future but it is felt that remains a prudent and sensible approach to take. Of course the ability to do this is limited by the availability of Settlement figures.
- 4.4.2 The table below shows the current forecast cuts as per the Council's "Medium Term Financial Strategy" (MTFS). Members should not that the 2016/17 figure is indicative and no funding data for 2016/17 is currently available. The MTFS is continually reviewed, and will be formally revised when further funding data is available.

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

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

4.5 Golden Rules

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

- The level of General Fund balances retained by the Council to meet unexpected changes in the budget or to fund events that cannot be foreseen will be based on an assessment of the risks faced by the Council but they will not be allowed to fall below the higher of £3m or 2.5% of the net budget (excluding schools). This formula is regularly reviewed and justified in relation to the risk strategy adopted each year.
- The level of one-off options used to support the on-going revenue budget has been successively reduced to the point that there is no longer a reliance on one-off options. It is however recognised temporary funding may be required for some initiatives during their implementation.
- Prudential borrowing will only be undertaken on an Invest to Save basis.
- Pressures and savings will be assessed on a 3-year, rather than a one year basis.

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

4.5.3 The Golden Rules are now enshrined in the Council's financial policies and it is clear that they have had a positive influence on the Council's financial standing.

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

4.6 Assumptions

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

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

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

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

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

	Note	2015/16
Pay	1	1.0%
Pensions (increase in employers' contribution rate)	2	0.7%
Prices	3	0.0%
Waste levy	4	cash rise
Transport levy	5	cash rise
Rise in income from fees and charges	6	1.0%
Council Tax base (no. of Band Ds)	7	51,227.93
Council Tax rate rise	8	0%

Notes:

- 1. Pay** - the current budget forecast makes a 1% provision for pay inflation in 2015/16. Along with provision made in the 2014/15 budget, this funds the recently announced 2 year national pay award of 2.20% (part year 2014/15 and full year 2015/16).
- 2. Pensions** – based on the latest 3-year actuarial review of the GM Pension Fund the rate at which Bury Council as an employer is required to contribute (as a % of pensionable pay) is forecast to rise from 17.8% to 19.8% between 1 April 2014 and 31 March 2017. Working on a number of technical assumptions around the reduction in the total pay bill and the level of early/ill health retirements it has been agreed with the Fund that this increase can be allocated equally over the three years.
- 3. Prices** – it is recognised that inflation is decreasing and given the Council's overall funding position, no provision for general inflation has

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

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

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

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

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

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

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

- 6. Income** - this is a further general assumption and Directors are free to decide how to meet the requirement depending on their individual circumstances, and the market sensitivity of prices.
- 7. Council Tax** - acting under delegated powers, the Assistant Director of Resources (Finance & Efficiency) has calculated the amount of **51,227.93** (Band D equivalent) as the Council Tax base for the year 2015/16 in accordance with regulations made under section 33(5) of the Local Government Finance Act 1992. This figure is the same as 2014/15.
- 8. Council Tax rate** – this report is drafted on the basis of a 0% Council Tax rise which would also trigger payment of a Freeze Grant. Members are asked to note that the proposed 2015/16 Freeze Grant only compensates the Council at a rate equivalent to around a 1% rise in Council Tax. Members should be aware that a freeze is not mandatory although a rise of any level will mean that the grant is foregone.

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

Members must be mindful of the fiduciary duty of the Council to the Council Tax payers of the borough and the need to consider the

consequences to Council Tax payers of the level of expenditure set within the budget. In future years they will also be advised to consider carefully the increase in the tax rate in the light of any possible capping criteria and in the light of legislation to allow a community challenge to the proposed increase.

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

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

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

4.6.7 Members' attention is also particularly drawn to towards:

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

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

4.7 The Draft Budget 2015/16

4.7.1 This budget reflects the assumptions set out in section 4.6 above, but excludes costs funded by the Dedicated Schools Grant.

4.7.2 The budget also preserves "rolled in" grants at their historic levels as outlined at 2.20.

4.7.3 The table overleaf summarises the initial draft 'standstill' budget for 2015/16:

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

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

4.7.4 Analysis of the draft Settlement for 2015/16 indicates that the Council will have to find a further **£15.807m** of cuts, on top of the cuts already made/agreed for previous years. This position was outlined in the Medium Term Financial Strategy approved by Cabinet in December 2013.

4.7.5 Total cuts from 2011/12 are summarised below;

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

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

5.0 SCHOOLS' ISSUES

5.1 Dedicated Schools Grant (DSG)

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

5.1.2 The 2015/16 DSG is split into three sub-blocks:

- Schools
- Early Years
- High Needs

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

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

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

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

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

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

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

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

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

5.1.11 Total external grants for schools and academies:

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

5.2 School Funding Formula Values

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

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

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

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

5.3 Pupil Premium

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

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

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

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

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

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

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

5.4 Universal Free School Meals for Infants

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

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

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

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

6.2 A priority led budget model has been developed for 2015/16 which seeks to allocate initial cuts targets between services according to the following factors;

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

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

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

6.4 Directors and Cabinet Members have also been asked to be mindful of the strategic overview to budget setting for 2015/16 agreed by the Cabinet in December 2013 which suggested that the Council will need to:

- Change the public's expectations about what the Council can deliver
- Work more closely with individuals and communities to deliver services
- Provide a stronger focus on demand reduction
- Undertake an examination of alternative ways of delivering remaining Council services

- Change the way residents access services

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

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

6.6 Cuts are summarised by category in the table below;

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

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

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

7.0 CONSULTATION PROCESS

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

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

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

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

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

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

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

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

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

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

8.0 RISK ASSESSMENT/ROBUSTNESS OF ESTIMATES

8.1 In line with the provisions of s25 of the Local Government Act 2003, the Assistant Director of Resources (Finance and Efficiency) as section 151 officer is required to make a statement about the robustness of the estimates made when setting the Council's budget.

8.2 In doing this, the section 151 officer must consider the risk that is inherent in the budget strategy and the extent to which these risks are mitigated or accommodated by the Council's planning and control mechanisms. This is done by examining four particular issues:

1. The degree to which the budget (and the Council's reserves) are linked to the risks facing the Council
2. The level of risk implicit in the individual elements of the Council's budget
3. Risks inherent in the budget strategy itself
4. The strength of the Council's internal control framework

8.3 Corporate risks

8.3.1 The Council has a robust risk management process that determines, assesses, manages, monitors and reviews risks that are both cross-cutting (corporate) and departmental in nature. For the purposes of corporate budget setting and management it is felt appropriate to utilise the corporate risks, given that there are explicit links between departmental and corporate risks. Departmental risk assessments are used in the management of individual Department's budgets.

8.3.2 A Member-level Corporate Risk Management Group has been established to monitor the corporate risks and to assess the effectiveness of the mitigation action that has been identified. Provision has been made in the draft Budget to address these risks, or allowance has been made within balances to cover possible events that are out with of the Council's control.

8.4 Risk implicit in specific areas of the budget

8.4.1 As far as income to the Council is concerned there are a number of key sources including Settlement Funding Assessment (Revenue Support Grant and locally retained business rates), Specific Grants, Council tax and fees and charges. In respect of Settlement Funding Assessment, the income stream is now known for the coming year, however there is no indication of resources for future years. It is clear that there are going to be severe reductions in public spending over the course of the next Parliament, and increasingly likely beyond.

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

8.4.3 The approach to managing the issues faced by the Children's Services and Adult Care Services budget has been strengthened in recent years with the relevant Star Chambers focussing on the current budgetary position / strategy, and also future developments that are aimed at reducing costs, managing risks and restructuring services and care packages.

8.4.4 A recent initiative has been to utilise one-off sources of funding to pay for promotional / awareness raising campaigns in respect of fostering & adoption; the business case being that ultimately this investment would lead to sustainable and ongoing reductions in the number of children being placed with costly external providers. Early indications are that this initiative is proving successful.

8.4.5 However it is clear that pressures in these areas are unlikely to diminish due to increasing demands arising from an ageing population, from increasing client

expectations and from transitional cases from Children's Services. In recognition of the problems associated with managing such budgets provision has been made within the minimum balances calculation that is shown in the next section of the report.

- 8.4.6 Turning to income budgets, ring-fenced and other grants are properly allocated and accounted for in accordance with the relevant Government department rules and subject to rigorous external audit checking.
- 8.4.7 Council Tax collection is wholly within the control of the Council. The budgeted level of collection in 2015/16 is 97%, based on past, current and projected performance, and the heightened risk of collecting from empty properties and second homes. Collection rates will continue to be rigorously monitored, with particular emphasis on these areas.
- 8.4.8 Fees and charges (excluding Council House rents) are budgeted to raise over £50m of income in 2015/16 from almost a thousand sources. Of all the funding sources this is the area where there is greatest risk of under achievement. To assess the risk it is necessary to understand how relevant income budgets are constructed, fee levels determined, how the charges are made, income collected and recovery procedures applied.
- 8.4.9 Although the budget, through the operation of the cash ceiling scheme, makes a universal assumption that income generated from fees and charges will increase by 1% compared to the previous income budget, the increase in actual fee charging levels, is more responsive and policy-led. As a result, depending on the current income being achieved, market conditions and the particular activity, fees can be increased by more or less than 1%.
- 8.4.10 This means that individual service managers, who understand their part of the business best, are able to advise Members in respect of charging regimes and, once the fees and charges are agreed, are accountable for their efficient collection. Any under achievement of an income budget has to be managed by the service in question through the operation of the cash ceiling scheme. This may mean reducing spending in related areas or even in other unrelated areas. All overspends at the end of a financial year are a first call on the following year unless agreed otherwise by Members.
- 8.4.11 It is clear from monitoring that has taken place during 2014/15 that the difficult economic climate continues to have a downward effect on various charging streams such as property services income, car park fees, planning charges etc. It is important that this is considered by Members and Directors when the budget is set. There is provision within the minimum level of balances calculation to reflect this risk.
- 8.4.12 In terms of general expenditure budgets the single largest area of expenditure is on staff pay. There remains a clear indication from the Government that Local Authorities should continue to exercise pay restraint, and the 2015/16 proposed budget makes a 1% provision for a pay award – this is in line with the 2 year national pay settlement recently announced. Members should note that there is a £0.9m provision within the Minimum Level of Balances (albeit on a one-off basis) to mitigate the impact in the event of a higher pay award; however the likelihood of this event has been downgraded to low in light of the two year pay agreement.

- 8.4.13 An allowance has been built into the budget to fund the on-going cost of the pay and grading review based on detailed pay modelling of the results. In view of this it is felt that the risk inherent in this element of the budget is low.
- 8.4.14 Staff account for a majority the Council's expenditure budget and the next significant areas of budget, in descending order of significance are:
- Supplies, services transport and contract payments
 - Housing and Council Tax benefits
 - Debt charges
 - Levies (Transport/Waste/Environment Agency)
- 8.4.15 Supplies and services etc. account for around 33% of the gross budget and the majority of this is subject to contractual provision. These contracts provide for food, oil, building and highway materials, IT equipment, stationery and external residential and supported accommodation for children, the elderly and people with learning and physical disabilities. The draft budget assumes a cash freeze on the individual budgets for such items although Executive Directors have been encouraged to bid for support to meet inflationary costs where it is unavoidable (e.g. contractual commitments) or where it impacts on business-critical services.
- 8.4.16 The Council exercises sound Treasury Management practices and has a reasonable volatility ratio. Interest rate predictions are up-dated regularly and action taken to mitigate any negative effects, wherever possible. The present downward trend in interest rates was anticipated and both investments and borrowing have been locked-in long-term (as far as prudence allows) at optimal market rates, so minimising risk. Members should note the increasing difficulty in securing a satisfactory interest yield as the number of institutions the Council can safely invest with is reducing.
- 8.4.17 For levies the budget has been set at the level recommended by the external bodies concerned.

8.5 Risks inherent in the budget strategy

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

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

8.5.2 In addition, other more general risks still apply

- The capacity of the Council to respond to the level of savings required whilst maintaining essential services could be compromised. Over 420 staff have left the organisation since 2010. This risk cannot be eliminated, however can be mitigated by the Council's proven track record on performance management.
- Savings targets may not be achieved. This risk is mitigated by rigorous financial control / budget monitoring. The Council has a strong record of delivering a balanced budget and achieving a favourable outturn position. This approach includes the use of Star Chambers which ensure both Portfolio Holders and managers have a clear understanding and ownership of the budget and pressures in their area. **Members should note that the required savings in 2015/16 are 50% higher than they have been in recent years, and this brings with it additional risk.**
- Budgets may overspend during the year as a result of unforeseen pressures, or demand outstripping the levels originally anticipated. The budgetary control framework will give early warning of this, allowing remedial action to be taken where possible.
- Assumptions may prove to be inaccurate due to external influences, e.g. national economic conditions

8.5.3 Given the robust nature of the budget strategy, the Council's strong record of performance and the strength of the budget monitoring process these risks are felt to be controlled for 2015/16. However it is important that this level of risk is mitigated and provision has therefore been made within balances to cover these items.

8.6 System of Internal Control

8.6.1 The Council has adopted a Governance Statement that concluded that there are no weaknesses in the authority's overall control framework and the Audit Commission has commented favourably on the framework. The Governance Statement and the control framework have been regularly reviewed, most recently by the Audit Committee on 15 December 2014, and no major issues have been identified.

8.7 Conclusion

- 8.7.1 In light of the above the Assistant Director of Resources (Finance and Efficiency) has made the following comment on the robustness of the estimates:
- 8.7.2 "There can be no guarantee that expenditure will be contained within each and every budget. The nature of the Council's business means that varying demands will be faced during the year and under and over achievement will occur.
- 8.7.3 However, the aim should be that the budget in total is sustainable and, subject to recessionary pressures/impacts being adequately assessed and resourced, then indications suggest that this is the case.
- 8.7.4 Estimates have been based on the best and latest information available and provision has been made within the minimum balances to meet unforeseen eventualities (see section 9 of this report). However the pace and scale of the current and future cuts in public spending are a major concern and this should be recognised in the approach adopted to the budget.
- 8.7.5 Close monitoring of the budget, together with responsive management action, will be necessary to ensure that income and expenditure remain within budget. However significant improvements have been seen in monitoring processes, particularly around the continued development of the Agresso system.
- 8.7.6 Service pressures have been identified by Directors and it will be necessary to evidence action that has been taken to mitigate any pressures that have not been funded. It will also be necessary to continue with the sound approach to risk management that the Council has adopted.
- 8.7.7 This year's budget process continues to be frustrated by the significant changes to the system of Local Government Finance (e.g. Business Rates Retention), and the late announcement of the Council's funding settlement.
- 8.7.8 Finally, experience of past years has highlighted that a number of budgets face considerable pressure, particularly services reliant upon income generation, services for people with physical and learning Disabilities and out-of borough placements for children. It is essential that Members support the work of Star Chambers and that Members and management continue to implement the measures that have so far been identified.
- 8.7.9 In the light of the risk assessment, the details of the budget as set out in this report, the strength of the Council's Internal Control framework and the risk based provision made in the minimum level of General Fund balances then I as the section 151 Officer can state that I believe **the budget for 2015/16 to be robust**. This statement is in compliance with s25 of the Local Government Act 2003."
- 8.7.10 The Council maintains other reserves alongside the General Fund Balances, however these are earmarked locally for known pressures / liabilities. A number of earmarked reserves are also ring-fenced by statute; for example funds relating to specific grants which are subject to conditions.

9.0 ADEQUACY OF RESERVES

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

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

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

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

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

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

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

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

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

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

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

	Risk Level	Likelihood	Provision £000	Max. Impact £000
Pay inflation cushion	L	60%	900	540
Non-pay inflation cushion	M	80%	900	720
Interest cushion	M	80%	100	80
Uncertainty of income	H	100%	400	400
Business Rate Volatility	H	100%	100	100
Demand led expenditure cushion	H	100%	1,200	1,200
Budget strategy cushion – savings	M	80%	1,250	1,000
Emergency expenditure cushion	L	60%	800	480
			5,650	4,520

9.7 This would set the minimum balance requirement for 2015/16 at **£4.520m**. The calculation made under the Golden Rules would lead to a minimum level of balances of £3.7m and it is recommended that Members agree to retain the minimum level of balances at the higher level of **£4.500m** (rounded), this being an increase of £0.100 million from 2014/15.

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

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

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

10. FUTURE YEARS

10.1 Announcements from the Government suggest that the deficit reduction plan will continue for a number of years, and there will be sustained pressure on Public Service budgets, coupled with increasing demand pressures.

10.2 Forecasting the potential impact is extremely difficult, and compounded by non-controllable factors such as;

- Business Rate yield
- Business Rate appeals
- Incidence of Council Tax Benefit Claims
- Inflation (Pay & Prices)
- Interest Rates
- Demand led cost pressures

10.3 The Council's Medium Term Financial Strategy suggests further savings in the order of £16 million will be required for 2016/17.

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

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

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

COUNCILLOR MIKE CONNOLLY

LEADER OF THE COUNCIL & CABINET MEMBER FOR FINANCE

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ADVICE FROM THE ASSISTANT DIRECTORS OF LEGAL & DEMOCRATIC SERVICES AND FINANCE & EFFICIENCY

1. INTRODUCTION

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

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

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

2. WHEN THE BUDGET MUST BE SET

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

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

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

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

3. NOTICE

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

4. COUNCIL TAX REFERENDUM

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

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

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

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

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

5. MEMBERS' FIDUCIARY DUTIES

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

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

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

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

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

Under the Code of Conduct, members are required, when reaching decisions, to have regard to relevant advice from the Section 151 Officer and the Monitoring Officer. If the Council should fail to set a budget at all or fail to set a lawful budget, contrary to the advice of these two officers there may be a breach of

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

6. ARREARS OF COUNCIL TAX AND VOTING

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

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

Members should note the following points:

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

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

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

7. DISCLOSABLE PECUNIARY INTERESTS

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

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

Personal and Prejudicial Interests

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

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

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

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

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

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

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

Dispensations

Dispensations are available in respect of prejudicial interests under the Code of Conduct but only in very limited circumstance and only from the Standards Committee. The Standards Committee can only meet on 5 clear days notice and, unless certified as urgent, business can only be transacted if 5 clear days notice of it has been given..

8. RESPONSIBILITIES OF CHIEF FINANCIAL OFFICER AND AUDITORS' POWERS

Section 151 Officer and Monitoring Officer

Section 114 of the Local Government Finance Act 1988 places the Section 151 Officer under an obligation to prepare a report (to full Council) if it appears to him that the expenditure the Authority proposes to incur in a financial year is likely to exceed its resources available to meet that expenditure. A failure to take note and act on such a report could lead to a complaint. Similarly, the Council's Monitoring Officer is required to report to full Council if it appears to her that a decision has been or is about to be taken which is or would be unlawful or would be likely to lead to maladministration.

Under section 25 of the Local Government Act 2003 the Section 151 Officer is now required to report to the authority on the robustness of the estimates made for the purposes of the calculations required to be made by the Council. These are the estimates which the Cabinet is required to determine and submit to Full Council and are contained within this report.

However, if the Council were minded to agree a budget based on different estimates e.g. if Council did not agree with the estimates provided by the Leader/Cabinet then those estimates which the Council would adopt would effectively become 'the estimates' for the purpose of Section 25 and as such should be subject to a report by the Section 151 Officer.

External Auditors' Powers

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

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

9. SPECIFIC BUDGET ADVICE

Balances and Other Budget Calculations

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

In addition to advising on the robustness of the estimates as set out above, the Section 151 Officer is also required to report on the robustness of the proposed

financial reserves. The same advice applies to these as to the other calculations required to be made by the Council. The Section 151 Officer's view of the level of reserves is contained within the report.

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

Alternative Proposals

If alternative proposals to those contained in this report are moved at the budget setting meeting, the Section 151 Officer will need to consider if the estimates or proposed financial reserves contained in this report are affected and whether a further report (which may be oral) is required under section 25 of the Local Government Act 2003. If the Section 151 Officer is unable to report on the estimates or the reserves because of the lateness of the alternative proposals then he will not be able to comply with this statutory requirement. The Act does not say what happens if this duty is not fulfilled and nor does it say whether the Council can set the budget without that advice. It follows from this then that there is no express statutory prohibition. However, the authority is at risk of a Judicial Review by an interested person e.g. a resident or the Audit Commission if the Council has failed to have regard to a report of the Section 151 Officer on the estimates and reserves used for its budget calculations.

Expenditure Charged to the Housing Revenue Account

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

GLOSSARY OF TERMS

Budget requirement

This is the amount each authority estimates as its planned spending, after deducting any funding from reserves and any income it expects to raise (other than from the Council Tax and general funding from the Government). The budget requirement is set before the beginning of the financial year.

Business rates

These rates, called National Non-Domestic Rates, are the means by which local businesses contribute to the cost of providing local authority services. Business rates income is now shared 50:50 between Government and Local Authorities.

Council Tax

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

Council Tax base

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

Council Tax bands

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

Council Tax discounts and exemptions

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

Council Tax Referendum

Under the provisions of the Local Audit & Accountability Act, The Secretary of State has the power to require any billing or precepting Authority which sets an excessive Council Tax increase to hold a public referendum (see Appendix 3).

Net Revenue Expenditure (NRE)

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

Reserves

This is a council's accumulated surplus income (in excess of expenditure) which can be used to finance future spending.

Revenue Expenditure

Expenditure financed by grant, locally retained business rates, council tax and use of reserves.

Revenue Support Grant (RSG)

The cash amount that the Government pays towards the general cost of Council services. The RSG is used to offset our general costs and this keeps down the level of the Council Tax.

Ring-fenced grant

A grant paid to local authorities which has conditions attached to it, which restrict the purposes for which it may be spent.

Settlement Funding Assessment

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

Specific Grants

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

Spending Power

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