

<b>Subject:</b>	<b>General Fund Revenue Budget &amp; Council Tax 2015/16</b>		
<b>Date of Meeting:</b>	<b>26 February 2015</b> 12 February 2015 – Policy & Resources Committee		
<b>Report of:</b>	<b>Interim Executive Director of Finance &amp; Resources</b>		
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT:**

- 1.1 This report sets out the final proposals for the General Fund Revenue Budget and Council Tax for 2015/16. It considers proposals and options for setting the council tax level and associated budget savings packages. All proposals and options take into account feedback and evidence received by the council through various consultation and engagement processes, the scrutiny process and equalities impact assessments.
- 1.2 The budget has been developed in the context of the emerging Corporate Plan which was presented in draft form to Policy & Resources Committee in December 2014 alongside draft budget proposals and a draft Medium Term Financial Strategy (MTFS). In developing the Corporate Plan, the council considered the feedback and views from budget consultation and engagement with residents, partners and other stakeholders, in particular, views and ideas arising through the 'Stop, Start, Change' approach.
- 1.3 The Corporate Plan clearly identifies the purpose, principles, priorities and values that will drive the council's modernisation, commissioning and service delivery approaches over coming years which will be supported by Directorate Plans and reflected in resource terms in the MTFS. The 2015/16 budget proposals presented in this report have therefore been developed on an iterative basis alongside the development of the Corporate Plan and MTFS which will be presented to Policy & Resources Committee and full Council in March 2015.
- 1.4 The report incorporates decisions made by Policy & Resources Committee on the council taxbase and business rates taxbase, and by full Council on council tax discounts and exemptions and the Council Tax Reduction Scheme. As the original proposals were also published prior to the Provisional Local Government Finance Settlement, a number of changes arising from the announcement and the final settlement, received on 3 February 2015, have also been incorporated.

- 1.5 The proposed budget is based on the minority Administration's referendum budget proposal for a 5.9% council tax increase, together with a required substitute budget proposal at 2%. Other options are also provided.

## **2. RECOMMENDATIONS:**

That Policy & Resources Committee recommends to Council: –

- 2.1 The Administration's proposed 5.9% Council Tax increase in the Brighton & Hove element of the council tax, including:
- The 2015/16 budget allocations to services as set out in Appendix 1.
  - The council's net General Fund budget requirement for 2015/16 of £220.2m.
  - The referendum budget savings package as set out in Appendix 7.
  - The additional budget proposals for a substitute budget of £4.293m as set out in Appendix 8.
  - The funding of the costs associated with holding a referendum on the 7 May 2015 in accordance with Chapter IVZA of the Local Government Finance Act 1992 and associated regulations as set out in table 2.
  - The reserves allocations as set out in paragraph 3.24 and table 2.
  - The Prudential Indicators as set out in Appendix 12 to this report.
- 2.2 If recommendation 2.1 is not agreed, further savings as set out in Appendix 9 be agreed (these being sufficient to enable a Council Tax freeze in the Brighton & Hove element of the council tax after taking account of the Freeze Grant available from Government) including consequential adjustments to the reserves allocations and prudential borrowing limits as set in paragraphs 3.24 and Appendix 12, and subject to modifications as necessary to be undertaken by officers following consultation with relevant members and that Council agrees a revised council tax resolution to reflect that.
- 2.3 If neither recommendation 2.1 or 2.2 are not agreed, that Council adopts a Threshold Budget of 2%, which represents the threshold above which a referendum would be triggered, including the consequential adjustments to the reserves allocations and prudential borrowing limits.
- [Note: This option uses the Substitute budget savings package and would therefore be the same as the substitute budget proposals with the exception of the difference in one-off costs between these two budget options. The one-off costs comprise the cost of holding the referendum and timing differences for implementation, as set out in Appendix 10.]
- 2.4 That Council agree the fees and charges referred to Council as outlined in paragraph 3.21 and 4.5.
- 2.5 That Council note the Equalities Impact Assessments to cover all budget options and their cumulative effect are set out in Appendices 13 and 14.

- 2.6 That Council approves the borrowing limit for the year commencing 1 April 2015 of £379m.
- 2.7 That Council approves the annual Minimum Revenue Provision statement as set out in Appendix 11.
- 2.8 The proposed responses to the scrutiny recommendations as set out in Appendix 17.
- 2.9 That Council note the revised Medium Term Financial Strategy and resource projections for 2015/16 to 2019/20 as set out in Appendix 5.
- 2.10 That Council note that supplementary information needed to set the overall council tax will be provided for the budget setting Council as listed in paragraph 4.4.
- 2.11 That, for the purposes of enacting an extended business rates transitional relief scheme announced in the Autumn Statement 2014, Council grant delegated authority to the Executive Director of Finance & Resources to design and administer the scheme in accordance with government guidelines as set out in paragraph 3.8.
- 2.12 The Policy & Resources Committee agrees that:
- 2.12.1 If recommendation 2.1 is agreed, the referendum be held on 7th May 2015; and
- 2.12.2 That Officers be authorised to make any necessary technical, presentational or consequential amendments to this report before submission to full Council.

### **3. CONTEXT/ BACKGROUND INFORMATION:**

#### **Structure of the report**

- 3.1 The report provides full information on function and funding changes and other legal and financial matters that have resource implications for the 2015/16 budget. The full set of information provided in this report is listed here as an aid to navigation:
- **Local Government Finance Settlement** - updates are given on the latest position regarding government grant announcements;
  - **Referendum Threshold and Council Tax Freeze Grant** – information is provided about recent government announcements;
  - **Business Rates Retention** – updated forecasts of the council’s share of business rates for this year and next are included;
  - **Schools Funding** – Information on Dedicated Schools Grant (DSG) and Pupil Premium;
  - **Other Government Grants and New Homes Bonus** - Information on other government grants with details in Appendix 3 and the New Homes Bonus final allocations for 2015/16;

- **Fees and Charges** – Information on the approach to Fees and Charges is included within the report;
- **Reserves Position** - A re-assessment is included of the level of reserves available to fund one-off items of expenditure and / or provide short term support for the budget. A full review of reserves is included in Appendix 4;
- **Expenditure Estimates** - Including information on the latest position in 2014/15, internal transfers and other adjustments, an analysis of budget changes since 2014/15, inflation, risk provisions, commitments and reinvestment and service pressures;
- **Medium Term Financial Strategy** - Information on the key financial tables within the financial strategy over the next 5 years is included in Appendix 5 alongside an assessment of risks in Appendix 6;
- **Savings and Value for Money** - Savings proposals and potential staffing implications;
- **Annual Minimum Revenue Provision (MRP) Statement and Prudential Indicators** – Information on the full statement is attached at Appendix 11 and the prudential indicators are shown in Appendix 12;
- **Corporate Budgets including Contingency** - Information on changes to the main corporate budgets including the resources held in contingency for 2015/16;
- **Council Tax** – Including council tax, referendum and the supplementary information required for Budget Council;
- **Report of the Chief Finance Officer** – Including the robustness of estimates, adequacy of reserves, and an assurance statement by the council's section 151 officer;
- **Community Engagement, Consultation and Scrutiny** – Details of consultation and engagement, including a summary report on budget consultation and the report from scrutiny in Appendix 16 and 17.

## **Projected Resources available in 2015/16**

### ***Local Government Finance Settlement***

- 3.2 The final Local Government Finance settlement was announced on 3 February 2015. The level of Revenue Support Grant has increased by £0.372m since the announcement of the provisional settlement due to the government providing an additional £74m nationally to assist local authorities in dealing with pressures on local welfare, health and social care. This has been built into budget projections. The table below shows the 2015/16 funding assessment compared with the final funding assessment for 2014/15.

TABLE 1	Final 2014/15 £ million	Provisional 2015/16 £ million
Revenue Support Grant (RSG)	63.442	46.097
Government assumed business rates income retained by the council	51.055	52.030
Top-up Grant	1.611	1.642
Total Funding	116.108	99.769
Reduction		-16.339
Percentage		-14.1%

- 3.3 The government-assumed level of business rates retained locally is used in the grant calculation and is different from the actual business rates forecast to be collected locally which is shown later in this report. The top-up grant was determined when the business rates retention system was introduced to smooth changes from the previous system and is increased by inflation each year.

#### **Referendum Threshold and Council Tax Freeze Grant**

- 3.4 The Government has announced that the threshold above which an increase in council tax requires confirmation from a local referendum will be 2%. All authorities must also be mindful of the impact of changes in levies on the referendum trigger. Any proposal to increase council tax above the threshold will need to be accompanied by an agreed substitute budget which would need to be implemented if the increase is voted down in the referendum.
- 3.5 The Government had earlier announced that council tax freeze grant for 2011/12, 2013/14, 2014/15 and 2015/16 will be protected in baseline funding in future years. This means that there is no specific 'cliff edge' when the freeze grants end for the authorities that have accepted the grant funding as the funding reduction will now be spread across all authorities whether they have had a council tax freeze in those years or not.
- 3.6 The grant settlement includes new council tax freeze grants for 2015/16 equivalent to a 1% increase in council tax for those councils who agreed to freeze their council tax in 2015/16. The grant is calculated using the council tax base before adjustments are made for the council tax reduction scheme making the grant for Brighton & Hove £1.27m.
- 3.7 Full Council on 26 February 2015 will determine both the budget and council tax for 2015/16 but a decision to freeze the council tax next year will require approximately £0.918m additional recurrent savings to be identified and agreed compared to the substitute increase of 2%. Increases above the threshold will generate approximately £1.1m additional resources for each 1% increase in council tax but will also generate one-off costs linked to the referendum as set out later in this report.

## **Forecast Business Rate Retention income for 2015/16**

- 3.8 Details of the likely business rate retention income forecasts were set out in the report to the January meeting of Policy & Resources Committee. The council is forecast to receive £56.544m from its local share of business rates and section 31 compensation grants in 2015/16. Following an announcement in the autumn statement, qualifying business rates payers will be entitled to a 2 year extension for transitional rate relief from 1 April 2015. CLG advised local authorities that they should use their discretionary powers to adopt a local scheme, in tandem with the government's guidelines. The cost of the relief awarded will be fully reimbursed through Section 31 grant.

## **Schools Funding**

- 3.9 The Dedicated Schools Grant (DSG) is split into 3 notional blocks: Schools, Early Years and High Needs. In terms of the allocation of the 2015/16 Schools Block (funding for mainstream schools), the Schools Forum agreed to maintain existing weightings and unit values where possible, but to allocate the additional 'headroom' that comes into the DSG (as a result of the anticipated increase in pupil numbers, largely in the primary phase) directly to the primary and secondary age weighted pupil units. This aspect of headroom is derived as a result of the DSG funding per pupil being at a higher level than the average funding per pupil determined via the operation of the formula.
- 3.10 In December 2014, the LA received the final datasets to be used in the calculation of the 2015/16 budgets and the changes from 2014/15 are reflected on the funding proforma submitted to Department for Education (DfE) in January 2015. The most significant variation when compared with the autumn term draft proforma is the reduction in funding through the deprivation factor. This has reduced from £12.84m on the October proforma (10.15% of the total schools budget) to £11.98m (9.43% of the total schools budget) on the final proforma and is due to a decrease in pupils eligible for free school meals (based on the comparison between October 2013 and October 2014). The funding released through this factor has been re-allocated via basic entitlement (age weighted pupil units).
- 3.11 The total funding being allocated through basic entitlement has increased from £91.367m on the October proforma to £92.514m on the final proforma. The age weighted pupil unit rates for both primary and secondary schools have increased by £35 from the October draft proforma.
- 3.12 The overall primary / secondary funding ratio displayed in the final proforma is 1:1.31 and is consistent with the final 2014/15 position. The LA is waiting for final approval from DfE before issuing budgets to schools.
- 3.13 The Minimum Funding Guarantee has been applied at -1.5% per pupil, in line with national requirements and a scaling back of 'gainers' has been applied to ensure that the overall budget settlement to schools in 2015/16 is affordable.
- 3.14 The pupil premium grant will also continue in 2015/16. The eligibility for the pupil premium (deprivation element) will be pupils who have been eligible for Free

School Meals (FSM) at any point in the last 6 years (Ever 6 FSM), with the snapshot taken at the January 2015 school census. The unit rate of funding will be £1,320 per disadvantaged pupil in primary schools and £935 in secondary schools. From April 2015, an early years pupil premium will also apply for eligible children and this has been set at £300 per pupil.

- 3.15 As in 2014/15, schools may also receive additional pupil premium allocations for adopted children (£1,900 per pupil based on the January 2015 census) or for Looked After Children (£1,900, allocated via the Virtual School).
- 3.16 The budget proposals included in Appendix 7 involve some funding changes between the DSG and the General Fund; these changes are in relation to legitimate uses of the DSG and a report detailing the changes has been provided to and agreed at the Schools Forum.

### **Other Government Grants**

- 3.17 The grant allocations for 2015/16 have been included in Appendix 3 with the 2014/15 allocations for comparison. Some grant allocations for next year have not yet been announced and where these are critical to the setting of the 2015/16 budget forecasts have been included.
- 3.18 There are some significant changes in 2015/16 as follows:
- The ending of the Local Welfare Provision specific grant of £0.751m.
  - A national 20% reduction in the Educational Services Grant which equates to £0.8m.
  - A new grant to reflect the transfer of responsibility from NHS England to Local Government for commissioning 0 to 5 children's public health services from 1 October 2015.

### **New Homes Bonus**

- 3.19 The New Homes Bonus (NHB) is a funding incentive for local authorities largely to facilitate the building of new homes in their area and bring empty homes back into use. The funding allocation for the fifth tranche was confirmed in January 2015 and the council will receive £1.166m extra in 2015/16; of this £1.019m is from new properties, £0.086m from a reduction in long term empty properties and £0.061m from affordable homes delivered. This additional grant has been built into the 2015/16 budget on a recurrent basis.

### **Fees and Charges**

- 3.20 The Council's Corporate Fees & Charges Policy requires that all fees and charges are reviewed at least annually and should normally be increased by either: the corporate rate of inflation (2%), statutory increases, or actual increases in the costs of providing the service as applicable. Increasingly, linked to the Value for Money approach, services are benchmarking non-statutory fees and charges with other providers and/or other council's to ensure that charges are comparable and competitive and can maximise income to protect essential services.

- 3.21 Non-statutory increases above the standard rate of inflation and/or changes to concessions or subsidies are normally reported to and considered by the relevant service committee in advance of budget proposals wherever possible. However, proposals in relation to parking fees and charges, and Assistant Chief Executive services' fees and charges (except the Royal Pavilion Museum) have been referred by the relevant service committees to full Council for consideration alongside the overall budget package. These fees and charges include savings proposals incorporated within this report. These specifically relate to savings in Museums, Libraries, Seafront Services, Outdoor Events and venues totalling £0.268m; similarly, there are savings for off-street parking totalling £0.192m and additional resources available for reinvestment from on-street parking proposals totalling £0.571m. These proposals are included within Appendix 7.

## Reserves

- 3.22 The working balance is planned to be maintained at £9m over the period of the Medium Term Financial Strategy. The review of reserves and the working balance is included at Appendix 4.
- 3.23 The following table shows the projected general reserves position assuming spending is in line with the latest projections for 2014/15 shown in the TBM month 9 report. The table includes the release of specific reserves to support the 2015/16 budget with allocations identified in paragraph 3.24.

<b>Table 2 – General Reserves</b>	
	<b>£'m</b>
<b>Unallocated general reserves at 1 April 2014</b>	<b>0.000</b>
Estimated Business Rates Retention Collection Fund surplus at 31 March 2015	1.590
Estimated Council Tax Collection Fund surplus at 31 March 2015	0.196
Estimated net refund of Revenue Support Grant in 2015/16 to reflect that the top slice for New Homes Bonus funding in the national grant settlement was overestimated by the Government	0.174
Release of brought forward risk provision on a one off basis in 2015/16	0.500
Release of reserves as set out in Appendix 4	2.424
<b>Total Resources</b>	<b>4.884</b>
<b>Commitments</b>	
TBM Month 9 forecast overspend (incl. share of NHS S75 services)	-0.541
One-off resources to support ICT	-0.360
Fund part year effect of 2015/16 savings included at Appendix 7	-1.826
One off costs to support an election for the Older Peoples Council	-0.012
Estimated one off costs of holding a referendum vote	-0.100
Additional staffing costs associated with maintaining the collection rate set in the council tax base report agreed at January P&R	-0.194
<b>Total</b>	<b>1.851</b>



In the event of the referendum being unsuccessful: -	
Fund part year effect of the additional savings within the Substitute Budget	-0.967
Fund the timing delay of implementing the savings within the substitute Budget	-0.727
The additional costs of re-billing, refunds adjusting council tax accounts including additional staff costs	-0.157
<b>Balance of reserves available</b>	<b>0.000</b>

3.24 The table above includes the following commitments and allocations : -

- The month 9 forecast overspend of £0.541m will need to be financed from one off resources.
- One off resources for ICT relate to existing contractual commitments as we transition to new sourcing arrangements for a number of services including data centres.
- The budget proposals included in Appendix 7 require one off resources of £1.826m because the lead-in times, primarily due to consultation requirements, mean that not all the proposed savings for 2015/16 can be delivered from 1 April 2015.
- The Older Peoples Council holds elections every 4 years and the cost of the elections depends on the number of seats contested. The costs could range between £0 and approx. £0.033m, however, based on the costs of the last election a provision of £0.012m has been assumed.
- The costs of holding a Referendum vote will be kept to a minimum by holding the Referendum on the same day as the local and national elections. The estimated cost of the local elections is £0.25m and this has been factored into the 2015/16 budget. The cost to the council of holding local elections and a Referendum are estimate to be £0.35m and therefore the additional funding required is £0.10m.
- With a referendum vote there will be additional staffing costs associated with maintaining the collection rate set in the council tax base report agreed at January Policy & Resources Committee.
- If the result of a referendum vote requires the substitute budget to be implemented, there are additional one off resources required for the lead in times for implementing the additional savings. These costs are split between the one off costs of the substitute proposals without a referendum of £0.967m and the further one off costs of a delay in the decision to implement them until after a referendum of £0.727m.
- In addition there are further one off costs estimated to be £0.157m for re-billing, refunding council tax to those who have fully paid and amending council tax accounts.

## Expenditure Estimates

### *Latest position in 2014/15*

- 3.25 The Month 9 Targeted Budget Management (TBM) report elsewhere on the agenda shows a projected overspend of £0.146m on council controlled budgets and an estimated £0.395m share of the projected overspend of NHS controlled s75 services. The overall position is a significant improvement since month 7 was presented to Policy & Resources Committee. This is mainly driven by improvements to the spending forecasts for Children's Services and Adult Social Care Services.

### **2014/15 Adjusted Base Budget**

#### *Internal Transfers and Other Adjustments*

- 3.26 Internal transfers relate to changes in responsibility between services and corporate budgets. In 2014/15 the main transfer is between the Housing and Adults Assessment services for hostel accommodation.

### **2015/16 Budget**

#### *Analysis of Budget Changes between 2014/15 and 2015/16*

- 3.27 The following table shows how the budget has changed since 2014/15.

<b>Table 3: Analysis of budget changes</b>	<b>£ million</b>
<b>Revised 2014/15 base budget</b>	<b>225.3</b>
Pay and Inflation	3.8
Recurrent risk provision	1.6
Commitments & Reinvestment (net position)	0.0
Demographic and cost service pressures	6.4
Full year effect of 2015/16 savings	-1.1
Savings package 2016/17 (Referendum)	-16.5
Change in use of reserves	0.7
<b>Proposed Base Budget 2015/16</b>	<b>220.2</b>

- 3.28 Appendix 1 shows a detailed breakdown of the proposed budgets and budget changes for each service.

#### *Pay and general inflation assumptions*

- 3.29 The budget estimates for 2015/16 include the 2.2% pay award implemented from 1 January 2015 to cover the period up to 31 March 2016 as well as funding for a £7.85 living wage. The estimates also include 0.5% increase in the employers contribution rate to the East Sussex pension scheme.

- 3.30 The provision for general inflation ranges between 0% and 2% depending on the type of budgeted expenditure; fees and charges are assumed to increase by 2% as described in paragraph 3.21 with the exception of parking income and penalty charge notices. Increases in costs above assumed inflation level will be managed within service budgets unless the increase is significant and is identified as a corporate service pressure.

### ***Risk Provisions included in the 2015/16 budget***

- 3.31 An additional £1.62m recurrent risk provision has been built into the 2015/16 budget in recognition of the financial risks included within the overall budget package. This is in line with the recommendations of the Chief Finance Officer as set out in section 6 of this report.

### **Commitments and Reinvestment**

- 3.32 Details of the commitments and reinvestment in services in addition to the one off allocations from reserves are shown below: -
- £0.55m for the increase in the employers pension contribution rate by 0.5% to 19%.
  - £0.20m for increased costs of the cash collection contract.
  - £0.18m for former employees pension costs as outlined in TBM reports throughout 2014/15.
  - £0.30m to support improved procurement as agreed within the Governance of Value for Money Phase 4 report to Policy and Resources Committee on 12 June 2014.
  - £0.05m increase in the Discretionary Fund for the Council Tax Reduction scheme as agreed at Council in December 2014.
  - £0.025m to support collection of council tax as part of the agreed changes to Class C and D council tax exemptions at Council in December 2014.
- 3.33 These allocations are offset by a reduction in the financing costs budget of £0.25m and changes to unringfenced grants including new homes bonus and Section 31 grants of £2.1m.

### ***Service Pressures***

- 3.34 The budget estimates for priority service pressures have been reviewed since December and the proposed allocations for demographic growth and other service pressures are £6.4m. The budget estimates have been reviewed for the most significant cost pressures faced by services and the current trends on the council's corporate critical budgets. It is proposed to allocate the following funding in order to ensure a balanced budget can be set:
- £2.0m for Adult Social Care particularly in relation to Learning Disability transitions, increased complexity of physical disabilities, deprivation of liberty assessments and mental health services. These funds will be supplemented by £0.8m additional agreed allocations from the Better Care

Fund to protect social care and therefore reduce the savings requirement from this area;

- £2.1m for children's social care mainly relating to children's placements, inter-agency placement fees, and independent reviewing officers;
- £1.4m for reductions in unringfenced grants particularly the reductions to Education Services Grant;
- £0.8m for ICT services including the reinvestment of £0.345m from ICT contract savings;
- £0.1m for electricity and gas price increases above inflation.

### **Savings & Value for Money**

- 3.35 The budget gap has changed since the Budget Update and Savings report was presented to Policy and Resources in December 2014. The changes are detailed in Appendix 2. The budget gap with a 5.9% council tax increase is £20.56m; with a 2% increase is £24.85m and with a council tax freeze is £25.77m.
- 3.36 Value for Money continues to be a key focus for the authority alongside commissioning and re-commissioning services, exploring alternative delivery options, and working with partners to improve services, manage demands or reduce costs. Value for Money is focussed on the 3e's of economy, efficiency, and effectiveness and is an approach that requires all services to understand their costs at a detailed level and to understand the systems, processes and demands that drive cost within their service. This normally means benchmarking services against other authorities or other providers, including those in the private and third sectors where possible, so that Members and officers can make informed decisions about areas to prioritise for potential value for money efficiency savings and/or performance (effectiveness) improvements.
- 3.37 As with last year's budget process, a Value for Money screening process was undertaken to provide Members with key benchmarking information across all General Fund services where available. This information has now been placed on the council's website (Finance pages) for general information. As reported to Policy & Resources Committee in June 2014, the council has reviewed its Value for Money programme and has now linked this closely with its Modernisation approach and will focus on continued procurement savings, income generation, client transport and fleet efficiencies, and an options appraisal for delivery of Central Services. There will also be continued support for realising cost efficiencies across Adult and Children's social care services, particularly in relation to contracted and high cost placement services. All Value for Money savings are included in the appended savings proposals and are separately identified therein. Savings will be monitored as normal through the council's TBM reports.

### **Staffing Implications**

- 3.38 At this stage in the budget process it is difficult to determine exactly how many staff may be affected by the proposals. A broad estimate is that in 2015/16, 200-250 posts (plus a number of posts in nurseries dependent on the outcome of the review) may be removed from the council's staffing structure as a result of the savings proposals set out in Appendix 7, 8 and 9. However actual numbers will

be dependent on the detailed options proposed and on the results of formal consultation where required. Some of these are already vacant and some will become vacant through normal turnover. Consultation is already underway for many of the proposals and staff are being supported through:

- Providing appropriate support to staff throughout the change process to enable them to maximise any opportunities available;
- The offer of interview and CV writing training. In addition we are reviewing our approach to outplacement support across the organisation to ensure staff are equipped with the skills necessary to move to new and different opportunities and models of delivery;
- Controlling recruitment and ensuring there is a clear business case for any recruitment activity;
- Looking for redeployment at a corporate level, and maximising the opportunities for movement within the organisation;
- Limiting the use of temporary or agency resources through controls in relation to the agency booking process.

3.39 These measures will continue as we work with trades unions and colleagues on the detailed staffing implications.

3.40 We are looking to reduce the impact of the proposals by offering voluntary severance to staff in service areas affected by budget proposals on a case by case basis; this will not be an open scheme across the entire workforce. This targeted approach to releasing staff in areas undergoing change is needed to support service redesign. Where there is a clear business case for voluntary severance and an individual is not in immediate receipt of their pension, an enhanced offer in line with the previous offer may be made. Each case will be subject to a business case signed off by the council's compensation panel.

3.41 As we redesign services through the budget process we will be reviewing our management structures to ensure accountability and spans of control are at an optimum level, and to identify areas where further management efficiencies could be made.

### **Annual Minimum Revenue Provision (MRP) Statement and Prudential Indicators**

3.42 The council is required by law to prepare an annual statement on the amount of debt that will be repaid in the following year. The statement for 2015/16 is set out in Appendix 11.

3.43 The prudential capital finance system introduced in 2004 requires the council to set a number of indicators for affordability, prudence and sustainability. The recommended indicators are set out in Appendix 12. Members should note the indicator for the authorised limit is a statutory limit required to be determined by full Council under section 3(1) of the Local Government Act 2003.

## Corporate Budgets

- 3.44 The council budget contains a number of corporate budgets that are monitored and controlled centrally. The significant corporate budgets include the concessionary fares budget which has been set based on the councils agreements with bus operators; the centrally held unringfenced grants income budget that reflect the announcements from government; and the former employees pension costs where additional resources have been included within the 2015/16 budget.

## Financing Costs

- 3.45 The Financing Costs Budget for 2015/16 is forecast to be £8.7m, a decrease of 2.7% (or £0.24m) on the adjusted base for the current year. This reduction is a result of a revision of the Borrowing Strategy, as reported to Policy & Resources as part of TBM Month 9 in February 2015. The Borrowing Strategy has been updated in light of changes in projected interest rates and new borrowing opportunities. This will allow the council to take advantage of forward rate borrowing for future years that can provide certainty over costs and avoid the short term pressure of holding additional cash balances at low investment rates.
- 3.46 Taking advantage of this opportunity is in accordance with the Council's agreed Treasury Management Policy Statement. This results in a permanent cost reduction of £0.14m compared to previous assumptions and the release of the financing cost reserve set out in Appendix 4 due to the phased scheduling of the new borrowing.

## Contingency

- 3.47 The council's contingency budget includes provision for costs which are likely to occur but for which the estimated cost cannot be adequately foreseen at this stage. It also includes risk provisions and other resources awaiting transfer to services. The proposed contingency for 2015/16 is £3.03m as detailed in table 4.

<b>Table 4: Contingency</b>	<b>£ million</b>
Corporate recurrent risk provision	1.62
Modernisation Fund	0.70
Cash collection contract	0.20
Centrally held service pressure funding for energy including £0.1m from 2014/15 allocation	0.20
Provision for pay related matters including Living wage and pensions	0.15
Council tax reduction grant for Parish/Garden Committees	0.01
Resources to cover the impact of awaited government announcements on grants	0.15
<b>Total Contingency</b>	<b>3.03</b>

## **Change in use of reserves**

- 3.48 The budget for 2015/16 draws on reserves to provide temporary funding to cover the part year effect of the savings package and investment in the delivery of savings for future years.

## **4. COUNCIL TAX AND REFERENDUM**

- 4.1 The Administration are proposing a council tax increase of 5.9% which will trigger a referendum. A council tax increase of 5.9% results in a band D council tax of £1,390.01 for the council's element, an increase of £77.43 on this year.
- 4.2 A council tax freeze will maintain band D council tax at £1,312.58. A threshold increase of 1.99% results in a band D council tax of £1,338.68, an increase of £26.10 on this year.
- 4.3 In order to propose an overall council tax for the city the council tax set by the precepting authorities needs to be known. The Sussex Police & Crime Commissioner has proposed the band D council tax at £143.91 for 2015/16 which is an increase of 1.98%, the formal precept will not be agreed until 13 February 2015. East Sussex Fire Authority is due to set their 2015/16 Band D council tax on the 12 February 2015. The budget for Rottingdean Parish will be agreed on 2 February 2015.

### ***Supplementary Budget report to Budget Council***

- 4.4 Not all the budget and council tax information needed to set the budget and council tax is available at present. Therefore additional information will be need to be provided for Budget Council; this will include:-
- Any other grants that are announced before Budget Council.
  - The Environment Agency levy figure agreed for 2015/16 and any changes to the budget and council tax calculation resulting from the levy.
  - The agreed council tax set by the Sussex Police & Crime Commissioner, East Sussex Fire Authority and Rottingdean Parish.
  - The statutory council tax calculations required under the 1992 Local Government Finance Act.
  - The full budget and council tax resolution for Budget Council.
- 4.5 In addition, the report will include the fees and charges referred to council by the Economic Development and Culture Committee and the Environment, Transport and Sustainability Committee along with extracts from the minutes of the meetings to allow the these fees and charges to be considered with the overall budget package.
- ## **5. MEDIUM TERM FINANCIAL STRATEGY AND RISK ASSESSMENT**
- 5.1 The Medium Term Financial Strategy (MTFS) will be fully updated and reported as part of the council's Corporate Plan to the March 2015 meeting of full Council. The MTFS will set out resource and spending projections for 2015/16 to 2019/20 and will be amended for the budget and council tax decisions made at the

Budget Council on 26 February 2015. In the meantime, the summary MTFS is included at Appendix 5 based on current planning assumptions.

## **6. REPORT OF THE CHIEF FINANCE OFFICER (SECTION 151) UNDER SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003**

6.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. This report has to be considered by Policy & Resources Committee and the full Council as part of the budget approval and council tax setting process. The budget reports on this agenda are focused on the General Fund Revenue Budget 2015/16 and the Capital Programme. It also considers key medium term issues faced by the council.

### ***Robustness of Estimates***

6.2 There is inevitably an element of judgement in drawing up budget estimates of expenditure and income which are made at a point in time and may change as circumstances change. This statement about the robustness of estimates cannot give a complete guarantee about the budget but provides the council with reasonable assurance that the budget has been based on the best information and assumptions available at the time, and has considered identifiable risks.

6.3 In setting the budget for 2015/16, current expenditure trends and service demands have been considered by the Executive Leadership Team and Corporate Management Team working closely with finance professionals. The budget for 2015/16 has therefore been set taking into account the trends in the TBM Month 9 (December) report and further projections of future demand and cost. While Children's Services are moving closer to break-even, the corporate critical child agency placement budgets are under some pressure, although this has improved recently. This will need continued close monitoring and the continued emphasis on the Early Help Hub and Strategy will be important in managing demands on the service.

6.4 Adult Social Care has been under considerable pressure throughout the year and remains so partly due to some savings not being implemented and due to pressures on the corporate critical community care placement budgets. However, recognition of this system pressure by health partners (Clinical Commissioning Group) and a focus on reviewing high cost placements and implementing Better Care Fund initiatives should enable pressures to be managed in 2015/16 alongside the service pressure funding provided.

6.5 Approximately £4.1m service pressure funding has been provided to manage demand trends across Children's and Adults social care services and the Clinical Commissioning Group will provide further risk provision of £1m in 2015/16 to help manage the Adult Social Care position.

6.6 In recent years, the council has demonstrated its ability to continue to deliver significant savings programmes although implementation of some proposals have been subsequently delayed or overturned by members. Savings across Children's and Adults social care services have however proved much more difficult to achieve in 2014/15 than in the previous 3 years. There are new



approaches now being implemented and embedded across these services which should reduce costs in the medium term but the service pressure funding mentioned above, alongside appropriate risk provisions, will be needed to ensure the situation remains manageable throughout 2015/16.

- 6.7 Given the above pressures and the need to achieve substantial savings requirements in 2015/16, an increased recurrent risk provision of £1.62m is considered prudent to guard against these risks and any risks not known at budget setting time. However, the Council will need to monitor delivery and implementation of savings proposals closely as the prospect of significant (£20m or more) budget gaps in future years means that non-achievement of savings will store up even greater difficulties for the years ahead.

### ***Adequacy of Reserves***

- 6.8 The recommendation on the prudent level of General Fund working balance has been based on the robustness of estimates information and a risk assessment of the budget.
- 6.9 The analysis indicates that continuation of a working balance at a level of £9m (excluding school balances) is prudent having taken into account all known and foreseeable risks in relation to the 2015/16 budget. This represents 4.0% of the council's net revenue budget excluding schools. The financial risks in the business rates retention system are now better understood and, although forecasting remains relatively intricate, are not expected to be catastrophic and we remain mindful of the need to keep reserves as low as possible.
- 6.10 All specific reserves have been reviewed in detail to ensure they are set at an appropriate level. This is set out in Appendix 4. Many of the council's earmarked reserves fulfil a specific legal or financial requirement, for example the Insurance Reserve. A further reduction in the Waste PFI reserve has been made following a review of the existing revenue budget alongside the planned reserve balances over the life of the contract. In addition, the Financing Costs Reserve has been released due to the rescheduling of planned new borrowing as described earlier. These changes are both reflected in the one-off resources available to support the 2015/16 budget.

### ***Assurance Statement of the Council's Section 151 Officer***

- 6.11 In relation to the 2015/16 General Fund revenue budget, the Section 151 Officer has examined the budget proposals and considers that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given Member and Executive will to implement the changes, good project management, operational and financial management, and the sound monitoring of performance and budgets. The council also has a good record of managing other potential financial risks that arise from time to time, which provide assurance that it can proactively manage risks such as external legal challenges, capital cost variances, one-off revenue costs or losses, and treasury management risks.
- 6.12 In terms of the adequacy of reserves, the Section 151 Officer considers a working balance of £9m to be adequate taking into account other reserves, the risk provisions and the council's track record in budget management.

## **7. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 7.1 The budget process allows all parties to put forward viable alternative budget and council tax proposals to Budget Council on 26 February 2015. Budget Council has the opportunity to debate both the proposals recommended by Policy & Resources Committee at the same time as any viable alternative proposals. All budget amendments must have been “signed off” by finance officers no later than 12 noon on Monday 23 February 2015.
- 7.2 The Administration has put forward a referendum budget proposal and required associated substitute budget. However, should this not be accepted, other recommended options are available for consideration and savings proposals have been identified in Appendix 9 that are sufficient to enable the Council to opt for a council tax freeze which requires additional savings of £0.918m after taking into account government council tax freeze grant.
- 7.3 If that is not accepted, a further option is to adopt a Threshold Budget of 2%, which represents the threshold above which a referendum would be triggered. This option uses the Substitute budget savings package and would therefore be the same as the substitute budget proposals, with the exception of the difference in one-off costs between these two budget options. The one-off costs comprise the cost of holding the referendum and timing differences for implementation, as set out in Appendix 10. By amendment, Members may use any of the further savings identified in Appendix 9 to replace proposals within this Threshold budget savings package.
- 7.4 Policy and Resources Committee on the 22 January 2015 considered the following Notice of Motion (NOM) requesting officers to bring proposals to the next meeting of the committee, as part of the budget 2015/16 proposals, the effect of which would be to:
- a) Retain the current £400k contract with the Brighton & Hove Youth Collective until it expires in October 2015 instead of terminating it 6 months early as proposed in the 4th December Budget Update and Savings 2015/16 report to this Committee. Identify the appropriate amount of one-off funding to enable this to happen;
  - b) Transfer £22,500 (half of their annual combined grant of £45k) to Allsorts, BME Young People’s Project and Extratime in order to enable them to continue providing their services after April 2015, when their current Council grant funding stops;
  - c) Examine how services currently provided by Allsorts, BME Young People’s Project and Extratime can be best integrated within the overall Youth Service budget; between now and October 2015 hold an open and transparent re-commissioning of all Council-funded Youth Services within the agreed budget envelope, with a genuine level playing field for all providers who express an interest in running the contract(s).
- 7.5 With regard to point a) of the NOM it should be noted that the Administration’s budget proposals no longer include savings proposals in relation to the Youth Collective. With regard to point b) of the NOM, further savings options are

provided at Appendix 9 which may be taken in whole or in part and put forward as amendments to budget proposals to achieve the required saving needed to provide funding of £22,500 to the organisations listed.

- 7.6 With regard to point c) of the NOM it has already been agreed to meet with representatives from the Youth Collective and from Allsorts on behalf of the youth equality sector to discuss the future of youth provision within the city. The starting point for the meeting will be to consider what outcomes and impact we are looking for. Currently, both the community & voluntary sector and the city council provide youth provision and some mix of provision is likely in the future. As the commissioner of services, the council will need to be assured of the quality of provision, whoever provides it. Our expectation is that following an initial meeting, there will then follow a fuller review of youth provision within the city which will conclude in Autumn 2015. Any proposals developed would need to be considered by the Children's Committee.

## **8. COMMUNITY ENGAGEMENT, CONSULTATION AND SCRUTINY**

- 8.1 The results of the main consultation and engagement processes are provided in Appendix 16. Local Government budgets and finances are complex and therefore the council has attempted to provide a mixture of engagement tools and processes, including budget literacy aids, alongside more formal consultation processes including a survey questionnaire to households, the budget scrutiny process, consultation with businesses and partners, and specific consultation in relation to savings proposals where required.
- 8.2 A range of consultation and engagement events have been undertaken in relation to the 2015/16 budget which were designed to facilitate understanding of the council's overall budget position and obtain general feedback on proposals. These included:
- Meetings with the Older People's Council where changes impacting on Adult Social Care arising from the Care Act and the Better Care Fund were explored including continued 'personalisation' of services and eligibility criteria for assessing need.
  - An event for Business Ratepayer representatives on 21 January 2015 at Sussex Cricket Ground provided an opportunity to explain the detailed changes to Business Rates in 2015/16, following government announcements. The event included providing information about budget proposals and current regeneration initiatives that will continue to support and promote economic activity in the city. There was no formal feedback to report from the meeting.
  - Ongoing consultation and engagement with Community Works in developing proposals, particularly in Children's Services. Feedback has been provided directly to services and members as appropriate.
  - The Schools Forum, attended by representatives of all school phases, where a report on the potential areas of interest and impact of the General Fund budget proposals were discussed at a meeting on 19 January 2015. This is a public minuted meeting and agendas, minutes are available on the council's website.

- Departmental Consultative Groups (DCGs) which provided an opportunity for consultation with Trades Unions representatives across all council services.
- 8.3 Alongside these events the council sent a budget survey questionnaire to a random sample of 3,000 households across the city and, separately, made the questionnaire available through its on-line consultation portal to citizens, partners, staff and other stakeholders. Only the random household sample provides statistically reliable feedback as detailed in Appendix 16. A budget on-line tool was also provided on the council's website to aid budget literacy and allow people to feedback on how they would prioritise services. General information about the budget and budget process has also been provided on the council's website and through various media routes as normal.
- 8.4 Consultation and engagement feedback has been provided to all political groups, and provides information and insight about those services that citizens view as higher or lower priority, views about council tax levels, and ideas and suggestions for saving money or generating income. In particular, the council promoted a 'Stop, Start, Change' approach inviting ideas from all quarters on what the council should do less of, more of or do differently. This feedback was invited through a number of channels including Twitter, the budget survey questionnaire and internet consultation portal, internal intranet discussion boards for staff, and the media.
- 8.5 Feedback is summarised in Appendix 16 and was made available to all political groups. The feedback from the 'Stop, Start, Change' approach and other budget consultation and engagement has been considered in developing the budget proposals put forward by the Administration and particularly in drawing up the Referendum budget which would provide for the following in 2015/16:
- Greater protection for Adult Social Care given current service pressures and the lead-in times for integration with health to take effect and impact on (reduce) costs across the system. The proposals for a 5.9% council tax increase would reduce the savings requirement across Adult Social Care by approximately £1.7m;
  - Greater protection for Housing Related Services which provides preventative services for vulnerable adults to maximise independent living. While improved joint and integrated commissioning should continue to be developed to better meet the health and social care needs of vulnerable people, the Referendum proposals would protect investment of £0.700m in this service area;
  - Greater protection for Early Years (Early Help) services across Children's Services, in particular, removal of the requirement to reduce the number of Children's Centres and reduce investment in 'universal services' provided to families and young people;
  - Greater protection for the environment and street scene for example through reduced savings requirements on CityClean services and protection of the replacement and new tree planting programmes.

8.6 The December budget proposals have also been reviewed by the Member Budget Scrutiny Panel and the minutes of the panel meetings and the proposed response to the Budget Scrutiny Panel's recommendations is provided in Appendix 17.

**9. CONCLUSION:**

9.1 The council is under a statutory duty to set its budget and council tax before 11 March each year. The options and recommendations to Budget Council contained within this report together with the recommendations to follow in the supplementary report to full Council, should enable the council to meet its statutory duty.

**10. FINANCIAL & OTHER IMPLICATIONS:**

Financial Implications:

10.1 These are contained within the main body of the report.

*Finance Officer Consulted: James Hengeveld*

*Date: 05/02/2015*

Legal Implications:

10.2 Policy & Resources Committee is responsible for formulating budget proposals for adoption by the council. Power to adopt the budget is vested in full Council alone.

10.3 For these purposes, the "budget" includes the allocation of financial resources to different services and projects, proposed contingency funds, and setting the council tax.

10.4 Section 52ZB of the Local Government Finance Act 1992 requires a billing authority to determine whether its relevant basic amount of council tax is "excessive" (as to which, see 10.5 below). If the amount is excessive, the billing authority is required to hold a referendum, with a view to applying an alternative amount if the excessive amount is rejected in a referendum.

10.5 The determination of whether a relevant basic amount of council tax is excessive must be made in accordance with principles determined by the Secretary of State. The Department for Communities and Local Government (CLG) has stated that for the 2015/16 financial year, an increase of more than 2% will be regarded as excessive. Therefore, local authorities opting for an increase of more than 2% will be required to hold a referendum.

10.6 A local authority needing to hold a referendum must do so by the first Thursday in May, in this instance 7 May 2015. Holding a referendum before that date would mean devising a timetable that allowed the authority to make the required determination and comply with the notice requirements. If a required referendum is not conducted by the due date, the authority's substitute calculations would come into effect.

- 10.7 The Local Authorities (Conduct of Referendums) (Council Tax Increases) (England) Regulations 2012 impose various requirements as to the conduct of the referendum, including the wording of the question to be put to eligible voters.

*Lawyer Consulted: Oliver Dixon*

*Date: 05/02/15*

Equalities Implications:

- 10.8 The process for assessing the equalities implications of the budget changes for 2015/16 and an assessment of the cumulative impact is shown in Appendix 13. All the Equalities Impact Assessments are included at Appendix 14.

Sustainability Implications:

- 10.9 A carbon budget has been set for 2015/16. This shows the level of spend on energy and the estimated carbon emissions across each carbon budget area and includes a planned 4% reduction in 2014/15 and again in 2015/16. This modest target will be challenging to meet on the basis of the current approach to carbon management.
- 10.10 Carbon budgets aim to provide the organisation with a framework of accountability for reducing carbon emissions from our buildings, street lights and fleet. They were first introduced in 2012/13 and supported by actions plans that set out how carbon budgets are to be achieved and these plans are reviewed and challenged once a year. The council spends around £8.5m each year heating and lighting its buildings, lighting our neighbourhoods and travelling around the city to deliver key services. With rising energy and fuel prices and the purchase of annual Carbon Reduction Commitment allowances, the business case for reducing carbon emissions is clear.
- 10.11 The council's 2013/14 Carbon Reduction Commitment footprint accounted for 22,915 tonnes of CO<sub>2</sub> from council buildings for which the council purchased £0.275m worth of CRC allowances at £12 per tonne. This was 627 tonnes less than in 2012/13. 2014/15 allowances will rise to £16.00 per tonne and the council purchased our requirements in advance for £15.60 per tonne.
- 10.12 Non half-hourly electricity prices increased by 15% at the beginning of April 2013, half-hourly electricity prices increased by 3.9% in October 2014 and gas prices reduced by 3.7%.
- 10.13 The council's carbon budget data update is detailed in Appendix 5 and profiles spend and CO<sub>2</sub> carbon footprint for 2013/14 across the council and sets out the targets for 2014/15 and 2015/16.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Movements in Budget Allocations 2014/15 to 2015/16
2. Changes in the budget projections since the 4 December 2014 budget report to Policy & Resources Committee
3. Summary of special and specific grant allocations for 2014/15 and 2015/16
4. Review of the Council's reserves including the planned use of reserves
5. The Medium Term Financial Strategy 2015/16 to 2019/20 key tables
6. Assessment of Risks
7. Savings proposals for a Referendum budget with a council tax increase of 5.9%
8. Savings proposals for a substitute budget
9. Further savings options to support a freeze budget
10. Threshold budget proposals
11. Minimum Revenue Provisions statements
12. Prudential Indicators 2014/15 to 2016/17
13. Equalities Impact Assessment – Cumulative impact
14. Equalities Impact Assessment – Individual
15. Carbon Budget for 2015/16
16. Summary report Budget Consultation
17. Minutes of the Overview and Scrutiny Committee and the recommended response

### **Documents in Members' Rooms**

1. None

### **Background Documents**

1. Budget files held within Finance
2. Consultation papers

