COUNCIL	Agenda Item 55(a) Brighton & Hove City Council

Subject:		**General Fund Revenue Budget & Council Tax 2010/11**		
Date of Meeting:		**25 February 2010** 11 February 2010 - Cabinet		
Report of:		**Director of Finance & Resources**		
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Key Decision:	**Yes**	**Forward Plan No: CAB13926**		
Wards Affected:	**All**			

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT

1.1 In July 2009 Cabinet considered and agreed the budget setting process for 2010/11 in the context of having reasonable certainty over government funding allocations for next year. In December 2009 Cabinet received a budget update report which set out budget strategies for each service area to achieve the indicative cash limits agreed by Cabinet in July. Since the December meeting the budget strategies have been scrutinised by a series of Scrutiny Panels in December and January. The Overview and Scrutiny Commission agreed at their meeting on 26 January 2010 that the minutes of those meetings would be forwarded to this meeting for Cabinet to consider when taking decisions on the budget. The Leader and the Cabinet have very carefully considered the issues and concerns raised by Scrutiny and in response have made changes from the December proposals which are described in paragraph 3.48 of the report.

1.2 This report sets out the latest budget information needed for Cabinet to recommend the 2010/11 revenue budget and council tax to Full Council on the 25 February 2010. Not all the relevant information is currently available, for example the council tax precepts for Sussex Police Authority and East Sussex Fire Authority have not yet been agreed, so as in previous years a supplementary report will be prepared for Full Council. Details of the likely contents of that report are shown in paragraph 4.7.

1.3 The resource projections continue to be based on an indicative council tax increase for 2010/11and beyond of 2.5%. Given the financial uncertainties created by the recession, elections and government resource allocations beyond 2010/11 the medium term financial strategy needs to provide for some flexibilities within the budget by creating risk provisions and a reserves strategy, proposals for which are set out in the report.

1.4 Cabinet are reminded that all decisions about the 2010/11 budget need to take into account future projections of resources and expenditure and the medium term financial strategy sets out the latest forecasts. Over 60% of the council's

gross expenditure is funded by government grants which will not be determined for 2011/12 and beyond until after the general election. The position on the national finances was updated by the Chancellor of the Exchequer in the pre-budget report announced on 9 December 2009 and a very significant squeeze on public spending is inevitable to help address the growing levels of government debt. A significant amount of value for money work has been undertaken and this work together with major changes proposed for the future structure and working practices of the council will help deliver the anticipated savings of about £15m per annum needed in the years ahead.

2. RECOMMENDATIONS:

2.1 That Cabinet recommends to Council, subject to 2.3 below, the 2010/11 General Fund Revenue Budget proposals including;

- The 2010/11 budget allocations to services as set out in appendix 1.
- The investment in services and new allocations proposals as set out in paragraphs 3.42 to 3.46.
- The council's budget for 2010/11 of £230.8m.
- The Directorate budget strategies as set out in appendix 8.
- The corporate budgets of £19.3m.
- The contingency budget of £4.2m as set out in table 6.
- The reserves allocations as set out in appendix 3.
- The borrowing limit of £302m for the year commencing 1 April 2010.
- The annual Minimum Revenue Provision statements as set out in appendix 4.
- The prudential indicators as set out in appendix 7 to this report.

2.2 That the Medium Term Financial Strategy budget and resource projections for 2011/12 and 2012/13, as set out in appendix 5, based on council tax increases of 2.5% for each year be noted.

2.3 That it be noted that supplementary information needed to set the overall council tax will be provided for the budget setting Council as listed in paragraph 4.7.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

Format of the Budget report

3.1 The report sets out for the General Fund Revenue Budget:

- Projections of the resources available to fund the 2010/11 budget.
- A summary of the expenditure estimates for the current year, set out in detail in month 9 Targeted Budget Management report elsewhere on the agenda,

and details of the forecasts and proposals for 2010/11 including an analysis of the movements from 2009/10.
- The proposed council tax increase for 2010/11.
- The medium term financial strategy covering the 3 year period 2010/11 to 2012/13 and risk assessment.
- A report from the Chief Finance Officer on the robustness of the estimates included in the budget and the adequacy of the level of reserves provided for in the budget.
- The budget consultation undertaken to date and the outcomes.

3.2 The council has a gross budget of about £750m in 2009/10. Approximately 62% is funded by government grants some of which given to the council for very specific purposes whilst others are general grants which can be used to support expenditure as the council determines. Most government grants are announced as part of the Local Government Finance Settlement and 2010/11 is the last year of a 3 year settlement. The largest grant is the dedicated schools grant which must be used to fund schools or school related expenditure.

3.3 The remaining 38% of the budget is funded by fees and charges 16%, housing rents 6%, council tax 15% and reserves 1%. A separate report on the Housing Revenue Account and rent setting is included elsewhere on the agenda. The paragraphs below in the projected resources section set out in more detail the forecast funding available for the General Fund in 2010/11.

3.4 The 2010/11 expenditure estimates section details the changes from the 2009/10 budget including:

- An adjusted base budget for 2009/10 to enable a like-for-like comparison between the years covering any changes in function and funding and internal budget transfers between services.
- Assumed levels of pay and general inflation including information on the key factors which will influence future pay related budgets.
- The additional amounts included in the budget to cover higher spending needed to maintain current service levels described as spending pressures.
- Proposed new investment in services.
- Proposals for efficiency and other savings needed to set a balanced budget including the latest staffing implications.
- Analysis of the changes in the corporate budgets including the minimum level for the risk provisions.

3.5 The section on council tax shows the proposals for the Brighton & Hove council element which is about 85% of the total tax with the balance being set by Sussex Police and East Sussex Fire Authority. The section also includes the latest information on council tax capping which all members need to be mindful of when setting both the budget and council tax.

Projected Resources available in 2010/11

Local Government Finance Settlement

3.6 The final settlement for 2010/11 was announced on 20 January 2010 and showed that the council will continue to receive the minimum floor increase in formula grant of 1.5% or £1.6m for 2010/11 compared to a national average increase of 2.6%. The 2010/11 formula grant is £109.185m.

3.7 The provisional 2010/11 non-domestic rating multiplier is 41.4 pence in the pound and the provisional 2010/11 small business non-domestic rating multiplier is 40.7 pence in the pound.

Schools Funding

3.8 Schools funding in the form of the Dedicated Schools Grant (DSG) will increase by £6m in 2010/11 based on the council's latest estimates of pupil numbers and the fixed per pupil increase announced on 27 October 2009. This sum may change when the results of the January 2010 pupil count are known.

Table 1: DSG allocation for Brighton & Hove				
	Dedicated Schools Grant £m	Cash increase	Per pupil increase	National Per pupil increase
2009/10	127.734			
Governments indicative pupil numbers in provisional allocation				
2010/11	134.682	+5.4%	+4.1%	+4.3%
Revised allocation based on council's latest estimate of pupil numbers				
2010/11	133.712	+4.7%	+4.1%	+4.3%

3.9 The funding allocation to each school within Brighton & Hove is determined by a local funding formula, which distributes the total funding pot between each school. This local formula is agreed by the Schools Forum which is made up of representatives from local schools and provides for an absolute minimum funding guaranteed increase of 2.1% per pupil.

3.10 The other important funding source for schools is government specific grants. Details of these grants are contained in appendix 2.

Specific Grants; Area Based Grant (ABG) and Local Public Services Agreement 2 (LPSA2) reward grant

3.11 In 2010/11 the council is anticipating the receipt of about £50m specific and special grants, a like for like increase of approximately 8.7% over 2009/10 although a few grant allocations have not yet been announced. Details of all the known grant allocations are shown in appendix 2. Specific and special grants are allocated by the government with strings attached and must be spent in the service areas specified.

3.12 ABG is an unringfenced grant where the council is given the freedom over how this money is spent. The government has transferred the supporting people specific grant into ABG for 2010/11. In addition a new Economic Assessment

Duty Grant which requires the council to prepare an assessment of the economic conditions of the area, has been added to ABG.

3.13 In 2010/11 the council is anticipating the receipt of about £24.1m ABG, approximately 6.6% less than 2009/10 on a like for like basis, a notional breakdown of which is also shown in appendix 2. The main reductions relate to the loss of transitional grant for stronger safer communities and neighbourhood renewal, and a 5% reduction in supporting people.

3.14 This budget proposes £0.4m recurrent funding in 2010/11 as replacement funding for priority services where grant is coming to an end. In addition, some priorities will be supported through allocations from the LPSA2 reward grant.

3.15 The council along with public sector partners will achieve targets included within the LPSA 2. These targets were incorporated into the previous Local Area Agreement. As a result the council estimated to receive reward grant of at least £3.2m over the next 2 years. In addition the council is awaiting the outcome of a further claim for £0.9m which will be allocated when confirmed in consultation with the Public Services Board. The allocations of the reward grant confirmed so far and agreed by the Public Services Board are included in appendix 9.

Local Authority Business Growth Incentive Scheme

3.16 The LABGI grant is now allocated on the basis of sub-regions and the council forms part of the East Sussex sub-region. The national allocation for 2010/11 was previously confirmed at £50m and based on the council's share of this allocation the council could receive about £0.2m. The provisional grant payable in 2010/11 has not been announced yet and therefore any recommendations on the use of LABGI funds will be submitted to a future Cabinet meeting when the grant is formally confirmed.

Fees and Charges

3.17 Fees and charges have inflated by 2% or less in line with the budget strategy except where separate reports have been presented to Cabinet Member Meetings (CMMs). Reports on fees and charges have been presented to the following CMMs : -

- Culture Recreation & Tourism 15th Sept 2009
- Environment 26th Jan 2010
- CYPT board 1st Feb 2010

3.18 The Licensing fees and charges were agreed at Council on 28 January 2010.

Council Tax

3.19 The council tax funds approximately 15% of the councils gross budget and the collection fund is the account into which all council tax is paid. It is a statutory requirement that the collection fund is reviewed each January to determine whether it is projected to be in surplus or deficit. The collection fund is forecast to have a total surplus of £2.685m at 31 March 2010, of which £1.185m relates to a reduction in the 2008/09 outturn deficit and a £1.500m surplus which is forecast to occur during 2009/10. The main reason for the surplus is the higher than anticipated number of new properties being completed in 2009/10. The council tax element of the surplus is shared with Sussex Police Authority and East Sussex Fire Authority in proportion to the previous year's demand or precept. The total share for the council is £2.286m.

3.20 The tax base is the amount of money that could be raised in Brighton & Hove by levying a council tax of £1. The 2010/11 tax base of 94,511.05 was agreed by Cabinet on 14 January 2010 and represented a 2.2% increase from the 2009/10 figure and again is mainly as a result of increased numbers of new properties being added to the valuation list during 2009/10. This was higher than previously forecast in December and generates additional resources of approximately £1.1m for next year. Proposals for the allocation of these resources within the 2010/11 budget are shown in paragraph 3.46.

Reserves

3.21 The council holds reserves for 2 main purposes:

- A working balance to temporarily cover major unexpected items of expenditure or emergencies.
- Earmarked reserves set aside for a wide range of specific purposes such as the insurance fund, winter maintenance or donations towards the upkeep of graves.

3.22 The working balance is currently £9m and is planned to remain at this level over the next 3 years. The justification for the level of the working balance is given within the Chief Finance Officers comments section.

3.23 A list of all the earmarked reserves held by the council is given in appendix 3. The table in the appendix shows for each reserve the purpose of why it is held, the forecast opening and closing balance and the anticipated movement within the year.

3.24 Any reserves balances held in addition to those above are treated as usable reserves and can be used to support one-off items of expenditure or shortfalls in income in the revenue budget. The following table shows the projected usable reserves position assuming 2009/10 spending is in line with current projections. The table particularly reflects the improved council tax collection fund performance in 2008/09 and 2009/10.

Table 2 – Usable Reserves	£m
Reserves Balance at 1st April 2009	**2.3**
Planned transfers agreed at Budget Council 26th Feb 2009	-1.9
Improvements in council tax collection fund and taxbase in 2008/09 actual, 2009/10 and 2010/11 projections	3.5
Resources generated in 2010/11 by lower than anticipated pay award in 2009/10	1.3
Provisional funding for 2009/10 overspend (see paragraphs 3.26 and 3.27 below)	-0.6
Allocations approved by Cabinet during 2009/10 including the Marina planning appeal, swine-flu preparations, Building Schools for the Future, preparation for carbon trading, transfer to the redundancy restructure reserve and the upfront costs of supporting the development of the Local Delivery Vehicle which will be repaid when the properties are leased	-2.6
Balance estimated as at 1st April 2010	**2.0**
Minimum provision assessed by the Chief Financial Officer to be needed for one-off risks to cover temporary additional spending or loss of income as a result of the continuing economic downturn and other pressures within the budget	-0.5
Balance available for spending in 2010/11	**1.5**

3.25 Expenditure funded from reserves must be one-off to ensure that it does not create additional unfunded spending commitments for future years. Proposals for allocating the £1.5m one-off resources are shown in paragraph 3.45.

Expenditure Estimates

Latest position in 2009/10

3.26 The month 9 Targeted Budget Management (TBM) report elsewhere on the agenda shows a projected over spending of £0.6m which is virtually unchanged since month 6.

3.27 Cabinet has already agreed that the £0.7m contribution towards the Building Schools for the Future (BSF) programme from reserves would only be approved if the 2009/10 budget broke even. In light of the latest projected over spend alternative funding resources are therefore required for BSF and these have been identified within the capital investment programme report elsewhere on the agenda. The net over spend of £0.6m has been taken into account in the projection of usable reserves shown in table 2.

2009/10 Adjusted Base Budget

Changes in function / funding

3.28 The finance settlement for 2010/11 did not include any significant function and funding changes.

Internal Transfers

3.29 Internal transfers relate to changes in responsibility between directorates and corporate budgets. There have been two significant internal transfers and a number of minor changes. The significant changes were the savings generated from a lower than anticipated pay award in 2009/10 transferred from each directorate into the contingency budget; and the transfer of £0.8m from contingency to the financing costs budget to support the borrowing costs for the equal pay back pay settlement. There have been no additional resource requirements as a consequence of any of these changes.

2010/11 Budget

Analysis of Budget Changes between 2009/10 and 2010/11

3.30 The following table shows how the budget has changed since 2009/10.

Table 3: Analysis of budget changes	£m
Adjusted 2009/10 base budget	**219.00**
Pay awards and Inflation	2.93
Service pressures & investment in services	13.38
Efficiency & other savings	-12.32
Changes in corporate budgets	0.07
Change in use of reserves	7.73
Proposed Budget 2010/11	**230.79**

3.31 The following sections give details of each change.

% changes in service budgets

3.32 The following table shows the percentage changes for services, appendix 1 shows the detailed build up of the budget and the directorate budget strategies in appendix 8 show how each service will deliver budgets based on these changes.

Table 4: 2010/11 Budget	**Change**
CYPT – Children's and Other Services	5.0%
Adult Social Care & Housing	0.6%
Section 75 Partnership	0.9%
Environment	1.5%
Finance & Resources	0.2%
Strategy & Governance	-0.1%
Culture & Enterprise	3.3%

Pay and general inflation assumptions

3.33 The council has a statutory duty to address inequalities in pay. Having conducted an equal pay review in accordance with the National 2004 NJC Agreement, the ongoing costs of implementing the agreed new pay rates has been incorporated into the budget and is included in contingency for allocation out to services. There remains a Single Status reserve to cover a range of risks as set out in the report to the Governance Committee on 9th July 2009.

3.34 In terms of the annual pay award the unions have claimed a 2.5% pay increase from the 1 April 2010 and the employers have responded with a proposal for a cash freeze for next year. A provision of 1% has been allowed in the budget to incorporate both the pay award and the costs of ongoing modernisation of the council's pay and reward structure. This assumption has been revised downwards since the July report following the lower settlement of the 2009/10 pay award. The cash limits have been adjusted to reflect this change.

3.35 The government has set a 2% per annum target inflation rate for consumer prices for the Bank of England Monetary Committee to deliver through monetary policies. After a period of very low or negative inflation during most of 2009 rates increased sharply in December and are anticipated to stay above target for a few months before falling back.

3.36 The provision for general inflation on both expenditure and income is 2% per annum in line with the government target.

Pension Fund Contributions

3.37 The pension fund contributions of every local authority are reviewed by independent actuaries every 3 years by law. The next review will be carried out next year and revised contribution rates will be established for implementation in 2011/12. The contribution rates depend on a wide range of factors but the main ones relate to the investment performance of the fund, the levels of pay and pension increases and the projected longevity of current and future pensioners.

3.38 The council is one of 60 employers within the East Sussex Pension Fund managed by East Sussex County Council (ESCC). Although the Pension Fund has performed consistently above the average for local authority pension funds it has not been immune from the impact of adverse changes in the financial and property markets. However, following an average increase of more than 50% in stock markets across the globe since April 2009 the overall value of the Fund in mid-November was £1.7 billion, about the same level as at the last triennial valuation.

3.39 At the annual pension fund forum held by ESCC on 19 November the actuary indicated that the combination of improved investment performance and a smoothing factor within the calculation of future contribution rates, would mean that the latest estimate of the increase in 2011/12 for employers contribution rates is on average 1% which can be phased in over 3 years. The impact of future pay may mean that the increase for the council is slightly higher so 1.5% will be allowed in the budget projections i.e. 0.5% increase or about £0.65m per annum from 2011/12.

Service Pressures

3.40 Provision for spending pressures to maintain existing service levels are incorporated into directorate budget strategies. The spending pressures include the known impact of the recession for example loss of income from commercial property, land charges, Royal Pavilion, museums and venues.

3.41 The table below shows the other main service pressures.

Table 5: Main Service Pressures	**£m**
CYPT	
Independent Foster Agency Placements & in house foster payments	2.53
Legal costs for Looked After Children	0.55
Residential Agency Placements	0.39
Adult Social Services	
Physical Disabilities pressure from 2009/10	0.78
Learning Disabilities increasing clients, long term placements and transitions from CYPT	1.49
Demographic changes resulting in increasing older people, adult mental health and physical disabilities clients	1.08
Loss of Grant	
Area Based Grants – reduction in grant for Stronger Safer Communities and Working Neighbourhoods	0.76
Reduction in Supporting People grant	0.59

Investment in services and new allocations proposals

3.42 The budget proposals allow for some new investment in services, re-prioritisation within existing services and provide upfront resources to help deliver future efficiency savings. Some of these proposals were set out in the December Cabinet report whereas others are new to this report following the identification of new resources from an increased taxbase and a review of the amounts held in contingency.

3.43 The borrowing costs of £0.045m needed to cover the first phase of the capital works to build a new historic records office jointly with the County Council were agreed in the budget process last year and have therefore been treated as a commitment for 2010/11. Further sums have been included in the projections for 2011/12 and 2012/13 to enable the projected construction works to be fully funded.

3.44 The following proposals are generated from ongoing resources and were set out either in the body of the December report or in the directorate budget strategies:

- £0.25m recurrent funding to replace government grants that have come to an end such as neighbourhood renewal and stronger safer communities grants.
- £0.2m increased investment in youth outreach work.
- £0.19m for the Royal Pavilion and Museums to support the review of commercial service management and to reduce income targets to a level that is achievable within the current economic climate in admissions and the commercial enterprises.
- £0.1m investment in regular annual seafront maintenance.
- £0.046m for investment in modernisation the library services.

- £0.050m to provide a new gum removal service.

3.45 The December report also identified £1.5m one-off resources from reserve and set out proposed allocations to services. The amount of usable reserves and been confirmed at this level and there are no changes proposed to the allocations set out in December:

- £0.5m investment in the Seafront for the painting of railings and improvements to shelters as well as work at Hove Lagoon.
- £0.5m to provide a new Transport Model for the City which will be valid for 5 years and will be a platform for planning a range of potential improvements to the city's transport infrastructure for example the development of new park and ride facilities.
- £0.180m to ensure that Castleham Industries can be kept open in 2010/11 to allow time for careful consideration of the future options for the staff delivering this service in the light of substantial cuts in central government funding.
- £0.100m for additional internal programme and project management capacity to ensure the delivery of the savings proposals for 2010/11.
- £0.070m to support the delivery of the council's 10:10 commitment.
- £0.150m start up loan funding for a new model of delivery of youth services linked to the Falmer Academy.

3.46 The increased resources generated by the higher than anticipated taxbase plus a review of the resources held in contingency have generated in total £1.379m ongoing resources. Proposals to allocate these resources are as follows:

- £0.750m to increase the risk provision to £1.5m to cover risks identified in the Learning Disabilities budget.
- £0.150m to provide replacement permanent funding for grants ending in Crime Disorder Reduction Partnership
- £0.276m to remove savings proposals in CYPT in response to concerns raised at the scrutiny meetings.
- £0.100m additional annual investment in winter maintenance.
- £0.103m to reduce the subsidised bus route saving proposal.

Savings Proposals

3.47 Each directorate has been required to identify efficiency savings as part of their budget strategies as well as any further savings or income needed to manage within their cash limit. Overall the savings package includes £8.88m efficiency savings and £3.44m additional savings and income. Further details of the proposed savings are included in the directorate budget strategies at appendix 8.

3.48 The proposed savings published in December have been subject to scrutiny at a series of meetings in both December and January. All the issues raised at those meetings and concerns about some of the proposals raised by residents have been very carefully considered by the Leader and the Cabinet. As a result there have been some changes to the proposals shown in the budget strategies reported to Cabinet in December. These include:

- The December report identified a £1.9m shortfall in the CYPT budget. This has been addressed through a transfer of £1m from the risk provision held in contingency to the CYPT cash limit delivering a 5% increase and an

additional £0.9m efficiency savings that were considered at the scrutiny panel in early January and are detailed in the CYPT budget strategy in appendix 8.

- The re-design of day care services will be the subject of a public consultation and no decisions regarding these services will be made until the results of this consultation have been analysed.
- An additional efficiency saving of £0.102m from the discretionary advertising budget has replaced proposals to relocate the Brighton History Centre and reduce opening hours at the Booth Museum.
- The proposals to reduce respite care at Drove Road and to use the Aiming High Grant to fund existing services have been removed.
- A review of the current marketing of council owned venues, such as the Old Courthouse, will be carried out to assess whether further savings proposals can be identified.
- The proposed savings on subsidised bus services is reduced by £0.103m and the remaining £0.097m found as a result of the subsidy on the No 27 bus route no longer being required.

3.49 Following requests for additional information on some proposals at the Scrutiny Panels further information has been included within the budget strategies.

Staffing Implications of Proposed Savings

3.50 The proposed savings package results in an estimated reduction of 95.7 full time equivalent (FTE) posts across the council and 51.5 (FTE) possible redundancies. The council is committed to working positively with staff and unions to avoid compulsory redundancies wherever possible through redeployment and has a good track record of keeping compulsory redundancies to an absolute minimum.

3.51 To minimise the impact on staff directorates have been operating vacancy management controls for some time. Human Resources are coordinating the following measures:

- The examination of every post to be advertised as a possible redeployment for staff at risk before other applications are considered.
- Searches for alternative employment options across the council and externally in partnership with the Trade Unions.
- Supported trial periods and identification of training needs.

3.52 This process has already reduced the number of staff at risk of redundancy who have been offered/undertaking trial periods or been successfully redeployed.

Corporate Budgets

3.53 The council budget contains a number of corporate budgets that are monitored and controlled centrally. Details of the main corporate budget are set out in the following sections.

Corporate Budgets - Concessionary Fares

3.54 The concessionary fares budget for 2010/11 of £7.7m net of £1.8m special grant from the government covers the costs of the concessionary fares scheme adopted by the council. The bulk of the budget relates to the cost of reimbursing the bus operators for all concessionary journeys which start within the boundaries of the city. The original budget projections for 2010/11 allowed for an

increase of 5% in the budget for concessionary fares net of government grant. The payments to the bus operators largely depend upon the number of journeys undertaken by concessionaires and the level of bus fares. The number of journeys is projected to increase by approximately 3.4% this year and it is anticipated that further increases due to the popularity of the scheme will occur next year. Recent discussions with local operators suggest that they currently do not have plans to increase fares next year.

3.55 The government has consulted on amendments to the distribution of special grant for 2010/11 and has recently confirmed the amended distribution but the proposals did not affect the amount of grant received by the City Council. Based on all the most recent budget and grant information the budget increase allowed for in the original projections for 2010/11 is therefore considered reasonable.

Corporate Budgets – Insurance Premia

3.56 The insurance budget of £3m for 2010/11 represents both the estimated cost of insurance premia and the cost of meeting successful claims against the council paid during the year. The council achieved substantial savings when it tendered the bulk of its insurance cover in 2008. Although the agreements are for 3 years the insurance companies re-quote at the end of each financial year for the coming year. The insurance market remains relatively soft and early indications show that any significant cost increases for next year are unlikely although the outcome of negotiations will not be known until March 2010. However, Officers will take the opportunity to ask for a range of quotes for different levels of cover in order to establish the optimal balance between the level of the premium payments and the level of cover. Preliminary work undertaken on the insurance of the vehicle fleet has identified an opportunity to deliver savings on this element of the portfolio but the level of these savings will also not be known until March. Despite an increasing claims culture within the country as a whole the overall value and level of successful claims has fallen slightly largely as a result of improved risk management across the council.

Corporate Budgets - Financing Costs and Prudential Indicators

3.57 The financing costs budget reflects the cost of the council's capital investment plans. The council has a fully funded capital programme and the costs of funding the programme are provided for in both the general fund and housing revenue account revenue budgets.

3.58 The financing costs budget for 2010/11 is estimated to be £10.4m an increase of £0.9m on the original budget for 2009/10. Most of the increase £0.8m relates to the financing of borrowing undertaken in relation to equal pay back pay and the remainder £0.1m relates to the net costs of funding the capital programme.

3.59 The most significant variable element in the 2010/11 budget is the level of income generated by investing reserves and temporary surplus cash-flows which depends on forecasts of interest rates. At budget Council last year reserves of £2.9m were earmarked for 2009 - 2012 to fund reductions in investment interest income whilst investment rates are at all time lows until rates were projected to return to average levels of about 5%. Approximately £0.9m of the reserve is forecast to be used in 2009/10. It is now anticipated that interest rates will remain at lower levels for longer than originally anticipated, however, the debt repayment

policy of using invested reserves to repay long term debt adopted over the last year should ensure that the balance of £2m reserves are now sufficient for the period up to the end of 2012/13. Some new borrowing will be undertaken during the year to take advantage of the historically low long term borrowing rates available in the market but the timing of borrowing decisions will be critical to the short and long term performance of this budget.

3.60 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 7. Cabinet should note that 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.

Annual Minimum Revenue Provision (MRP) Statement

3.61 The council is required by law to prepare an annual statement on the amount of debt that will be repaid in the following year. Councils now also have to comply with International Financial Reporting Standards and that requires a retrospective adjustment to the 2009/10 statement. A revised statement for 2009/10 and the new statement for 2010/11 are shown in appendix 4.

Corporate Budgets - Contingency

3.62 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 resources awaiting transfer to services. The proposed contingency for 2010/11 is £4.18m.

Table 6: Contingency	**£m**
Provision for equal pay and future pay to cover the grading changes already announced and awaiting allocation to Directorate budgets	1.66
Investment fund to help deliver value for money initiatives	0.15
Financing costs to support the new historic records centre	0.05
Start up loan funding for a new model of delivery of youth services linked to the Academy	0.15
Risk provisions	
• Ongoing risk provision to cover uncertainties in the budget	1.50
• One off risk provision to cover the impact of the continuing economic downturn and other pressures	0.50
Allocation to services to be finalised in 2010/11	0.17
Total	**4.18**

Change in use of reserves

3.63 There is a significant year on year change in the use of reserves of £7.7m which has led to an artificially high increase in the budget largely because in 2009/10 reserves were needed to meet an estimated deficit on the council tax collection fund whereas in 2010/11 reserves have been generated by a sizeable projected surplus.

4. COUNCIL TAX

4.1 The proposed council tax at band D, for the city council only, will be £1,262.20, an increase of 2.5% or £30.78 per annum.

4.2 In order to propose an overall council tax for the city the council taxes of the precepting authorities need to known. The Sussex Police Authority is due to set its council tax on 11 February 2010, the East Sussex Fire Authority is due to set its council tax on 4 February 2010 and the precept for Rottingdean Parish was due to be set on 1 February 2010.

Council Tax Capping

4.3 The Parliamentary Under Secretary of State in the Department for Communities and Local Government Barbara Follett MP wrote to all local authority leaders in December 2009. An extract from that letter is shown below:

> "Capping principles have always been determined on a year by year basis to take into account current economic and social circumstances and this will again be the case in relation to 2010/11. It would, therefore, be a mistake for any authority to assume the previous years' capping principles will apply to 2010/11. I have made it very clear that the Government expects the average Band D council tax percentage increase to reach a 16 year low in this period. I have also indicated that we will take capping action against excessive increases and I do not propose to send any further written warnings about the risks involved."

4.4 The government will not determine capping limits on budgets and council taxes until all authorities have set their 2010/11 budgets.

4.5 The budget and council tax increases for 2010/11 proposed in this report are extremely unlikely to result in the council being capped. However, any alternative budget proposals that result in a council tax increase of more than 5% will certainly lead to capping and any increase of more than 4% carries a very significant capping risk.

4.6 Capping can result in the authority having to incur the considerable costs of re-billing, a reduction council tax cashflow and collection performance estimated to be in excess of £0.1m and having to identify savings to match the reduction in resources generated by the lower council tax.

Supplementary Budget report to Budget Council

4.7 Not all the budget and council tax information is available at present therefore additional information will be provided for Budget Council. This will include:-

- Feedback from the meeting with Business Ratepayers to be held on 2 February 2010.
- An update on LABGI grant if any announcement is made.
- The levies agreed by the levying bodies.
- The council taxes set by the Police and Fire Authorities.
- The statutory council tax calculations required under the 1992 Local Government Finance Act.
- Council Taxes and increases for each property band.

- The full budget and council tax resolution for Budget Council

5. MEDIUM TERM FINANCIAL STRATEGY AND RISK ASSESSMENT

5.1 The Medium Term Financial Strategy (MTFS) is set out in appendix 5. It shows the projected resources and spending projections for 2010/11 to 2012/13. The financial projections have been prepared for 2011/12 & 2012/13 based on council tax increases of 2.5% for each year.

5.2 These projections are based on the best information currently available, however, in the current financial climate and with 2010/11 being the last year of the current national budget cycle there are many uncertainties. The risk assessment set out in appendix 6 explains in more detail the uncertainties facing the budget over the next 3 years.

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

6.1 Section 25 of the Local Government Act 2003 requires the Chief Finance (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 Cabinet and 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 2010/11 and capital programme. It also considers key medium term issues faced by the council. The corresponding statement on the HRA is reported to the Cabinet and Council within the HRA budget report.

Robustness of Estimates

6.2 There is inevitably an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change. This statement about the robustness of estimates cannot give a 100% guarantee about the budget but gives the council reasonable assurance that the budget has been based on the best information and assumptions available at the time.

6.3 In setting the budget for 2010/11, current expenditure trends and service demands have been considered by service management and joint commissioners (for social care). The budget for 2010/11 has therefore been set on the basis of the trends in the TBM 9 report elsewhere on this agenda and further projections of future demand and cost.

6.4 The scale of savings set out in this budget, particularly in the areas of Adult Social Care and Children's Services are challenging to achieve. For this reason there is additional one off investment to provide internal project management capacity to support their delivery and ensure careful tracking of their implementation. £0.5m recurrent risk provision has also been set aside.

6.5 The area of most significant financial risk is in relation to assumptions about the levels of Continuing Care funding sought from the Primary Care Trust primarily for learning disability services. This is a highly complicated area in terms of determining whether services should be health or social care funded and it is also challenging to find ways to resolve disputes where there are differences of

views. The most recent decisions on cases would mean a service pressure of £0.730m unless the Council decides it is in a position to successfully dispute the decisions. The process for reviewing other outstanding cases by the PCT is taking a long time and so judgements have to be made in this budget about when they will be settled and the likely financial outcome. In total £1m risk provision has been set aside for this issue.

6.6 A further £0.5m one off risk provision has been set aside to cover other risks unforeseen at budget setting time across the council.

6.7 The government has proposals to require councils from October 2010 to provide personal care free of charge to people with the highest needs living in their home. No provision has been included in the 2010/11 budget because legislation has yet to be agreed by parliament and the financial consequences are uncertain.

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 a continuation of an underlying prudent level of working balance of £9m (excluding school balances). This represents 3.9% of the council's net revenue budget excluding schools.

6.10 The level of working balance is currently at this target as set by the council in the MTFS of £9m and it is proposed to retain this level for the period 2010/11 to 2012/13, subject to annual review.

6.11 In addition there is a projected further £2m reserves over the next 3 years to cover falling investment income due to dramatically reduced interest rates.

6.12 2010/11 and the period of the MTFS represents is likely to bring a very significant reductions in public sector funding due to the national economic climate, an unprecedented period of external financial volatility and unpredictability. This presents the council with additional financial risk against which it should reinforce its reserves strategy. In these circumstances, the Council, Cabinet, and Directors will need to:

- Remain within their service budget for 2010/11 and within agreed MTFS cash limited targets for future years with a strict adherence to recovering overspends within future years' financial plan targets.
- Repay any use of working balance over a period of no more than three years should risks materialise that cannot be accommodated by management or policy action.
- Direct any windfall revenue savings/under spends to reserves should the general fund revenue reserves/working balance fall below the approved level.

6.13 Details of the review of reserves, proposed transfers between reserves and further information on the analysis of risk for the working balance are set out in appendix 3.

Assurance Statement of the Council's Section 151 Officer

6.14 In relation to the 2010/11 general fund revenue budget the Section 151 officer has examined the budget proposals and believes that, whilst the spending and service delivery proposals are challenging, they are nevertheless achievable given political and management will to implement the changes, good management, and the sound monitoring of performance and budgets.

6.15 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. CONSULTATION

7.1 This report represents the culmination of the budget process, which has included a number of consultative processes with residents, businesses, members and trade unions.

7.2 The council also has a statutory duty to consult with business ratepayers and a meeting will be held on 2 February 2010.

7.3 The council tax consultation process this year concentrated on a postal questionnaire to randomly chosen households across the city. The results of the consultation were presented to the cross party Budget Review Group on 7 December 2009. The key conclusions from the consultation have been circulated to all Members as well as access to the full report.

8. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

8.1 These are contained in the main body of the report.

Finance Officer Consulted: *Mark Ireland* *Date: 29/01/10*

Legal Implications:

8.2 Under regulations 9-11 of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, the preparation, for submission to the council for their consideration, of estimates of the amounts to be aggregated in making the calculation as to the budget requirement and the basic amount of council tax is the responsibility of the Cabinet. The approval and adoption of the budget based on the Cabinet's proposals are the preserve of Full Council.

Lawyer Consulted: *Oliver Dixon* *Date: 01/02/10*

Equalities Implications:

8.3 The budget includes provisions to meet both equal pay compensation and address inequalities in pay through the implementation of job evaluation. All budget proposals have been considered by each Directorate to determine whether they are covered by existing Equalities Impact Assessments or whether new ones are required and if so, how and when they need to be completed.

Where appropriate the findings from existing Equality Impact Assessments have been considered as part of the proposal process.

Sustainability Implications:

8.4 Sustainability issues have been taken into account throughout the council's budget setting process.

Crime & Disorder Implications:

8.5 The budget identifies resources to help replace the reduction in government grants funding certain crime and disorder initiatives.

Risk & Opportunity Management Implications:

8.6 There are considerable risks to the council's short and medium term budget strategy including the impact of the recession and changes in the national economy, spending exceeding budgets, pressures on existing budgets, further reductions in grant, legislative change demands for new spend. The budget process includes the recognition of these risks in determining the 2010/11 budget and relevant risk provisions are set out in the body of the report. A risk and opportunity matrix for the medium term financial strategy is included as appendix 6.

Corporate / Citywide Implications:

8.7 The report is relevant to the whole of the city.

9. EVALUATION OF ANY ALTERNATIVE OPTION(S)

9.1 The budget process allows all parties to put forward viable alternative budget and council tax proposals to Budget Council on 25 February. Budget Council has the opportunity to debate both the proposals put forward by Cabinet 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 22 February.

10. REASONS FOR REPORT RECOMMENDATIONS

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

SUPPORTING DOCUMENTATION

Appendices:

1. Movements in Block Allocations 2009/10 to 2010/11
2. Summary of special, specific and area based grant allocations
3. Review of the Council's reserves
4. Minimum Revenue Provision statements
5. Summary of Medium Term Financial Position 2010/11 to 2012/13
6. Assessment of risks
7. Prudential Indicators 2010/11 to 2012/13
8. Directorate Budget Strategies
9. LPSA2 reward grant allocations
10. Minutes from Overview & Scrutiny meetings

Documents in Members' Rooms

None

Background Documents

1. Files held within Strategic Finance section