
**Manchester City Council
Report for Resolution**

Report to: Executive – 16 February 2011

Subject: Revenue Budget 2011/12 and 2012/13

Report of: The Chief Executive, City Treasurer and City Solicitor

Purpose of the Report

This report proposes a budget for 2011/12 and an indicative budget for 2012/13 based on the outcome of the Financial Settlement. It also sets out the issues which need to be taken into account prior to the Council finalising the budget and setting the Council Tax for 2011/12. This report should be read in conjunction with the report on the agenda relating to the settlement and reports from Strategic Directors relating to budget proposals for their services.

Recommendations

The Executive is requested to:

- (i) Note the outcome of the Local Government Settlement 2011/13
- (ii) Take into account the report entitled Local Government Settlement 2011/13 – Implications and Strategic Response (The Strategic Report) elsewhere on this agenda, in reaching decisions relating to the final revenue budget 2011/12 and indicative revenue budget for 2012/13
- (iii) Consider the detailed Reports from individual Strategic Directors elsewhere on this agenda (Directorate Reports) and the proposals for service and expenditure changes, in reaching decisions in relation to the final budget for 2011/12 and indicative budget 2012/13
- (iv) Agree that the Medium Term Financial Plan 2010/11 – 2012/13 be updated in accordance with the proposals set out in this report.
- (v) Approve as set out in this Report the budget proposals for 2011/12 as final and the budget proposals for 2012/13 as indicative subject to regular review
- (vi) Note the City Treasurer's review of the robustness of the estimates and the adequacy of the reserves
- (vii) Give specific approval to
 - a. the freeze on Council Tax for 2011/12 at 2010/11 level (having considered the implications of this as set out in this Report)

- b. the contingency sum of £1.2m in 2011/12 with an indicative sum of £3.2m 2012/13 (see paragraphs 46-47)
 - c. the central budgets to be allocated sum of £6.289m in 2011/12 with an indicative sum of £7.670m 2012/13 and delegate the final allocations to the City Treasurer (see paragraphs 48-49)
 - d. items for new investment of £12.209m for 2011/12 and £12.377m for 2012/13 as set out in paragraphs 53 – 55 and Appendix 3.
 - e. Corporate budget requirements to cover the cost of levies of £58.689m for 2011/12 and an indicative sum of £63.534m (subject to final notification of levies from other bodies) (see paragraphs 48-49) for 2012/13 and capital financing costs of £48.564m for 2011/12 with an indicative sum of £53.419m for 2012/13 (see 50-52)
 - f. The proposed utilisation in 2011/12 of £1.2m from Capital Fund to fund the Strategic Development Team. (see paragraph 54)
 - g. The proposed utilisation in 2011/12 of £2.505m (paragraphs 28-31) of the surplus from the on street parking and bus lane enforcement reserves after determining that any surplus from these reserves is not required to provide additional off street parking in the authority
 - h. The position on reserves as identified in the report and in Appendix 4 subject to the final call on reserves after any changes are required to account for final levies etc.
 - i. The grant of delegated authority to the City Treasurer to amend departmental cash limit budgets to take account of savings arising from corporate procurement activity and housekeeping savings throughout 2011/12 and the allocation from savings made to meet unavoidable inflation increases as agreed by the City Treasurer.
- (viii) Note that the Secretary of State for Communities and Local Government has yet to announce details of the criteria under which he intends to exercise his 'capping powers'.
- (ix) Approve that delegated authority be given to the City Treasurer and Chief Executive in consultation with the Executive Member for Finance and Human Resources and the Leader of the Council to draft the recommended budget resolution for budget setting Council in accordance with the legal requirements outlined in this report and to take into account the decisions of Executive and any final changes to account for final announcement on levies and other technical adjustments.
- (x) Approve the Prudential Indicators for 2011/12 – 2012/13 as presented in Appendix 2 subject to any final adjustments that may be made arising from the recommendations above and changes to the Capital Programme.

- (xi) Agree that monitoring arrangements in respect of the implementation of the proposed service changes and the budget for 2011/12 and implications for 2012/13 should be established as set out in this Report and that regular reports arising from this monitoring be submitted to Executive.

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report sets out detailed proposals for the delivery of a balanced budget for 2011/12 and an indicative budget for 2012/13.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
Neighbourhoods of Choice	

Implications for:

- Equal Opportunities Policy – Equality considerations are set out in the Report
- Risk Management – The risk management implications are set out in the report
- Legal Considerations – The legal implications are set out in the report

Financial Consequences – Revenue and Capital

The report seeks approval to a Medium Term Financial Plan for 2011/12 and 2012/13 and a draft revenue budget for the Council for 2011/12.

Elsewhere on the agenda are the Local Government Settlement 2011-13: Implications and Strategic Response report, the four Directorate Budget Proposal Reports, the Capital Programme Report and the Treasury Management Strategy. These reports together underpin the detailed financial spend of the Council for the coming years and provide a framework for Revenue and Capital planning for the two years 2011/12 and 2012/13.

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Background documents (available for public inspection):

Report to Executive on 22 December re Provisional Local Govt Settlement
Report to Executive on 19 January on Financial Settlement 2011/12 + 2012/13.
Workforce issue
Final Local Government Financial Settlement from CLG 31 January 2011

Introduction

1. The overall position on the financial context in which the Council has to determine the budget is set out in the earlier reports on this agenda which members will need to consider alongside this report. This report sets out the detailed financial information relevant to finalising the budget and setting the Council Tax. The report also sets out the current position in relation to staffing and workforce issues.
2. The Council's legal obligations are also set out in more detail later in the report and in Appendix 1. These include not only the statutory duties but also the duty to balance the needs of the community for adequate and efficient services and the interests of Council Tax payers and ratepayers together with the duty to act reasonably. Compliance with these duties poses particular challenges in the current financial situation.
3. In addition because of the scale of the required reductions more of the proposals than usual have particular legal requirements that must be complied with prior to implementation. These are set out in the Directorate's reports together with the implications.
4. The report is necessarily lengthy and detailed to ensure that the council can fulfil all of its legal obligations, in what is a very challenging financial time. The structure of the report is as follows:
 - All the financial information necessary to ensure that all the components of the budget are covered in paragraphs 5 to 67
 - The workforce issues are covered in paragraphs 68 to 73
 - The impact on the Third Sector is covered in paragraphs 74 to 75
 - The legal issues – including the duties of the City Treasurer and other statutory duties - are covered in paragraphs 76 to 86
 - Risks and mitigation strategies and robustness of the estimates are covered in paragraphs 87 to 95
 - The conclusions of the analysis are brought together at paragraph 100

Financial Information

5. The previous budget reports on the agenda set out the overall financial context and the scale of the savings that the Council needs to achieve following the publication of the Financial Settlement for Local Government.
6. The overall position for the years 2011/12 and 2012/13 can be summarised as follows:

Table One: Financial Position 2011/12 and 2012/13

	2011/12 £'000	2012/13 £'000
Resources:		
Government Support	378,209	337,463
Council Tax Receipts	142,588	144,328
Non Ringfenced Grants	52,065	52,819
Dividends	5,840	5,940
Other Reserves	2,754	2,040
Total Resources	581,456	542,590
Calls on Resources:		
Corporate Requirements:		
Levies	58,689	63,534
Capital Financing Costs	48,564	53,419
Contingency	1,200	3,200
Budgets to be Allocated	6,289	7,670
Departmental Requirements:		
Business Plan Targets	549,387	552,953
Additional Growth and Investment	12,209	12,377
One-Off Investment Requirements	1,450	1,200
Total Call on Resources	677,788	694,353
Budget Shortfall	96,332	151,763
Additional Savings Requirement (See Below)	12,500	18,000
Total Budget Shortfall	108,832	169,763

7. It had been expected that in the final settlement RSG would reduce by £1m, as the provisional figures included an allocation of that amount for Housing Market Renewal Funding that should have been allocated to Salford. This amount had been provided for. This was adjusted in the settlement, but in addition the level of transition grant was increased, so that no authority would lose out by more than 8.8% (previously 8.9%) and some minor adjustments were made to RSG calculations. This has reduced the total shortfall for 2011/12 to £109m.
8. The budget shortfall set out above is net of inflation costs, which are being offset by procurement savings, the capital financing costs for the Voluntary Early Retirement (VER) and Voluntary Severance Scheme (VSS), which are being offset by savings elsewhere in the capital financing budget, and savings achieved in the levies from the Integrated Transport Authority and Waste Disposal Authority. The total amount of these costs is shown as Additional Savings Requirements in the above table.

9. The four Directorate Reports set out the response to the challenge posed by the Financial Settlement and the detail on the savings proposals that have been identified. These proposals have been drawn together in the table below.

Table Two: Total of Savings Proposals for 2011/12 and 2012/13

	2011/12 £'000	2012/13 £'000	Total £'000
Children's Services			
Existing AIM Savings	8,032	7,980	16,012
Further Savings Proposals	15,196	13,937	29,133
Sub Total	23,228	21,917	45,145
Corporate Core			
Existing AIM Savings	7,580	6,096	13,676
Further Savings Proposals	11,777	3,283	15,060
Sub Total	19,357	9,379	28,736
Adult Services			
Existing AIM Savings	11,090	7,255	18,345
Further Savings Proposals	14,695	6,479	21,174
Sub Total	25,785	13,734	39,519
Neighbourhood Services			
Existing AIM Savings	7,576	3,996	11,572
Further Savings Proposals	10,581	9,092	19,673
Sub Total	18,157	13,088	31,245
ABG Review Savings	8,355	-2,437	5,918
Corporate Savings			
Procurement Savings to Offset Inflation Costs	4,000	3,000	7,000
Capital Financing Savings	4,000	0	4,000
ITA Levy	2,500	0	2,500
WDA Levy	2,000	2,500	4,500
Sub Total	12,500	5,500	18,000
Use of Reserves to Meet One-Off Investment	1,450	-250	1,200
TOTAL SAVINGS	108,832	60,931	169,763

10. Therefore the City Council has identified savings of £109m in 2011/12, rising to £170m in 2012/13.

11. The rest of the financial section of this report sets out the assumptions behind the available resources and the identified requirement for funding.

Resources Available Based on Final Settlement

Government Resources 2010/11 to 2012/13

General Grant (RSG)

12. The first budget report on the agenda set out the headlines behind the financial settlement. The figures in the final settlement, including the grants that have now rolled into RSG are:

2011/12	£354.275m
2012/13	£326.910m

Specific Grants

13. The grant funding confirmed in the settlement is as follows:

Table Three: Government Grant Funding 2011/12 and 2012/13

	2011/12	2012/13
	£'000	£'000
Early Years Intervention Grant	29,828	30,375
Learning Disability Grant	14,480	14,822
Housing and Council Tax Subsidy Grant	6,254	6,254
Flood and Water Management Grant	134	217
Preventing Homelessness Grant	1,369	1,151
Total	<u>52,065</u>	<u>52,819</u>

There are still some small Home Office Grants for which announcements have not been made. These grants totaled c £4m in 2010/11

14. These grants include two new grants (although they do not represent new funding):
- Early Intervention Grant or EIG – This includes previous Surestart and Early Years grants, Think family and funding for youth services and ABG funding (in particular Connexions and Positive Activities for Young People).
 - Learning Disability Grant – this includes the funding transfer associated with the responsibility for Learning Disability Services that transferred from the Primary Care Trust. In 2010/11 the amount was paid as a direct contribution from the PCT.

Dedicated Schools Grant

SCHOOL FUNDING SETTLEMENT 2011/12

15. The Schools Financial Settlement is for 2011/12 only. A review of the Dedicated Schools Grant (DSG) which funds school budgets is expected over

the next few months to take effect in 2012/13. It is possible that this will involve a move towards a national funding formula for schools. The notable elements of Schools' Financial settlement for 2011/12 are as follows:

16. The DSG flat rate per pupil of £4,919.11 for 2010/11 has remained unchanged for 2011/12. A number of Standards Fund grants have been added to the DSG unit of funding equating to £956.50 additional DSG per pupil, this is not additional funding. Therefore the DSG per pupil allocation for 2011/12 is £5,875.61 per pupil. This value is multiplied by the January 2011 pupil census to determine the 2011/12 DSG allocation for Manchester, currently estimated to be £369m.
17. The Pupil Premium is a resource which will be available to school budgets. For each pupil on roll at January 2011 entitled to free school meals, the school will receive £430 next year. This funding should be targeted to disadvantaged or low achieving pupils and schools will be expected to report to parents on how this funding has been used. Schools will also receive the Pupil Premium for children looked after by the Local Authority and a smaller premium for children with parents in the Armed Forces. The Pupil Premium is estimated to be approximately £8m for schools in Manchester.
18. The Harnessing Technology grant of £1.8m has ceased and a number of other grants directly affecting school budgets such as Devolved Formula Capital, Primary and Secondary strategies have reduced significantly. The Music Standards Fund grant of £1.5m and sixth form grants of £7m in 2010/11 have not yet been confirmed. The table below sets out the major reductions in grants for schools compared to 2010/11:

Devolved Formula Capital	-£3.3m
Harnessing Technology	-£1.8m
School Development Grant	-£1.0m
National Strategies	-£0.8m
Extended Schools grant	-£0.8m
Diploma Funding	-£0.3m
Total	-£8.0m

A number of Standards Fund and other grants received by the Local Authority which support activity in schools will cease at the end of March 2011.

19. In view of the likely changes to school funding in 2012/13, the planning of the 2011/12 Schools' Budget with Schools Forum has been on the basis of maintaining stability and consistency in funding for schools where possible. The reductions in grant funding shown above will impact on individual schools to varying extents. In some schools losses will be offset by the impact of funding through the pupil premium. A detailed report on the 2011/12 Indicative Schools' Budget will be provided to the Executive in March 2011.

Other Resources

Council Tax

20. The budget for 2010/11 included budgeted tax receipts of £140.214m from a tax base of 122,312 Band D equivalent properties (assuming a 97.5% collection rate). The Council has experienced some growth in the tax base and the tax base for 2011/12 has been set at 123,970 which is 1.36% above the 2010/11 figure. Based on trends for the last few months a prudent view of nil growth has been taken for 2012/13. The Collection Fund is expected to be in surplus at the end of 2010/11 and this is built into the resource projection for 2011/12.
21. The Government has made available an additional grant (The Council Tax Freeze Grant) for 2011/12 which is payable to all Councils who freeze their 2011/12 Council Tax at the 2010/11 level. The grant payable to Manchester should the Council decide to freeze its Council Tax will be £3.489m. This grant is payable across the life of the current CSR (i.e. until 2014/15). The grant is set to compensate for an increase in Council Tax of around 2.5%. An increase of 2.5% in Manchester's Council Tax in 2011/12 would actually yield slightly more than the grant being offered (£3.502m). However the whole burden of this would then fall on Manchester rate payers. If the Council increases its Council Tax in 2011/12 by any amount, the whole of this grant would be lost.
22. No announcement has yet been made on what will happen to this grant after 2014/15. Whilst freezing the Council Tax and accepting the grant could be seen as leading to a potential fall in our base resources should the grant cease after 2014/15, given the Government's plan to review the way Local Government is financed the risk cannot be quantified.
23. It is therefore proposed that Manchester's Council Tax be frozen in 2011/12 to take advantage of the grant. Within the currently proposed budget for 2012/13 a planning assumption of an increase of 2.5% has been made in line with expected levels of inflation.
24. On these planning assumptions the level of Council Tax available to the Council to fund services over the next two years will be:

2011/12	£142,588
2012/13	£144,328

25. The level of Council Tax set for 2011/12 will be determined by Council in March.

Dividends

26. The City Council receives dividends from the Airport, Manchester Working and the NCP parking joint venture company. The estimated figures to be utilised in support of the budget total £5.84m in 2011/12 and £5.94m in 2012/13.
27. Airport dividends not required to support the Revenue Budget are transferred into the Capital Fund where they are required to meet approved major projects.

Parking Reserve and Bus Lane Enforcement Reserve

28. The expected balance on these reserves at the 1 April 2011 is £3.7m and contributions to the reserves in 2011/12 and 2012/13 are currently estimated at c£2.4m in each year.
29. The above reserves can be used to fund certain types of transport and highway related expenditure provided there is no requirement for the Council to provide additional off street parking, and no requirement for financial support to existing off street parking.
30. Officers also advise that, as there is no additional requirement in the next two years to utilise the reserve for these purposes, the following items also be funded from the reserve over the next two years:

Table Four: Total Calls on the Parking Reserve and Bus Lane Enforcement Reserve

	2011/12 £'000	2012/13 £'000
- support for Metro shuttle	455	540
- additional CCTV and Bus lane cameras	150	0
- highway and environmental improvements	1,900	1,900
Total calls on reserve	<u>2,505</u>	<u>2,040</u>

31. The Executive is asked to agree to these proposals, subject to annual review as part of the budget process for the proposed on going investments to ensure that the surplus income from parking is sufficient to sustain this level of expenditure. Based on existing estimates there will be sufficient in the reserve to meet these costs over the next two years.

Total all Resources

32. The table below sets out the total resource position for the next two years.

Table Five: Total Resources for 2011/12 and 2012/13

	2011/12 £'000	2012/13 £'000
RSG and NNDR	354,016	326,910
Transition Grant	13,332	0
Council Tax receipts	142,588	144,328
Council Tax Freeze Grant	3,489	3,489
Transfer Funding from NHS	7,372	7,064
Other Non Ring Fenced Grants	52,065	52,819
Dividends	5,840	5,940
Use of Parking Reserves	2,505	2,040
Planning Delivery Grant reserve	249	0
Total	<u>581,456</u>	<u>542,590</u>

Calls Against Resources

33. The first budget report set out both the design principles around the Transformation Programme and the principles that been determined to guide the Council through the process of identifying further savings. The latter were based on principles related to Leadership for Reform, the role of Targeted and Universal services, the focus on Neighbourhoods and the role of the Corporate Core. The four directorate reports expanded on how these principles have been applied.
34. Building on the above the budget requirement has been calculated based on the following assumptions:
 - Priorities are considered in the context of driving economic growth and reducing dependency
 - Resources are focused on delivering the Council's priorities – the budget process should move resources to our priorities and not be driven by cost pressures
 - We will prioritise our existing resources to neighbourhood priorities through the Neighbourhood Funding Strategy
 - Inflation costs over the next two years will be met from general procurement savings
 - No allowance has been made for pay inflation
 - The cost of employer pension contributions will increase at 1% per annum in each of the next three years
35. Another key concept is the Manchester Investment Fund. Greater Manchester was announced in the Spending Review as one of 16 areas selected by the Government to progress the development of a Community Budget. The harshness of the financial settlement emphasises even more the need to reduce the costs to public services of those families making the most use of what are often our most expensive services. Yet at the same time the settlement reduces the capacity to work with those individuals and families who, with the right support, have the potential to become more self-reliant.
36. The Council believes it can get more value from the monies going into complex families. Uncoordinated spending leads to poor outcomes and repeat spending. There is also a need to be more flexible in the way individuals and families are supported out of dependency. This can be achieved via bespoke packages of interventions which will not always be the traditional range of services. A radical new approach is required which reduces the demand for dependency related services, and does so in a way that creates savings which can be re-used for further reductions in dependency.
37. In order to take forward this work, it is proposed to pull together budgets that are focused on complex families into a single budget across the council. This will cover Supporting People, targeted support for 0-5's, Drugs and Alcohol commissioning budgets and family interventions currently commissioned by the Crime and Disorder Team. By pooling these funding streams the intention is to change how they are currently used to ensure a co-ordinated approach to

working with complex families and ensure that limited resources are focussed on those interventions that are proven to make a difference.

Departmental Requirements

38. Strategic Directors have reviewed their Business plans for the years 2011/12 to 2012/13 using the above principles.
39. The initial cash limit targets for each directorate, excluding the efficiency targets for 2011/12 and 2012/13, and before any bids for additional growth, are summarised below.

	2011 / 2012	2012 / 2013
	£,000	£,000
Children's Services	174,942	174,942
Core Services	97,767	97,267
Adults Services	191,209	194,670
Neighbourhood Services	107,967	111,879
	<u>571,885</u>	<u>578,758</u>

40. The figures in the above table include the waste levy.

Levies

41. The Council is responsible for paying a number of levies to other joint bodies, most notably the Greater Manchester Waste Authority and the Greater Manchester Passenger Transport Authority. Estimates have been included for levies as follows:

Table Six: Estimated Levies for 2011/12 and 2012/13

	2011/12	2012/13
	£'000	£'000
GM Integrated Transport Authority	34,550	35,932
GM Waste Disposal Authority*	23,810	27,265
Environment Agency	202	208
Probation (Residual Debt)	30	30
Magistrates Court (Residual Debt)	21	21
Port Health Authority	76	78
Total	<u>58,689</u>	<u>63,534</u>

* Although included within the table of levies above, the waste levy is now being administered by Environmental Services and will be included within their published budget. This is to recognize that the actions in the department in reducing the levels of waste delivered to the WDA will have on the level of future levies which are tonnage based. It has been included above to give a complete view of the levies paid.

42. The ITA levy is distributed across the districts based on population. The above figures allow for the impact of Manchester's population growing as well as the proposed increase to the total levy to reflect the changed funding arrangements for part of the national concessionary fares scheme which had previously been paid direct to the ITA. This includes the contribution made for the

concessionary fares scheme and the impact of changes to the concessionary scheme which impacts on the costs of Children's Services.

43. The WDA levy is calculated on the anticipated level of Manchester's waste disposed of through the WDA , together with equivalent levels proposed by each of the other 8 districts ,and is consistent with the waste strategy described in the report from the Director of Neighbourhood Services.
44. Final levies are not yet known but are not expected to differ significantly from the current estimates.

Contingency

45. The contingency is used to hold monies to meet unforeseen costs that may arise during the year. In the light of the financial settlement the contingencies have been reviewed and the minimum level held to meet costs which may arise during the year.
46. The required contingency amounts for the next two years are currently estimated as:
- | | |
|---------|---------|
| 2011/12 | £1.200m |
| 2012/13 | £3.200m |

47. The items included in the above are:
- £700,000 a year as an unallocated contingency to meet future unforeseen expenses
 - Provision to meet any increased charges from the WDA. The Waste Levy model is based on the tonnages delivered to the Waste Authority by all authorities and is therefore very volatile. Our final waste levy is affected just as much by what other authorities do as on the levels of waste Manchester delivers. Contingency has been made of £0.5m in 2011/12, rising to £2.5m in 2012/12 recognising that estimates of waste levels across Greater Manchester are likely to be more volatile the further into the future they are being predicted.

Budgets to be Allocated

48. Budgets are held centrally for known issues where the final cost to the Council is not certain. The required amounts for next two years are estimated as:

2011/12	£6.289m
2012/13	£7.670m

49. The amounts held are for:
- Provision for increasing pension costs of £3.6m in 2011/12, rising to £5.5m in 2012/13
 - Provision for the increase in the employer's national insurance contribution, and changes to the contract rate and rebate as recently announced, £500k in 2011/12 and 2012/13

- Provision for the impact on cash limit budgets of changes to the HRA and planned new service delivery models which will no longer support recovery of Council overheads - £1.630m
- Support for the costs of delivery and phasing of the Early Years and Surestart savings - £519k in 2011/12.
- £40k annual allocation to the Cemeteries Replacement Reserve

Capital Financing Costs

50. Capital financing costs have been calculated based on the assumptions on unsupported borrowing, included within the Capital Programme, set out in a report elsewhere on this agenda, including costs arising from the refurbishment of the Town Hall complex. They also include an allowance for additional costs arising from the utilisation of currently held reserves to support the recently announced VER/VS scheme which in cash flow terms will necessitate increases in long term borrowing. These costs are being offset by savings elsewhere in the Capital Financing Budget. Any agreed changes to the capital programme as presented elsewhere on the agenda that affect the proposed level of borrowing could have an impact on the estimated Capital Financing Costs requirement.
51. The figures below show the total budget required

2011/12	£48.564m
2012/13	£53.419m

These amounts are on a current basis and do not take account of any costs/savings that may arise in 2012/13 from the proposed changes to the Housing Revenue Account ringfence, subsidy arrangements and one-off settlement of some /all of the outstanding loan debt.

52. The Prudential Code allows unsupported borrowing provided the authority can demonstrate through the Prudential Indicators that it can afford such borrowing from within projected revenue streams. Proposed Prudential Indicators based on the current budget reports are set out in the Treasury Management Strategy elsewhere on this agenda and in Appendix 1 to this report. It should be noted that the Revenue Support Grant Settlement for 2011/12 and 2012/13 did not include any further supported borrowing after 2010/11.

Proposals for Additional Investment

53. There is a need to ensure that our services are equipped to deliver a high standard that is fully aligned to the Community Strategy and our corporate priorities. In order to achieve this, the following priorities for investment have been identified:

Time limited Growth to be Funded from Reserves

54. The following will be met from the General Fund Reserve:

- Manchester International Festival – a one-off additional contribution of £250k is required to allow the City Council to make good the funding previously agreed by the Festival with the NWDA which was withdrawn following the reassessment of the NWDA's budget position and commitments during last Summer. In total some £650k additional funding is required, the majority being met from within the cash-limited budget.
- Strategic Development Team – the loss of external funding from the HCA and NWDA for the New East Manchester Urban Regeneration Company, the loss of Housing Market Renewal Funding, and the need to reduce spending on core regeneration funding to protect other services could lead to a significantly capacity issue in supporting major economic development projects like Sports City, Central Park, the Corridor and Airport City. The Chief Executive proposes to bridge the gap by utilising £1.2m of the Capital Fund, for no more than two years to support employee costs and seed monies required.

Ongoing Service Investment

Children's Services

- **Looked After Children** – Whilst Manchester has been successful in stabilising the numbers of looked after children and in ensuring effective safeguarding arrangements, the number of children and young people requiring foster care and residential placements has increased. Further investment is required to meet the full year effect costs of those placements made in 2010/11. The Council is bringing forward its approach to reducing levels of dependency in the City and hence the demand on these budgets in the future, through the Manchester Investment fund.

Corporate Core

- **ICT** – additional investment is required in order to strengthen the Council's ICT infrastructure to support the transformation agenda. This is offset by savings elsewhere in the ICT budgets.
- A proportion of overhead costs had previously been recharged to the Integrated Transport Authority (ITA) and the Urban Traffic Control Unit. With these services now transferring to the Combined Authority, there is no longer scope to recover these costs. Over the next two years this cost pressure is being addressed by the savings proposals for the support service functions.
- **Coroner's Service** – additional funding has been identified to cover additional activity in this area.

Neighbourhood Services

- **Highways** – additional investment was provided in this area in 2010/11, funded from Working Neighbourhoods Fund, to improve the level of

maintenance to improve the condition of Manchester's roads, to address the damage caused by adverse winter weather and to restock supplies for winter gritting needs. With the ending of WNF, there is a need to mainstream this funding to ensure that the essential maintenance works can continue.

- **Street Lighting** – Increased funding is required to meet costs related to utilities charges and for the increased number of lights.

Corporate Items

- **Carbon Reduction Tax**- The Carbon Recycling Credit scheme amendments announced as part of the CSR, removing the recycling element of the credits purchased, is estimated to result in a cost of £1million based on the current emission levels and a price of £12 per tonne of CO2 to the City Council. The figure of £1m includes costs arising through schools and Academies. It is as yet unclear whether these costs can be charged to schools budgets.
- **Unfunded Pension Costs** – Past pension costs arising from 1990 and earlier restructures of Direct Works, previously met from surpluses from trading activity, now require mainstreaming.

55. All of the proposals for new additional investment are set out in Appendix Three

56. In addition the following significant items of additional funding have been previously approved in the 2010/11 Medium Term Financial Plan.

Children's Services

- £1.165m for full year effect costs of social worker posts approved in 2010/11 and the full year effect costs of the implementation of the Family Placement Strategy

Adult Services

- **Demographic Growth** – Additional investment was agreed in the 2010/11 to 2012/13 MTFP to support demographic pressures including the need to further develop home care and reablement services. As numbers eligible for services are still increasing, there remains a need for this funding.

Neighbourhood Services

- Additional funding of £2.4m for Private Sector Housing – this was to compensate for loss of grant funding, particularly Housing Market Renewal Funding and for salaries which had previously been capitalised.

Summary of the Resources Available and the Budget Requirement

57. The overall financial position for the next two years can therefore be summarised as:

Table Seven: Summary of Resources Available and Budget Requirement for 2011/12 and 2012/13

	2011/12 £'000	2012/13 £'000
Resources:		
Government Support	378,209	337,463
Council Tax Receipts	142,588	144,328
Non Ringfenced Grants	52,065	52,819
Dividends	5,840	5,940
Parking Reserves	2,754	2,040
Total Resources	581,456	542,590
Calls on Resources:		
Corporate Requirements:		
Levies	58,689	63,534
Capital Financing Costs	48,564	53,419
Contingency	1,200	3,200
Budgets to be Allocated	6,289	7,670
Departmental Requirements:		
Business Plan Targets	549,387	552,953
Additional Growth and Investment	12,209	12,377
One-Off Investment Requirements	1,450	1,200
Total Call on Resources	677,788	694,353
Budget Shortfall	96,332	151,763
Additional Savings Requirement (See Below)	12,500	18,000
Total Budget Shortfall	108,832	169,763
<i>AIM Savings already identified in MTFP</i>	34,278	59,605
<i>Additional savings identified</i>	52,249	85,040
<i>ABG Review Savings</i>	8,355	5,918
<i>Corporate Savings on Levies, Capital Financing to offset VER/VS costs and on Procurement to offset cost of inflation</i>	12,500	18,000
Use of Reserves to Meet One-Off Investment	1,450	1,200
Total all savings	108,832	169,763

58. Details of the 'Existing AIM' and 'Additional' savings included in the table above can be found within the individual Directorate reports found elsewhere on this agenda.
59. The ABG Savings relate to the review of the partnership ABG grants carried out during 2010/11. As part of that process the following has been identified:
- The £2.4m ABG held as a reserve will no longer be required and has been taken as a one-off saving in 2011/12
 - The £2.2m additional ABG funding to support worklessness had been built into the budget. This is in effect one-off funding and therefore has been taken out of the budget
 - As part of the process to mainstream the Working Neighbourhoods Fund Partnerships were given a ten per cent savings target to achieve (£2.4m). The remainder of the WNF is then included in the Departmental savings proposals.
 - The Crime and Disorder savings proposals include details of £1m WNF savings agreed as part of this process. In addition savings from the Transport partnership allocation of £300k were confirmed for Safer Routes to Schools where the work is now completed.
60. The Corporate Savings have been set out in paragraph 9 of this report and subsequent table.

Financial Reserves

61. The Council holds a number of reserves, most of which have been built up to meet specific future expenditure but there is also a general reserve to meet potential unplanned future costs that the Council may face. The fundamentally changing budget position being faced by the Council as explained in the report above means that the Council is having to take steps to manage a significant reduction to the workforce. To this end it has introduced a Voluntary Severance scheme. Whilst this scheme will help us to achieve the savings we need going forward, there is an up front cost to the Council in making severance payments. The costs has been estimated at £65m and it is proposed to meet this from reserves (£58m) and from part of the employers pension contributions paid to the GM Pension Scheme which provides a fund out of which to pay a predetermined level of ill health and VER costs .
62. To enable this, a fundamental review of all the reserves currently held has been carried out to identify where we have reserves that can help meet these costs. Although the full cost for staff leaving under the scheme will fall in both the 2010/11 and 2011/12 financial years, the accountancy rules determine that the costs will largely be accounted for in 2010/11. This has had the impact of reducing the overall level of reserves that will be held at 31 March, 2011 compared to the levels predicted when the budget was approved last year.

63. Details of the various reserves held are contained within Appendix 3 to this report.

The General Fund Reserve

64. The General Fund Reserve is held to meet costs arising from any unplanned event. It also acts as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to “smooth” expenditure across years.
65. It is currently estimated that the balance on the reserve at 1 April 2011 will be £21m. This level of reserve has been considered appropriate in the past based on an assessment of risk at that time. The proposed budget for the next two years will see some of the most radical transformation of the Council ever seen which will reduce spending by a significant amount in order to balance the budget. In addition to the savings targets built in to the budget, there are also a number of planning assumptions, as described in the report, that carry their own risks, not least the assumptions that there will be no increase in pay rates over the next two years (ie a three year pay freeze) and that we will achieve further improvements in procurement to offset any non pay inflation. Both of these assumptions carry risk.
66. The expected level of the General Reserve is therefore seen as the minimum level required to be held to protect the Council from the financial risks inherent within the proposed budget strategy. Any variation in spend at the year’s outturn, over and above any carry forward, will also affect the level of General Fund Reserve available next year.
67. In addition there are a number of other earmarked reserves held by the Council and shown on Appendix 4 that could, if it became necessary, be used to support the revenue budget next year. These total £59m and whilst it would be legally possible to call on these, they would only provide a short term solution to ensuring a legally compliant budget. A number of these are committed to meet costs in the short to medium term and would need to be replaced in the near term by making further savings over and above those already being planned.

Workforce Issues

68. As set out in the Implications and Strategic Response Report elsewhere on this agenda the Council has introduced a VSS scheme to enable the authority to meet its required budget reductions. The necessary reduction in posts is approximately 2,000.
69. All applications will be considered by a Corporate Panel of the City Treasurer and Executive Member for Finance and Human Resources, supported by the Assistant Chief Executive, People. Applications will be agreed unless they are unaffordable, the applicant has specific skills that need to be retained by the authority or there is an identified need for such skills elsewhere in the Council. The Council recognises that not all applications will be pursued by those who express an initial interest. It is generally accepted that the acceptance to applications ratio is about 60% in such schemes.

70. The table below identifies the staffing impact on Directorates from that proposed as a result of the AIM programme to that necessary as a result of the budget shortfall.

Table Eight: Planned Workforce Reductions

	Workforce Reductions	
	Existing AIM Programme 2010/11 to 2012/13	Total Workforce Reductions 2011/12 to 2012/13
Adult Services	12%	14%
Children's Services	12%	42%*
Neighbourhood Services	9%	15%
Corporate Core	7%	14%

* this is projected subject to Business Model development and TUPE considerations.
Full details are set out in the Children's Services Budget Proposal Report

71. The adoption of the Voluntary Severance Scheme and the potential for transfers of staff through TUPE arrangements will assist in reducing staffing numbers in a controlled way, which is viable and supports ongoing service imperatives. However, if the proposed VSS scheme does not meet the necessary savings targets other options including a compulsory redundancy scheme would have to be considered. Further advice on the position will be presented to members prior to decisions on the budget being made by Council on 9th March.

TUPE

72. In addition to staff leaving through the VSS scheme the proposals in the Directorate Reports on this agenda identify where staff may leave the authority following a TUPE transfer. This includes the potential for up to 353 staff from Education Traded Services, 268 from day-care and early years and 10 staff from the Youth Services to be considered in scope for transfer to alternative provider organisations.

New Business Models

73. A gateway process has been established within the Council to accelerate the assessment and evaluations of all such proposals to determine if the core proposition could be considered as a viable service for new service models. The Chief Executive and the City Treasurer would recommend proceeding with such proposals only where they were satisfied that the business was financially sustainable; that there would be a reduction in the cost base to the Council; that there was a clear benefit to the Council and its customers and best value was received for all assets. Any proposals considered within this gateway process would also be discussed with the Trade Unions. Proposals that are recommended for approval will then be subject to the required decision making and consultation processes

Impact on the Third Sector

74. The analysis of current funding to the Third Sector (excluding Supporting People), showed an estimated expenditure of £39.2m for 2010/11. Notwithstanding the budget reductions it is likely that the council will continue to commission work with the Third Sector to the value of £30.7m, which remains a substantial amount. This represents a 22 per cent reduction in the overall amount commissioned with the third sector, compared to a 26% reduction in the total MCC budget. This picture may change when the analysis of Supporting People spend is included and more detailed information becomes available. However the overall position is in line with the commitment for the budget to be driven by the priorities that have determined for service provision.
75. The reduction is lower than reduction of the total Council budget. The Third Sector will remain significant partner in delivering the Council, and Manchester's priorities going forward, particularly the need to reduce dependency. How services are commissioned in future must be underpinned by clear evidence about outcomes and priorities. A new guide for services to be provided by the third sector is now being developed and will be brought forward for Executive decision. This will be used to provide clear guidance about transparency, outcomes to be delivered and an Equality Impact Assessment. A Third Sector Gateway and a new grants management system will also be implemented, which will allow for more accurate data to be collected to enable greater transparency of work commissioned with the Third Sector, and ensure that value for money and alignment with priorities is secured. The council will also address what infrastructure support should be provided to the Third Sector - capacity building, volunteering, commissioning and community engagement. The intention is to ensure a focussed service is developed, which targets those organisations that deliver key services, build resilience and offer a coherent gateway for volunteering.

Legal Issues

76. In coming to decisions in relation to the revenue budget and Council Tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the budget requirement and the setting of the overall budget and Council Tax. The amount of the budget requirement must be sufficient to meet the Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget. The detailed process is set out in Appendix One.
77. In exercising its fiduciary duty the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike a fair balance between the interests of Council Tax payers and ratepayers on the one hand and the community's interests in adequate and efficient services on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. Officers have addressed the duty to strike a fair balance

between different elements of the community and the interests of Council Tax payers in developing the proposals which are set out in the Directorate reports.

Duties of the City Treasurer

78. The Local Government Finance Act 2003 requires the Chief Finance Officer to report to the authority on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council has a statutory duty to have regard to the CFOs report when making decisions about the calculations. The City Treasurer's report in relation to the reasonableness of the estimates and adequacy of the reserves is set out in paragraphs 60 to 67 of this report.
79. Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.
80. Under Section 114 of the Local Government Finance Act 1988, where it appears to the Chief Finance Officer that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure, the Chief Finance Officer has a duty to make a report to the Council.
81. The report must be sent to the Council's External Auditor and every member of the Council and the Council must consider the report within 21 days at a meeting where it must decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the Chief Finance Officer. Failure to take appropriate action in response to such a report may lead to the intervention of the Council's Auditor.

Other Statutory Duties

82. Many of the actions proposed to deliver savings can only be taken after specific statutory or other legal procedures have been followed and/or consultation taken place. Where consultation is required the Council cannot rule out the possibility that they may change their minds on the proposal as a result of the responses to a consultation. Further reports to Executive will be required. For example the proposals to review library provision will be subject to a needs assessment, including statutory consultation (and an equality impact assessment as referred to below) which will then be reported back to Executive for a final decision. In addition some proposals require agreement or

negotiation with third parties for the implementation of proposals, the outcome of which cannot at this stage be certain. Other proposals such as the establishment of alternative business models require complex legal and financial processes to be followed for implementation.

83. Apart from statutory duties relating to specific proposals the Council must consider its obligations under the Equality Act. In broad terms this means that the Council has a duty to have due regard to the need to eliminate discrimination and advance equality of opportunity between all irrespective of whether they fall into a protected category such as race, gender, religion, etc.
84. Having due regard to these duties does not mean that the Council has an absolute obligation to eliminate discrimination but that it must consider how its decisions will contribute towards meeting the duties in the light of all other relevant circumstances such as economic and practical considerations.
85. In determining the final set of proposals for consideration officers have had regard to how the equality duty can be fulfilled in relation to the proposals overall. However detailed equality impact assessments will be required for specific proposals as identified by each directorate prior to final decisions being made.

Reasonableness

86. Finally the Council has a duty to act reasonably taking into account all relevant considerations and not considering anything which is irrelevant. This Report together with the Strategic Report and the Directorate Reports also on this agenda set out a total picture of the proposals from which members can consider the risks and the arrangements for mitigation set out below.

Risks and Mitigation

87. To address the issues of risk associated with uncertainty arising from the legal processes the budget proposals have been phased in a proper and timely way over the two year period. Full year savings have not been assumed in respect of every reduction proposal for 2011/12, but only where appropriate. Each Directorate has addressed the issue of risk management and review in their reports and will maintain their own monitoring arrangements. In addition processes are being put in place to manage the delivery of all the savings and to support this work there will be an overarching project plan. This will set out the critical path including equality impact assessments, statutory processes and key milestones for delivery of the saving. The plan will be developed and supported by a core group of officers from Legal Services, Directorate of Transformation, HR/OD, Performance and Financial Management, with support from Corporate Property and ICT. Executive members will receive regular updates and the performance against the plan will be reported to Executive on a quarterly basis. The Council's Strategic Management Team will also have a dedicated meeting each month to review progress and take corrective action where required.

88. Planning workforce reductions whilst maintaining continuity of services is a significant risk. The workforce reductions represent 40% of the savings required and the Council needs to ensure that the reduction takes place in a timely way whilst maintaining key services. The aim is to achieve such reductions on a voluntary basis without recourse to compulsory redundancies. At time of writing this report the VSS scheme has been operational for no more than 2 weeks. It is too early to draw any conclusions on the success or otherwise of this exercise. The position will need to be reviewed before the budget setting Council on 9th March. If the Council cannot be satisfied about workforce savings it will need to consider alongside other options, compulsory redundancies, as workforce savings are an integral part of the required reduction proposals.
89. The Council needs to be satisfied that it can continue to meet its statutory duties and meet the needs of vulnerable young people and adults. Proposals have been drawn up on the basis that Strategic Directors are satisfied that this will enable them to continue to meet their statutory duties and the needs of the most vulnerable. The Council is moving to a new model where integrated commissioning to meet the needs of complex families will be prioritised and which is designed to secure the active participation of partners. This builds upon the Government's Community Budget initiative where GM is one of the announced national Pilots. It will be necessary to oversee the performance of the new Fund including the outcomes delivered and how needs are being met with partners. This too will be subject to regular monitoring and reports. The budget process for 2012/13 will address in the light of experience the relationship between resourcing, needs and outcomes.

Robustness of the Estimates

90. The City Treasurer has examined the major assumptions used within the budget calculations and has carried out sensitivity analysis to ascertain the levels of potential risk in the assumptions being used. The Council has a well developed corporate risk register and a financial risk register that is reviewed and reported to its Strategic Management Team monthly throughout the year. Each Service Head has carried out an individual risk assessment of their own budgets which have been reviewed by the Corporate Support Team at an earlier stage of the business planning process. Of necessity, the work on delivering the original planned AIM savings will have been subject to more in depth review than the additional savings proposals which have had to be developed after the publication of the provisional RSG Settlement. These latter savings clearly represent a higher risk and not only assume the planned reduction in the workforce will be achieved in a timely manner but also the service reductions will be implemented with sufficient pace whilst recognising the need to undertake appropriate consultation. The achievement of these savings will be monitored by Strategic Management Team on a monthly basis throughout the coming year.
91. It is the opinion of the City Treasurer that any significant budget risks to the General Fund and the Housing Revenue Account reported elsewhere on the agenda have been identified and that suitable proposals are being put in place to mitigate against these risks where possible. The Council's Budget Monitoring

procedures, are now well embedded and are designed to specifically monitor high level risks and volatile budgets.

92. The City Treasurer considers that the assumptions on which the budget have been proposed whilst extremely challenging are manageable within the flexibility allowed by the General Fund balance. This and the fact that the Council holds other reserves that can be called on if necessary means that the Treasurer is confident that overall the budget position of the Council can be sustained within the overall level of resources available. However to the degree that the budget savings are not achieved in a timely manner and reserves are called on to achieve a balanced position, the future years savings will be prejudiced and further savings will need to be identified and implemented.
93. The report at Appendix 1, setting out the legal requirements in relation to the setting of the budget and Council Tax, describes the capping power currently available to the Secretary of State
94. Whilst the Secretary of State has announced that he will be replacing capping powers by referenda on 'excessive' Council Tax for 2012/13, the current arrangements continue to apply for 2011/12 budgets. Whilst it has been expected that the principles underpinning any consideration of capping would be announced as part of the final RSG Settlement, this has not been the case, but the Secretary of State has stated publicly that they will be announced prior to the setting the budget and Council Tax requirements for 2011/12. With the Parliamentary debate on the final settlement down for Wednesday 9 February, an announcement is expected shortly.
95. It has been the practice for past Secretaries of State to take account of both the level of Council Tax increase and changes in Budget Requirement. Should the Council decide to set a zero per cent increase in its Council Tax and qualify for the additional £3.4m in Government grant, it is difficult to see how the Council could be at risk of breaking the Government's capping rules. Both the Executive and Council will be updated on any developments which follow this report being published.

Budget Scrutiny

96. Overview and Scrutiny committees are holding special meetings to look at the Budget Proposals Reports, elsewhere on this agenda and delivery plans.
97. Resources and Governance Overview and Scrutiny Committee are meeting on 28 February to look at the overall budget proposals, receive comments from other scrutiny committees, consider responses to the budget consultation and the opposition budget amendment.

Budget Consultation

98. The Council undertook a budget consultation process in December to gain feedback from Manchester Residents on whether they believe that the priorities that the Council has set are the right ones. Whilst this consultation was prior to

the announcement of the Provisional Financial Settlement, and hence does not cover the proposals for the much deeper savings now required, the feedback has been used to inform the budget principles set out in the Local Government Settlement 2011-13: Implications and Strategic Response report elsewhere on the agenda.

99. A Stakeholder Conference is planned for 8 February. The budget reports will be available on the internet from 8 February and interested parties will be able to submit comments to Resources and Governance Overview and Scrutiny Committee on 28 February.

Conclusion

100. This report and the accompanying reports elsewhere on the agenda detail proposals to respond to the Local Government Settlement and to the requirement to produce a definitive budget to be approved at the City Council meeting on the 9th March, 2011. There is no doubt that the level of service changes which are proposed, together with the considerable reduction in the workforce which is required, will pose very significant challenges for the Council. The coming months must see rapid progress in developing robust implementation plans to effect service changes whilst at the same time ensuring that the workforce is reduced in a timely way so that budget requirements are achieved and services maintained. Officers have satisfied themselves with the robustness of the planned service changes and their broad deliverability. However, a crucial input to their overall assessment about achieving budget requirements over the coming months, is the success or otherwise of the voluntary severance scheme. Prior to the Council finalising its budget on the 9th March the Council should satisfy itself that this scheme will deliver the reductions which are required, or whether the alternative option, compulsory redundancy, has to be considered alongside other options. Officers will produce further advice nearer the time, and in the light of the actual experience of administering the Voluntary Severance Scheme.
101. Detailed recommendations appear at the front of this Report.

APPENDIX 1

LEGAL PROCESS FOR SETTING REVENUE BUDGET AND COUNCIL TAX

1. INTRODUCTION

1.1 The Council Tax is basically a tax on property with a personal element in the form of a discount in respect of dwellings with less than two relevant residents. All dwellings are listed in one of eight valuation bands and the amount of Council Tax payable in respect of each dwelling (before discounts and other reductions) is in a set proportion between each band. The Headline Tax is calculated for Band D and the tax in the remaining bands is worked out as a proportion of this amount. The lowest Band (A) is two-thirds of Band D and the highest Band (H) is twice Band D and three-times Band A. The proportions are as follows:-

A:	B:	C:	D:	E:	F:	G:	H:
6:	7:	8:	9:	11:	13:	15:	18:

1.2 There are three main stages in setting the Council Tax:-

- STAGE 1 - The Council calculates its own budget requirement, i.e. its net revenue expenditure - this is the amount which is subject to capping by the Secretary of State.
- STAGE 2 - The Council then calculates the Manchester City Council element of the Council Tax for all bands based on a calculation for Band D - this will take account of the Council Tax base calculated at an earlier stage.
- STAGE 3 - Finally, the Council sets the Council Tax for the area, being the aggregate of the City Council element of the tax and the element of the tax calculated by the Police Authority and the Fire and Civil Defence Authority.

These requirements will now be analysed in greater detail.

2. STAGE 1 - THE COUNCIL'S BUDGET REQUIREMENT

2.1 Section 32 of the LGFA 1992 requires the Council to make three calculations, in effect -

- (i) an estimate of the Council's gross revenue expenditure - Section 32(2);
- (ii) an estimate of anticipated income - Section 32(3)

- (iii) a calculation of the difference between (i) and (ii) above, (i.e. net revenue expenditure) - Section 32(4).
- 2.2 More specifically, in its Section 32(2) calculation of gross expenditure the Council should include -
- (a) estimated revenue account expenditure to be incurred during the year;
 - (b) an appropriate allowance for contingencies (i.e. an allowance for unforeseen events);
 - (c) any raising of reserves for future years (e.g. payments into special funds);
 - (d) any estimated revenue account deficit for previous years not already provided for;
 - (e) an estimate of certain amounts to be transferred to the collection fund pursuant to a direction of the Secretary of State (e.g. any estimated shortfall in collection of National Non-Domestic Rates (NNDR) in excess of allowance for non-collection).
- 2.3 The Section 32(3) calculation is the aggregate of the sums to be set off against gross expenditure, namely -
- (a) estimated income from fees, charges and most specific grants (but excluding Revenue Support Grant (RSG) redistributed NNDR and additional grant for previous years)
 - (a) an estimate of certain transfers from the collection fund to the general fund e.g. allowance for costs of collecting business rates;
 - (c) any amount of reserves/balances intended to be used towards meeting revenue expenditure.
- 2.4 Section 32(4) then requires the calculation under Section 32(3) to be subtracted from that under Section 32(2) to produce a calculation of estimated net expenditure known as the budget requirement.
- 2.5 These calculations must be made before 11th March, although they are not invalid merely because they are made on or after that date. However, until the calculations are made any purported setting of the Council Tax will be treated as null and void.
- 2.6 It should be noted that the general fund has to stand the cost of any temporary lending to the collection fund to cover late payments/non-collection.
- 2.7 In making the Section 32 calculations, the Council will need also to calculate the level of financial reserves which it proposes to leave in balances.

- 2.8 It should be noted that significant amounts of expenditure are financed through specific grants (such as the Dedicated Schools Grant for schools budget related expenditure) and not through RSG, NNDR and council tax. Such expenditure will be calculated under Section 32 (2)(a) and will be offset by the specific grant which will be included in the calculation under Section 32 (3)(a).

3. **THE LEVEL OF THE BUDGET REQUIREMENT**

- 3.1 The level of the Section 32 calculations, and in particular the calculation of the budget requirement is of crucial importance both legally and financially. In particular -
- the amount of the budget requirement must be sufficient to meet the Council's legal and financial commitments and ensure the proper discharge of its statutory duties.
 - the amount of the budget requirement must ensure a balanced budget
 - the amount of the budget requirement must leave the Council with adequate financial reserves.
 - the level of the budget requirement must not be unreasonable having regard to the Council's fiduciary duty to its Council Tax payers and ratepayers.
 - the amount of the budget requirement may determine whether or not the Council is designated for "capping".
- 3.2 The level of the budget requirement, alongside the level of NNDR and RSG, will determine the City Council's element of council tax.

4. **"CAPPING"**

- 4.1 Part II of the Local Government Act 1999 instituted a new and rather complicated regime in relation to "Capping" of expenditure. Nevertheless, the Secretary of State still retains wide reserve powers where in his/her opinion the amount calculated by an authority as its budget requirement is excessive.
- 4.2 The Secretary of State must first decide if the budget requirement is excessive. S/he will determine a set of principles which will be used to decide this and the principles must include a comparison with the budget requirement of previous years. Manchester's budget requirement in 2010/11 was £483,309,066. However, the Secretary of State has power to specify an alternative notional amount for the previous year where the basis of comparison has changed. Several specific grants which in 2010/11 reduced the budget requirement have now been rolled into formula grant. If this had occurred in 2010/11, it would have increased the budget requirement. Therefore, the Secretary of State has specified the sum of £538,405,000 as Manchester's notional budget requirement in 2010/11 against which the 2011/12 figure can be compared.

- 4.3 At the date of this Report the capping principles were still to be announced by Government
- 4.4 If the Secretary of State decides the budget requirement is excessive, s/he may designate the authority "in-year" (i.e. for that financial year), or s/he may exercise a range of alternative powers.
- 4.5 Where an authority is designated for capping "in-year", the legislation provides for the following procedure. The Secretary of State must notify the authority in writing that it has been designated, the principles applied and the amount which s/he proposes should be the maximum amount for the budget requirement. The authority then has 21 days to accept the maximum amount or to challenge it and put forward an alternative which will have to be considered by the Secretary of State. If s/he still considers that the authority should be capped "in-year", s/he may fix an amount which is the same, or greater or smaller than, that stated in the original notice. The authority will then be required to make substituted calculations to comply with the expenditure limitation. If the original council tax demands have already been prepared or sent out, the authority would have to prepare and send out revised demands - thereby delaying the receipt of council tax income and incurring additional interest charges. It would then have to make cuts in expenditure with immediate effect without any "breathing space" to mitigate their impact.
- 4.6 However, Part II of the 1999 Act gives the Secretary of State alternative powers:
- * S/he may cap an authority for the following year, thereby avoiding the re-billing costs of "in-year" capping.
 - * S/he may cap an authority over a number of years, starting either in-year or the following year, and enabling expenditure to be reduced over longer periods.
 - * S/he may decide not to designate an authority but to set a notional (lower) budget requirement for the year under consideration which will be taken into account instead of the actual budget requirement for the purpose of any future comparisons with that year's budget.

5. STAGE 2 - CALCULATING CITY ELEMENT OF COUNCIL TAX

- 5.1 Having calculated its budget requirement, the Council is then required to calculate its own element of the Council Tax first for Band D (Section 33) and then for all 8 bands as a proportion of the Band D calculation (Section 36). The City element of the Council Tax has to finance that part of the budget requirement which cannot be financed by RSG and redistributed non-domestic rates, plus the Council's share of the deficit on the collection fund.

5.2 The Section 33 Calculation

The City Element of the Band D Council Tax is known as the basic amount of Council Tax. This is calculated by applying the following formula -

$$\frac{R-P}{T}$$

where -

R is the budget requirement

P is the aggregate of RSG redistributed non-domestic rates and additional grant for previous years, reduced by the estimated collection fund deficit (or increased by any estimated surplus)

T is the Council Tax base.

5.3 Collection Fund Deficit/Surplus

Any deficit on the collection fund from preceding years has to be financed through the Council Tax. Conversely, a surplus on the collection fund operates to reduce the Council Tax. Such a deficit or surplus is shared "pro rata" with the precepting authorities. The required calculations had to be made on 15th January and the appropriate shares of the deficit or surplus notified to the precepting authorities.

5.4 Council Tax Base

The Council Tax base is basically the Band D - equivalent number of properties in the City adjusted to take account of discounts etc and multiplied by the estimated collection rate. The City Treasurer (in consultation with the Executive Member for Finance and Human Resources) acting under delegated powers has calculated the council tax base for 2011/12 to be [] an increase from 122,312 in 2010/11.

5.5 The Section 36 Calculation

Having calculated the basic amount of Council Tax (i.e. the City element of the Band D tax) the Council is then required to convert it into a City element for all Bands by multiplying it by the formula N/D where -

N is the proportion for the band as set out below and D is 9.

5.6 The proportions for each band are as follows:-

A:	B:	C:	D:	E:	F:	G	H:
6:	7:	8:	9:	11:	13:	15:	18

5.7 The Council's demand on the Collection Fund

One further calculation to be made is of the amount to be transferred from the collection Fund to the General Fund during the year, i.e, the Council's demand on the Collection Fund. In effect, this amount will be that part of the budget requirement not financed by RSG and redistributed NDR, plus the Council's

share of the Collection Fund deficit. Another way of putting this is the formula set out in Section 97(1) of the Local Government Finance Act 1988, namely -

B X T

Where -

B is the basic amount of Council Tax calculated under Section 33 (i.e the City element of Band D, and

T is the Council Tax base.

6. **STAGE 3 - SETTING THE COUNCIL TAX**

- 6.1 The final part of the process is for the Council as billing authority to set the overall Council Tax for each band. Whereas the billing authorities and major precepting authorities calculate their own budget requirements, their own basic amounts and amounts for each band, the setting of the Council Tax is solely the responsibility of the City Council as billing authority.
- 6.2 Section 30 of the 1992 Act provides that the amounts set for each band will be the aggregate of the City element for each band calculated under Section 36 and the amount calculated for each band by each of the major precepting authorities.
- 6.3 The Council Tax must be set before 11th March (i.e no later than 10th March), although it is not invalid merely because it is set on or after that date.
- 6.4 The Council Tax cannot be set before 1st March unless all precepting authorities have issued their precepts; nor can it be set before the Council has made the other required calculations. Otherwise, any purported setting of the tax will be treated as not having occurred.
- 6.5 The City Council has a clear legal duty to set a Council Tax and a resolution not to set a Council Tax would be unlawful, being in breach of Section 30, LGFA 1992. So would be a resolution to set a Council Tax which deliberately did not balance the various calculations.
- 6.6 A draft resolution for setting the Council Tax is set out below

7 **CONSTITUTIONAL ARRANGEMENTS**

- 7.1 Members should note that under the Council's constitutional arrangements, the functions of calculating the budget requirement and the City element of the Council Tax and the function of setting the Council tax are the responsibility of the full Council. The function of preparing estimates and calculations for submission to Council is the responsibility of the Executive.
- 7.2 The Council's Constitution provides a procedure for the resolution of any conflict between the Executive and the Council which gives effect to the Local Authorities (Standing Orders) (England) Regulations 2001. However, this only applies where the estimates and calculations are prepared by the Executive before 8th February. That will not happen this year and any conflict can be

resolved through the scrutiny process. The Budget and Policy Framework Rules provide that where the Resources and Governance Overview and Scrutiny Committee has any objection to the estimates and calculations prepared by the Executive, it will report such objections to the Council, the Leader and the Executive Member for Finance and Human Resources. The Leader and/or the Executive Member will report to the Council whether they agree or disagree with any objection of the Overview and Scrutiny Committee.

8. **RESTRICTIONS ON VOTING**

- 8.1 Members should be aware of the provisions of Section 106 of the Local Government Finance Act 1992, which applies to members where -
- (a) they are present at a meeting of the Council, the Executive or a Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least two months, and
 - (b) any budget or council tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.
- 8.2 In these circumstances, any such members shall at the meeting and as soon practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter in 9.1 (b) above. It should be noted that such members are not debarred from speaking on these matters.
- 8.3 Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

COUNCIL TAX
DRAFT RESOLUTION
SETTING THE AMOUNT OF COUNCIL TAX FOR THE COUNCIL'S AREA

RESOLVED

1. That the estimates prepared by the Executive at its meeting on 16th February 2011 be [approved/amended as follows]
2. That it be noted that the City Treasurer acting under delegated powers has determined the amount of [] as the Council Tax base for Manchester for the year [2011/12] in accordance with Section 33(5) of the Local Government Finance Act 1992 and regulations 3 and 5 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992, as amended.
3. That the following amounts be now calculated by the Council for the year [2011/12] in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-
 - (a) £ being the aggregate of the amounts which the Council estimates for the items set out in the Section 32(2)(a) to (e) of the Act.
 - (b) £ being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3)(a) to (c) of the Act.
 - (c) £ being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Sections 32(4) of the Act, as its budget requirement for the year.
 - (d) £ being the aggregate of the sums which the Council estimates will be payable for the year into its general fund in respect of redistributed non-domestic rates, revenue support grant or additional grant increased/reduced by the amount of the sums which the Council estimates will be transferred in the year to/from its general fund from/to its collection fund in accordance with the formula set out in Section 33(3) of the Local Government Act 1992, as amended.
 - (e) £ being the amount at 3(c) above less the amount at 3(d) above, all divided by the amount at 2 above, calculated by the Council in accordance with Section 33(1) of the Act, as the basic amount of its Council tax for the year.

(f)

Valuation Bands

A B C D E F G H

£

being the amount given multiplying the amount at 3(e) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

4. That it be noted that the following amount to be transferred by the Council for year [2011/12] from its collection fund to its general fund in accordance with Section 97(1) of the Local Government Finance Act 1988:-

£ being the amount given by multiplying the amount at 3(e) above by the amount at 2 above.

5. That it be noted that for the year [2011/12] the major precepting authorities have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:-

Precepting authority Valuation bands

A B C D E F G H

GM Police Authority £

GM Fire and Civil
Defence Authority £

6. That, having calculated the aggregate in each case of the amounts at 3(f) and 5 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992 hereby sets the following amounts as the amounts of Council Tax for the year [2011/12] for each of the categories of dwellings shown below.

Valuation bands

A: B: C: D: E: F: G: H:

APPENDIX 2

Prudential Indicators 2011/12 to 2013/14

Please note last years approved figures are shown in brackets

	2011/12		2012/13		2013/14
Ratio of Financing Costs to Net Revenue Stream					
Non – HRA	8%	(9%)	9%	(9%)	9%
HRA	18%	(20%)	20%	(19%)	18%
Incremental impact of Capital Investments on Council Tax (Band D, per annum) ^(see note 1 below)					
Council Tax (Band D, per annum)	£0.00p		£0.00p		£0.00p
Housing Rent per week	£0.40p		£1.03p		£1.17p
Capital Expenditure	£m	£m	£m	£m	£m
Non - HRA	257	(172)	129	(70)	46
HRA	31	(37)	9	(11)	9
TOTAL	288	(209)	138	(81)	55
Capital Financing Requirements (as at 31 March)	£m	£m	£m	£m	£m
Non - HRA	829	(925)	897	(990)	901
HRA	406	(480)	406	(480)	406
TOTAL	1,235	(1,405)	1,303	(1,470)	1,307
Authorised Limit for external debt -	£m	£m	£m	£m	£m
borrowing	1,139	(1,132)	1,103	(1,200)	1,103
other long term liabilities	168	(206)	161	(206)	156
TOTAL	1,307	(1,338)	1,264	(1,406)	1,259
Operational Boundary for external debt -	£m	£m	£m	£m	£m
borrowing	1,050	(1,059)	1,071	(1,132)	1,092
other long term liabilities	168	(206)	161	(206)	156
TOTAL	1,218	(1,265)	1,232	(1,338)	1,248
Actual external debt	£m		£m		£m
	917		1,008		1,035
Upper limit for total principal sums invested for over 364 days	0	(0)	0	(0)	0
Upper limit for fixed interest rate exposure					
Net borrowing at fixed rates as a % of total net borrowing	96%	(85%)	100%	(86%)	100%

Upper limit for variable rate exposure					
Net borrowing at Variable rates as a % of total net borrowing	48%	(65%)	70%	(74%)	78%

Maturity structure of new fixed rate borrowing during 2011/12	Upper Limit		Lower limit	
under 12 months	40%	(50%)	0%	(0%)
12 months and within 24 months	70%	(60%)	20%	(0%)
24 months and within 5 years	60%	(80%)	0%	(30%)
5 years and within 10 years	50%	(60%)	0%	(0%)
10 years and above	60%	(60%)	30%	(10%)

Note 1 – The only new schemes being added to the programme for the next three year are spend to save schemes which will not add any additional cost to the Council Tax.

It should be noted that the figures shown for 2012/3 and 2013/14 do not take account of any impact that may arise from the revised HRA arrangements due to come in to force on 1 April 2011. Once the detail of the change is known, any impact on future Prudential Indicators will be reported to members for approval.

APPENDIX 3

List of Proposals For Additional Funding

New proposals for additional Funding:	2011/12 £'000	2012/13 £'000
Children's Services:		
Looked after Children	6,000	6,000
Neighbourhood Services:		
Past unfunded pension costs (City Works)	1,200	1,200
Highways Street Lighting PFI	100	100
Highways mainstreaming one off funding in 2010/11	1,750	1,750
Corporate Core:		
Coroners Budget	300	300
Loss of recharges to services moving to combined authority	359	359
ICT infrastructure investment	1,500	1,500
Carbon Reduction Tax	1,000	1,000
Strategic Housing – loss of grant	0	169
Total New Proposals	12,209	12,377
Proposed additional use of reserves:		
One off contribution to MIF to offset loss of NWDA funding	250	0
Strategic Development Team	1,200	1,200
Total proposed use of Reserves to fund one off costs	1,450	1,200

APPENDIX 4

Key to responsibilities: 1 – appropriate Strategic Director, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

	Opening Balance 01/04/11 £	<i>Withdrawals</i> £	Additions £	Closing Balance 31/03/12 £	<i>Who Responsible for use (see key above)</i>	<i>Purpose</i>
<u>EARMARKED RESERVES</u>						
Neighbourhood Services						
New Smithfield Market Initiative Fund	56,215			56,215	1	Legal requirement. Set up as a condition of grant aid to build market. To be used for minor renewals, repairs and to meet deficiencies on the revenue account. Any spend has to be agreed by Market Traders and Members
NSM – Car Boot	226,050		10,000	236,050	1	To fund initiatives that will benefit the development of New Smithfield wholesale market (can be drawn down by traders in settlement of service charge)
Investment from Surpluses	292,952		4,942	297,894	1/3	Repayable finance to schools for service improvement. Balance of additional surpluses over the Business Plan target from previous years agreed by members for investment within the catering service
<u>CHILDREN'S SERVICES</u>						
LMS Reserve	11,867,000			11,867,000	2	Schools reserves. These figures are based on returns from schools. Recent budget outturns have indicated schools actually utilise substantially less reserves than they anticipate.
Education Endowments	16,723			16,723		

APPENDIX 4

Key to responsibilities: 1 – appropriate Strategic Director, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

	Opening Balance 01/04/11 £	<i>Withdrawals</i> £	Additions £	Closing Balance 31/03/12 £	<i>Who Responsible for use (see key above)</i>	<i>Purpose</i>
Temple Schools PFI	610,034		29,000	639,034	4	Established to fund the requirements re. PFI contract for the Temple school via our external contractors.
Wright Robinson PFI	776,350		97,000	873,350	4	Established to fund the requirements re. PFI contract for the Wright Robinson school via our external contractors.
Area Based Grant Reserve	144,461			144,461	3	Unspent ABG from previous year set aside for future use
Cleopatra Reserve	1,112,000	1,112,000		0		
<u>CHIEF EXECUTIVE'S</u>						
Planning Delivery Grant Reserve	2,760,233	360,000		2,400,233	1/3	Unused grant received in previous years

APPENDIX 4

Key to responsibilities: 1 – appropriate Strategic Director, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

	Opening Balance 01/04/11 £	<i>Withdrawals</i> £	Additions £	Closing Balance 31/03/12 £	<i>Who Responsible for use (see key above)</i>	<i>Purpose</i>
<u>CORPORATE SERVICES</u>						
St Johns Gardens Contingency	267,324		32,500	299,824	1	Contributions from St Johns Gardens tenants for maintenance works
<u>ENVIRONMENTAL SERVICES</u>						
Cemeteries Replacement	80,625		40,000	120,625	3	To provide additional grave spaces.
Great Northern Square Maintenance Fund	308,203		13,720	321,923	1	Set up in accordance with the agreement with the developers of the site. It will be used for upgrading of the square.
Street Lighting PFI	6,434,624	464,876		5,969,748	4	Established to fund the requirements over 25 years re. the PFI contract for Street Lighting service via our external contractors
Bus Lane Enforcement Reserve	849,095	150,000	427,000	1,126,095	3	Reserve from income arising from bus lane enforcement powers, which is set aside to support expenditure on transport and environmental improvements
On Street Parking	1,656,831	2,355,000	1,960,000	1,261,831	3	Reserve from On-Street Parking surplus's year on year, which is set aside to support expenditure on transport and environmental improvements

APPENDIX 4

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	Opening Balance 01/04/11 £	<i>Withdrawals</i> £	Additions £	Closing Balance 31/03/12 £	<i>Who Responsible for use (see key above)</i>	<i>Purpose</i>
<u>MANCHESTER CITY GALLERY</u>						
Art Fund	200,267	127,500		72,767	1	Purchase of Works of Art
<u>ADULT SERVICES</u>						
Asylum Seekers	674,526			674,526		
<u>GENERAL FUND</u>						
Development Fund	0		44,854	44,854	3	To invest in schemes that will pay back investments from savings
LABGI reserve	2,343,433	1,840,000		503,433	4	Projects being met from LABGI monies
Capital Fund Revenue Reserve	31,430,211	21,302,000	7,000,000	17,128,211	3	Council's contribution to major capital schemes
Service Improvement Fund	2,462,805	1,868,035		594,770	4	To fund improvements in Council Services
General Fund Reserve	21,325,891	750,000		20,575,891	3	General Reserve
Town Hall Reserve	9,761,767	4,171,000	1,000,000	6,590,767	4	<i>To meet revenue decant costs etc. associated with refurbishing the town hall extension and central library</i>

APPENDIX 4

Key to responsibilities: 1 – appropriate Strategic Director, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

	Opening Balance 01/04/11 £	<i>Withdrawals</i> £	Additions £	Closing Balance 31/03/12 £	<i>Who Responsible for use (see key above)</i>	<i>Purpose</i>
Housing Loans	500,307			500,307	4	To meet future costs
Insurance Fund	7,024,253			7,024,253	4	To meet future uninsured losses and self insured costs
Climate Innovation Fund	450,000		500,000	950,000	1/3	To cover costs of climate change initiatives
Productivity Fund	1,456,000			1,456,000	3	To pump prime future investment opportunities to achieve further on-going savings
Pension Risk Fund - MWL	2,023,870		470,000	2,493,870		
<u>Total all General Fund Reserves</u>	107,112,051	34,500,411	11,629,016	84,240,656		
<u>HOUSING REVENUE</u>						
HRA General Reserve	50,036,030		5,068,000	55,104,030	4	General Reserve
<u>HOUSING CAPITAL</u>						
Major Repairs Allowance	6,684,894	4,956,000	9,736,000	11,464,894	4	Provides resources needed to maintain value of housing stock

Reserves shaded in grey represent those potentially available for use to support the revenue budget £58.852m