Budget Council	**Agenda Item 87**
25 February 2016	Brighton & Hove City Council

Subject:		**General Fund Revenue Budget & Council Tax 2016/17**		
Date of Meeting:		**25 February 2016** 11 February 2016 – Policy & Resources Committee		
Report of:		**Acting Director of Finance & Resources**		
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Ward(s) affected:		**All**		

FOR GENERAL RELEASE

Note: The special circumstances for non-compliance with Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 are that officers were awaiting critical information about the final Local Government Grant Settlement for 2016/17 from the Department for Communities and Local Government (CLG). This final information was not released by 4 February 2015 and therefore amendments to the budget as a result of any changes to the local government finance settlement will now be included in the Supplementary Budget Report to Budget Council.

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 2016/17 together with 4-Year Service & Financial Plans up to 2019/20. In the absence of freeze grant availability, the increase in the council tax level is based on the minority Administration's council tax proposal of 1.99% together with a further 2% increase in respect of the Adult Social Care precept. All proposals and options take into account feedback and evidence received by the council through various consultation and engagement processes and Equalities Impact Assessments.

1.2 The budget proposals for 2016/17 have been developed on a different basis to recent years and have required a greater level of challenge in the context of a predicted budget gap of £68m over 4 years. Increasing service demands and reducing government grant funding are the principal drivers of the budget gap. To close the gap, services have explored what can or should be stopped, what needs to be redesigned, and what can or should be delivered differently. They have looked at these options in the context of future affordability and sustainability, achieving ongoing cost reductions, managing demand more effectively, increasing efficiency and reducing overheads, or generating greater income. Most importantly, this has also taken into account how those services that should continue to be provided can still achieve good outcomes, provide good customer service and address equalities impacts.

1.3 For the first time, plans have been developed for a 4-year period covering the Comprehensive Spending Review up to 2019/20. Inevitably, savings will become more challenging and complex to deliver with time as the less complex savings opportunities have already been taken in previous rounds. This departure from annual proposals is therefore important to provide a time frame across which more complex service changes can be set out and profiled within the proposals and will engender better long term planning and investment in change.

1.4 The report incorporates decisions made by Policy & Resources Committee on the council taxbase and business rates taxbase, and by full Council on the Council Tax Reduction Scheme.

2. RECOMMENDATIONS:

That Policy & Resources Committee recommends to Council:

2.1 The Administration's proposed Council Tax increase in the Brighton & Hove element of the council tax, comprising:

(i) A general Council Tax increase of 1.99%;

(ii) An Adult Social Care precept increase of 2.00%;

(iii) The Council's net General Fund budget requirement for 2016/17 of £209.571m;

(iv) The 2016/17 budget allocations to services as set out in Appendix 1;

(v) The reserves allocations as set out in paragraph 3.25 and table 2;

(vi) The Prudential Indicators as set out in Appendix 9 to this report.

2.2 That Council note the Equalities Impact Assessments to cover all budget options and their cumulative effect are set out in Appendices 10 and 11.

2.3 That Council approves the authorised borrowing limit for the year commencing 1 April 2016 of £404m.

2.4 That Council approves the annual Minimum Revenue Provision statement as set out in Appendix 8.

2.5 That Council note the 4-Year Service & Financial Plans including savings proposals for later years up to and including 2019/20.

2.6 That the Council note the approach to managing risk and successful delivery set out in paragraph 3.47.

2.7 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 4.3.

2.8 The Policy & Resources Committee agrees that:

(i) 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 2016/17 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, Adult Social Care Precept and improved Better Care Funding** – information is provided about recent government announcements;

- **Business Rates Retention** – updated forecasts of the council's share of business rates for this year 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 2016/17;

- **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 2015/16, internal transfers and other adjustments, an analysis of budget changes since 2015/16, inflation, risk provisions, commitments and reinvestment and service pressures;

- **Medium Term Financial Strategy (MTFS)** – The key information for the MTFS will be updated within the supplementary report to Council once the final settlement has been announced. An assessment of risks is included at Appendix 5;

- **4 Year Service and Financial Plans** – Including the approach taken, financial context, managing risk and successful delivery. Detailed service and financial plans including proposed savings are included at Appendix 7;

- **Annual Minimum Revenue Provision (MRP) Statement and Prudential Indicators** – Information on the full statement is attached at Appendix 8 and the prudential indicators are shown in Appendix 9;

- **Corporate Budgets including Contingency -** Information on changes to the main corporate budgets including the resources held in contingency for 2016/17;

- **Council Tax** – Including council tax 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 and Consultation** – Details of consultation and engagement, including a summary report on budget consultation is included in section 8 and Appendix 13.

Projected Resources available in 2016/17

Local Government Finance Settlement

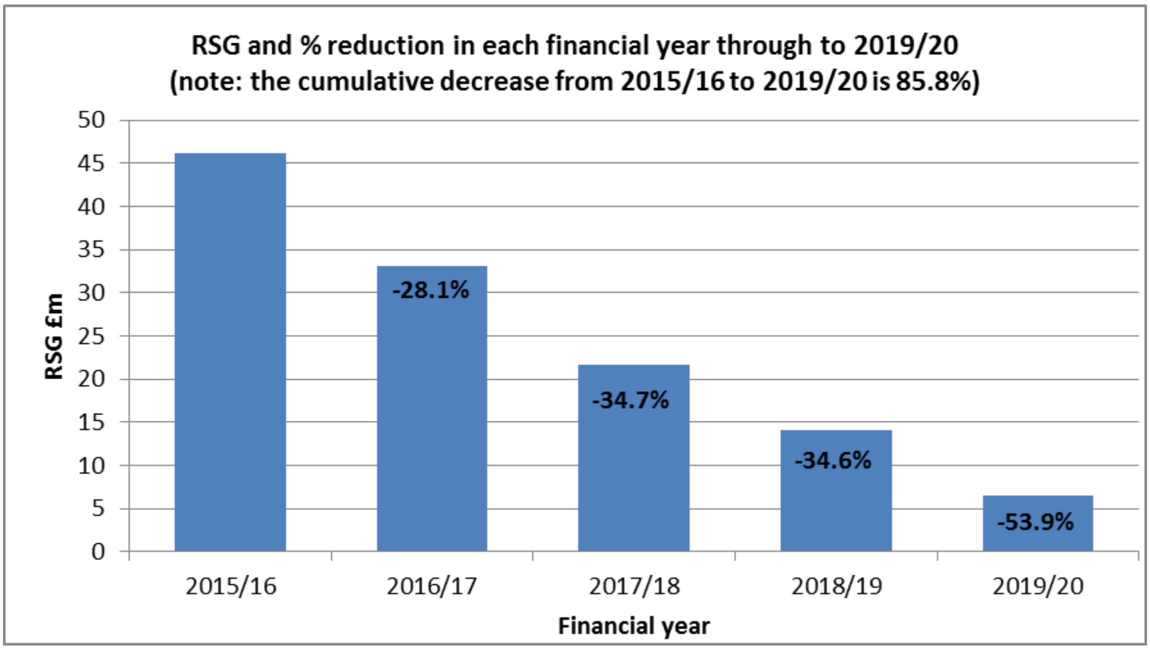
3.2 The provisional Local Government Finance Settlement (LGFS) was announced on 17 December 2015 and showed the council's Revenue Support Grant for 2016/17 at £33.126m which is £0.432m more than assumed within the Medium Term Financial Strategy and this additional amount has been built into the budget forecast. The final LGFS is not due to be announced until early February 2016 and therefore any change from the provisional settlement will need to be reflected in the supplementary report to Budget Council.

3.3 The table below shows the provisional 2016/17 funding assessment compared with the final funding assessment for 2015/16 along with the national percentage change.

Table 1	Final 2015/16 £m	Provisional 2016/17 £m
Revenue Support Grant (RSG)	46.097	33.126
Government assumed business rates income retained by the council	53.672	54.119
Total Settlement Funding Assessment	99.769	87.245
Brighton & Hove City Council Reduction		-12.524
Brighton & Hove City Council Percentage		-12.6%
National Percentage		-10.7%

3.4 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.

3.5 The provisional LGFS also provided indicative estimates of RSG through to 2019/20 and these are included in the graph below: -



3.6 However these allocations need to be taken in the context of potential significant reductions in New Homes Bonus and the uncertainties around the impacts of the move to 100% locally retained business rates.

Adult Social Care Precept and Better Care Funding

3.7 The provisional local government settlement included flexibility for authorities with social care responsibilities to raise council tax by up to 2% above the referendum threshold. This applies to each year between 2016/17 and 2019/20 to fund Adult Social Services. This flexibility is to address, in part, the rising costs of this service. Council's raising additional revenue through this precept must demonstrate the additional resources are being applied to Adult Social Care.

3.8 In addition to the precept, government is also providing £1.5 billion additional funding for authorities to spend on Adult Social Care by 2019/20 to be included in an improved better care fund. This additional money is planned to be passed directly to authorities through a separate grant that takes into account a councils' ability to raise resources through council tax. The indicative allocations to this council are £3.2m in 2018/19 and £6.2m in 2019/20. This Better Care Funding is separate from the current Better Care Funding that is pooled with local Health partners.

Referendum Threshold

3.9 The Government has announced that the threshold above which an increase in council tax requires confirmation from a local referendum, including the 2% additional flexibility for Adult Social Care, will be 4%. Any proposal to increase council tax by 4% or above would need to be accompanied by an agreed substitute budget which would need to be implemented if the increase were voted down in a referendum.

Forecast Business Rate Retention income for 2016/17

3.10 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 £56.460m from its local share of business rates and section 31 compensation grants in 2016/17.

Schools Funding

3.11 The Dedicated Schools Grant (DSG) is split into 3 notional blocks: Schools, Early Years and High Needs. On Monday 18 January the Schools Forum received an update on the proposed final funding allocation of the Schools Block (mainstream schools) for 2016/17. The Department for Education has since advised that the funding formula proposals are compliant with regulations and that budget shares can be issued to schools.

3.12 There are established factors within the overall funding formula which are used to calculate a school's overall funding allocation. These factors have not changed but as a result of the data reported in the October census there has been a reduction in the proportion of funding being allocated through the deprivation and low attainment factors in the formula compared to 2015/16. This is because the 2016/17 formula datasets have shown a reduction in both the number of pupils eligible for free school meals, and the number of pupils falling into the low attainment category. Deprivation funding has reduced from £11.98m in 2015/16 to £11.66m in 2016/17 and funding through the low attainment factor has dropped from £8.66m in 2015/16 to £7.84m in 2016/17. The council could elect to adjust upward the unit value in the formula linked to pupils eligible for free school meals or social deprivation however historically Brighton & Hove has been above average in terms of the funding allocated through these factors. With the proposed implementation of a national funding formula arrangement in 2017 the Local Authority considers that by not increasing the unit values for deprivation and low attainment there will be a smoother transition to the new approach that will minimise financial turbulence for schools.

3.13 As a result of the reduction in the numbers associated with the deprivation and low attainment factors there has been more funding to allocate to all schools through the basic entitlement factor (age weighted pupil units). There has been a rise in the amount per pupil (age weighted pupil units) from £2,606 to £2,648 in primary schools and from £4,011 to £4,053 (secondary). Overall in the city there is more than £1.6m additional funding to schools for 2016/17 as a result of higher pupil numbers.

3.14 The Minimum Funding Guarantee ensures that the reduction in overall per-pupil funding for a school cannot be more than a 1.5% decrease and this will have afforded the schools some protection.

3.15 The pupil premium grant will also continue in 2016/17. 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, with the snapshot taken at the January 2016 school census. The unit rate of funding will be £1,320 per disadvantaged pupil in primary schools and £935 in secondary schools. Since April 2015, an early years pupil premium has also applied for eligible children and this has been set at £300 per pupil.

3.16 As in 2015/16, schools may also receive additional pupil premium allocations for adopted children (£1,900 per pupil based on the January 2016 census) or for Looked After Children (£1,900, allocated via the Virtual School).

Other Government Grants

3.17 The grant allocations for 2016/17 have been included in Appendix 3 with the 2015/16 allocations for comparison. Some grant allocations for next year have not yet been announced and where these are critical to the setting of the 2016/17 budget forecasts have been included.

3.18 There are some changes to grants in 2016/17 and beyond as follows:

- The Educational Services Grant has reduced by £0.291m to £2.907m, a 9% reduction. In addition the grant is planned to be phased out as part of savings nationally of around £600 million. The government plans to reduce the local authority role in running schools by the removal of a number of statutory duties. Consultation on policy and funding changes is due later this calendar year.
- Public Health Grant has reduced by the in-year saving of £1.288m during 2015/16 and is adjusted for the full year effect of the new responsibility for commissioning 0 to 5 children’s public health services transferred from October 2015. This grant will continue to be ring-fenced for the next 2 years and is subject to further national average reductions of 2.2% in 2016/17 and 2.5% in 2017/18. Grant levels are yet to be announced.
- Housing Benefit Administration grant has reduced by £0.168m to £1.397m, a reduction of 11%.
- Specific grant funding for the care act and lead local flood authorities has been rolled into the settlement funding assessment from 2016/17.

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 sixth tranche was provisionally announced alongside the LGFS in December and the council will receive £1.177m extra in 2016/17; of this £1.080m is from new properties, £0.012m from a reduction in long term empty properties and £0.085m from affordable homes delivered. This additional grant is built into the 2016/17 budget.

3.20 Government issued a technical consultation in December seeking views on options to change the New Homes Bonus scheme to better reflect delivery of new housing. In addition to this views are being sought on reducing the current and future payments from 6 years to 4 years. The government has provided an indicative impact of this change which shows a reduction of £1.75m from 2018/19 onwards and this impact has been included in the Medium Term Financial Strategy.

Fees and Charges

3.21 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%)[1], 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 councils to ensure that charges are comparable and competitive and can maximise income to protect essential services.

3.22 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 Assistant Chief Executive services' fees and charges are included on this agenda in lieu of the service committee.

Reserves and One-off Resources

3.23 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.

3.24 The following table shows the projected general reserves position assuming spending is in line with the latest projections for 2015/16 shown in the TBM month 9 report. The table includes the release of specific reserves and other one off resources to support the 2016/17 budget with allocations identified in paragraph 3.25.

Table 2 – Unallocated General Reserves & one off resources	**£m**
General reserves	**0.733**
One off contribution to the pension fund as set out in the triennial review	-0.249
Membership of East Sussex Credit Union	-0.028
Year 3 of 3 year planned support for Pride	-0.015
TBM Month 9 forecast overspend (incl. share of NHS S75 services)	-0.941
Estimated minimum contribution from Better Care Fund resources	0.500
Estimated unused 2015/16 risk provision	1.622
Implementation of a revised Minimum Revenue Provision (MRP) Statement in 2015/16	2.300
Release of reserves following review	0.365
Total Unallocated general reserves	**4.287**
Other one off resources	
Estimated council tax collection fund 2015/16 surplus	1.964

[1] See paragraph 3.31 for an explanation of the corporate rate of inflation

Estimated business rates retention collection fund 2015/16 deficit	-1.089
Contribution from S31 Business Rate Retention timing reserve	0.236
New Homes Bonus 'returned Funding'	0.129
Release 2016/17 short term re-profiling gain from revised MRP statement	0.379
Release part of 2016/17 pressure funding for un-ringfenced grants on a one off basis	0.350
Use of expected surplus capital receipts	1.738
Total resources available to support 4- year service and financial plans	**7.994**
One off risk provision of £1.5m	-1.500
Provide one off service pressures funding for short term risks within services during 2016/17	-0.529
Defer the reduction in the 3-year grants programme until the end of the 3 year programme and the commencement of the new commissioning approach	-0.165
Contribution to Modernisation Fund 2016/17	-0.550
4-Year Service & Financial plans 2016/17 investment	-2.750
Top up restructure and redundancy reserve for liabilities in 2016/17 and future years	-2.500
Net funding requirement	**0**

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

- The East Sussex Pension Fund triennial review included the need for a one off payment of £0.249m in 2016/17 in addition to the changes to the employer's contribution rate.
- Policy & Resources Committee on the 21st January approved the use of £0.028m from reserves to fund membership of the East Sussex Credit Union.
- Allocation of £0.015m to Pride as the final year of the 3-year gradually reducing grant.
- The month 9 forecast overspend of £0.941m will effectively be offset by the release of the £1.622m risk provision.
- The council expects to receive a minimum of £0.500m from the Better Care fund in recognition of additional costs in Adult Social Care by the end of 2015/16.
- The technical changes to the council's Minimum Revenue Provision in in 2015/16 will release £2.300m to fund one off expenditure.
- The review of reserves included in appendix 4 releases £0.365m. In addition, capital receipts are being used to support the investment and one off requirements for the 4 year service and financial plans and £1.738m is being utilised in 2016/17.
- A one off risk provision of £1.500m has been set aside to augment the recurrent risk provisions in recognition of the scale of the savings and potential timing issues.
- The review of service pressures and risks outlined in paragraph 3.37 identified the need for short term funding of £0.529m to cover one-off risks within the 2016/17 budget proposals.

- It is proposed to defer the budget saving of £0.165m within the grants programme for a further year to coincide with the ending of the current 3 year grants programme and the move to a commissioning approach.
- The 4-year service and financial plans require additional support to coordinate and project-manage the Modernisation of council services including Value for Money projects. The estimated cost including legal support is £3.500m over the 4-year period with £0.550m required in 2016/17.
- The 4-year service and financial plans require investment in services to support spend-to-save initiatives and service redesigns. This is estimated to be a minimum of £6.000m over the 4 year period with £2.750m required in 2016/17.
- The Restructure & Redundancy Reserve has been used to support the delivery of savings and service redesigns through Voluntary Severance. The fund needs to be topped up by £2.500m to support the scale of change required within services during 2016/17 and future years.

Expenditure Estimates

Latest position in 2015/16

3.26 The Month 9 Targeted Budget Management (TBM) report elsewhere on the agenda shows a projected overspend of £0.452m on council controlled budgets and an estimated £0.489m 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 Finance & Resources.

2015/16 Adjusted Base Budget

Internal Transfers and Other Adjustments

3.27 Internal transfers relate to changes in responsibility between services and corporate budgets. In 2015/16 the main transfers are within Finance & Resources and Legal & Democratic Services relating to the changes to City Services. The other major change is the realignment of insurance costs across services.

2016/17 Budget

Analysis of Budget Changes between 2015/16 and 2016/17

3.28 Table 3 below shows how the budget has changed since 2015/16. The table shows that the budget (i.e. funding) will be £6.3m or 2.9% lower than in 2015/16. This raises the question: 'Why is a £19.347m savings package required for 2016/17 when overall funding has only reduced by £6.3m?'. The answer is within the table below but can be more simply summarised as:

- The budget must deal with the reduced funding of £6.3m;
- On top of this the council estimates pay and cost inflation of £2.9m;
- Most significantly, the council is also experiencing demographic and demand-led increases for Adult Care Services of £6.6m;
- There are also substantial demand pressures on Children's social care and homelessness as well as ICT infrastructure pressures totalling £4.9m;

3.29 These are the principal reasons why a large savings package must be delivered to meet increasing costs and demands and ensure critical services to vulnerable people with assessed care and safeguarding needs can be met next year. Risk provisions must also be provided for, set at £3m, but these are largely offset by the full-year effect of 2015/16 savings.

Table 3: Analysis of budget changes	**£m**
Revised 2015/16 base budget	**215.888**
Pay and Inflation	2.913
Recurrent risk provision	1.500
One-off risk provision	1.500
Commitments & Reinvestment (net position)	-0.166
Demographic and cost service pressures in Adult Social Care (partially funded by the ASC precept)	6.648
Demographic and cost service pressures for all other services	4.899
Table 3: Analysis of budget changes cont…	**£m**
2016/17 only Demographic and cost service pressures for all other services	0.529
Full year effect of 2015/16 savings	-3.763
Savings package 2016/17	-19.347
Change in use of reserves	-1.030
Proposed Base Budget 2016/17	**209.571**

3.30 Appendix 1 shows a detailed breakdown of the proposed budgets and budget changes for each service. To see an explanation of the reduction in overall funding of £6.3m please see the bottom part of the table at Appendix 1.

Pay and general inflation assumptions

3.31 Council services experience different cost increases (inflation) than nationally announced inflation indices. This is particularly relevant for third party contracts for social care where increasing standards, the living wage and regulation are driving up costs. However, there are also many other areas of expenditure where inflation is higher than consumer inflation. These costs, and the costs of pay awards, account for the majority of the inflation included within the budget. The council averages out these cost increases and applies a standard ‘corporate rate of inflation’ to provide a truer reflection of costs. Fees and charges income is assumed to increase in line with the standard corporate rate otherwise income would not keep pace with costs and there would be a growing gap in resources over time. The use of a standard rate for both costs and income therefore avoids increasing budget gaps. In considering whether increases to existing fees and charges can provide increased resources i.e. savings, the standard corporate rate of inflation must first be met before assuming any contribution to savings.

3.32 The budget for 2016/17 includes a provision of 1% for pay awards and a further £0.100m in contingency for the potential greater increases to lower scale points and the impact of funding the £8.25 living wage on the General Fund. The Budget for

2016/17 also include a 0.5% increase in the employer's contribution rate to the East Sussex pension scheme.

3.33 The national change to employers' National Insurance contributions includes the removal of the contracted out rate for defined benefit pensions. This change increases the council's General Fund employer contributions by £1.800m and this has been included in service budgets as a commitment.

3.34 The provision for inflation varies depending on the type of budgeted expenditure but averages out at approximately 2% which determines the 'corporate rate of inflation' applied to budgets. As explained above, fees and charges are also assumed to increase by this rate with the exception of parking Penalty Charge Notices which are fixed by statute. Increases in costs above the applied 'corporate rate of inflation are expected to be managed within service budgets unless the increase is significant and is specifically identified as a corporate service pressure.

Risk Provisions included in the 2016/17 budget

3.35 The Budget includes £1.500m recurrent risk provision and £1.500m one off risk provision 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

3.36 Details of the commitments and reinvestment in services in addition to the one-off allocations from reserves are shown below: -

- £0.465m for the increase in the employers pension contribution rate by 0.5% to 19.5% in line with the triennial review of the East Sussex Pension Fund.
- £1.800m for the increase in employer national insurance contributions.
- £0.503m changes to corporate Budgets including expected reductions in S31 grants relating to Business Rates.
- £0.100m for changes to (lower) pay grades above the 1% pay provision.
- £0.040m to increase resources for the replacement and maintenance of communal bins.
- £0.020m to reduce the 2015/16 saving in public conveniences.

These allocations are offset by a reduction in the financing costs budget.

Service Pressures

3.37 As the council's overall funding is reducing, a significant proportion of the proposed savings package in this budget is required to enable reinvestment into service areas where there are predicted increases in demands for services and/or known cost increases.

3.38 The budget estimates for priority service pressures have been reviewed and amended to reflect the significant underlying pressures experienced during 2015/16 in relation to Adults and Children's Social Care and homelessness. In addition, the council anticipates there will be significant additional cost and demographic pressures during 2016/17. The allocations below reflect these pressures as well as attempting to rebase (de-risk) some key budget risk areas to put them in a more stable financial position in 2016/17. However, these allocations leave residual risks in corporate critical areas where continued demand management is required to manage within resource allocations. Further details of these risks are outlined in section 6.

3.39 The total demographic and cost pressure allocations included within the 2016/17 budget is £11.547m for base budget changes (recurrent funding) and £0.529m to manage short term risks (one-off funding). The original budget planning assumption included £6.150m which has therefore had to be supplemented by the additional resources generated from the Adult Social Care precept, the transfer of risk provisions built up from improvements in the council tax base, additional new homes bonus and the use of one off resources:

- £6.648m for Adult Social Care. This is £4.648m greater than had been included in the budget assumptions. The pressures relate to rebasing the budget to de-risk issues from previous years, demographic growth and increased complexity of care across all community care services; also, supporting the independent sector to pay care workers a living wage and the increased costs of safeguarding particularly in relation to deprivation of liberty standards.
- £2.648m for Children's Social Care mainly relating to children's agency placements. This includes an allocation of £0.092m one-off resources to support the transition to less reliance on locum social workers.
- £0.800m for reductions in unringfenced grants particularly the reductions to Education Services Grant and Housing Benefit administration grant.
- £0.857m for increased costs and demands for ICT security, infrastructure and customer access as well as contract costs including software licencing. This allocation includes £0.197m one-off resources to support security changes and legacy contract issues.
- £0.843m for Homelessness and temporary accommodation including £0.060m one-off.
- £0.180m for one-off legal costs in relation to changes in temporary accommodation.
- £0.100m to cover minor pressures including additional building security costs.

4 Year Service & Financial Plans

3.40 The provisional Local Government financial settlement announced on 17 December 2015 was based on the 4 year Comprehensive Spending Review which provides a degree of certainty around some aspects of Local Government funding over the next few years. It is clear that the financial situation will be very challenging and a budget gap of around £68m over the 4 years 2016/17 to 2019/20 remains the prediction based on 1.99% Council Tax increases each year. The government has provided the option of electing to apply a further 2% Council Tax increase each year through the Adult Social Care precept but it appears likely that the majority of this will be needed to match increasing demand and cost of services including the impact of the national living wage on provider costs and additional responsibilities under the Care Act.

3.41 In this context, the council has considered its approach to budget setting and has recognised that developing budgets on a year-by-year basis in this financial climate presents a high level of risk. Policy & Resources Committee therefore instructed officers to develop 4-Year Integrated Service and Financial Plans to provide a clearer timeframe for changes and to help identify and manage financial risks over the period.

4-Year Plans: Service Review Approach

3.42 To develop the 4-year plans a clear methodology was adopted whereby all services were reviewed to consider whether or not to:

- **Stop Funding**: i.e. whether or not the council should be providing or funding the service in the short or medium term, particularly if it is not statutory, or is above statutory minimum levels, or could be provided in another way without council funding;
- **Retain and Redesign**: i.e. where it is assessed that the service will need to continue to be provided and funded by the council, services were asked to consider the best and most affordable way to provide the service in the longer term against a reducing overall resource base. This includes redesigning and modernising services in the context of benchmarking, best practice, leading research or changing industry standards. In this respect, many services were already under review, for example, Disability and Special Educational Needs services (the SEND review) and Adult Social Care (through the Better Care Fund programme);
- Adopt a **'Commercial Approach'** within a public service context: i.e. looking at the possibility of some services operating on a different basis e.g. in a shared service or in a new partnership, or on a more commercial/trading basis. For example, Support Functions are exploring joining the Orbis shared service venture with Surrey and East Sussex County Councils while Trust Status is being explored for the Royal Pavilion & Museums and Parks. Many service areas are also able to generate new or increased revenues and may be able to move toward 'self-financing'. This may or may not require operating on a traded basis under an Alternative Delivery Model (ADM). Examples of ADM's that can be considered include:
    - Local authority trading companies (LATC) which can be wholly or partly owned by the authority;
    - Shared Services with one or more local authorities, for example the Orbis Support Function venture;
    - Outsourcing to private or independent sector providers;
    - Social Enterprise – a form of outsourcing with specific added social value objectives;
    - Employee Mutuals or Trust status entities;
    - Public Sector Partnerships or joint venture models. These can include an equity share or other capital investment or risk-share if desired.

3.43 The rationale for adopting one approach over another will have taken into account a wide range of factors including but not limited to:

- The cost of providing services compared with other available provision (i.e. benchmarking or soft market testing);
- The availability of alternative provision, particularly locally;
- Trading or income generation opportunities (i.e. market research on demand and supply);
- Advantages and disadvantages of alternative provision including taxation, VAT, employment and other financial, legal or reputational risks;
- Statutory versus non-statutory or 'universal' services with the latter often providing more choice about what level of service is provided or funded and how;

- The willingness or availability of partners in the city region to develop joint or shared ventures including the use of potential freedoms under current devolution bids if successful;
- Levels of one-off or ongoing investment needed to change to a different model of service delivery i.e. whether or not the business case for changing is financially viable when taking into account the cost of change.

4-Year Plans: Financial Context

3.44 Regular reporting on the financial situation during 2015/16 has highlighted the high levels of financial risks now being managed by the council. The Targeted Budget Management reports early in the financial year indicated very substantial forecast overspends in excess of £8m. This eventually required an uncompromising response including stricter recruitment and financial controls which will now remain in place until the financial year-end. The forecast has come down to more manageable levels but only through applying unplanned measures including:

  - Releasing £2.1m of one-off Care Act money that should ideally have been used to invest in service modernisation;
  - Deferring some Planned Maintenance works and deferring replacement of some ICT equipment, particularly desktop computers;
  - Holding vacancies or restricting agency staffing wherever this can be managed without impacting adversely on front-line service delivery;
  - Restricting expenditure on supplies and services where it is not essential or critical to service delivery.

The underlying reasons for the forecast risk this year relate primarily to demand-led areas including adults and children's social care and homelessness, all of which are experiencing high levels of demand and cost pressures. The use of the measures above has meant that these underlying cost pressures have not been fully addressed and therefore require specific consideration in setting the budget for 2016/17 and beyond.

3.45 The 4-year plans proposed in this budget report contain very substantial savings and cost reduction proposals of around £60m over the period that will not only be challenging to implement but will carry a higher level of risk than previous savings programmes. This is because savings inevitably become progressively more complex and difficult to achieve over time as easier or simpler savings will already have been taken in previous years. Over £75m savings have been achieved over the last 4 years. This includes the council making significant savings in areas that are commonly targeted by councils across the country including:

- Rationalising the use of administrative buildings through investment in 'agile and flexible working', known as 'Workstyles' in BHCC. By the end of Workstyles Phase III (Hove Town Hall redevelopment) this will have reduced the administrative estate by 59%;
- Striving for procurement savings through the use of a Category Management approach and better contract management. Savings of around 2% to 3% per annum are being achieved;
- Striving for increased income through commercial approaches (e.g. life event services) or through full cost recovery, improved collection, or new income

streams. This has contributed approximately 3% additional income per annum above the assumed corporate rate of inflation (see paragraph 3.31);

- Implementing 'demand management' wherever possible including, for example, re-ablement in Adult Social Care and Early Help in Children's Services. These initiatives are designed to avoid more expensive longer term care pathways by intervening early and/or intensively to put people and families back onto a more stable footing. While these have and continue to contribute to demand management, they do not now appear to be achieving the scale of sustained impact on cost pressures and demands that was hoped for. More integrated working is therefore being developed with partners, particularly health, through initiatives such as the Better Care Fund programme;
- Examining in detail the cost versus benefit of 'universal services' such as Libraries, Children's Centres and Day Services to name a few. Many authorities including BHCC are now looking at different and lower cost models of universal provision including some rationalisation of services.

3.46 Achieving delivery of the 4-year Service & Financial Plans will therefore be critical and any significant non-achievement could have the effect of destabilising the council's financial position and its sustainability. This therefore needs a change of approach in terms of managing this higher level of risk exposure including the following key elements:

4-Year Plans: Managing Risk and Successful Delivery

3.47 The scale of risk in the 4-year plans is an order of magnitude higher than anything the council has dealt with in its history. The level of projected demands on some services and the potential effects of welfare reforms coupled with the scale and impact of the savings proposed will require all parts of the system of governance to operate effectively and with full accountability. To manage the service and financial risks successfully will require the following:

(i) **Enhanced Financial Accountability:** All parts of the system of governance will need to exercise appropriate accountability. Democratic leadership will need to be strong on all sides such that members recognise that not supporting or following through with budget decisions, or deferring decisions, could have significant ramifications in later years. Similarly, management accountability will need to be strengthened such that Directors and senior officers are given clearer targets and parameters within which to work and against which performance will be measured. Failing to see through the 4-year plans is likely to leave the authority vulnerable to an untenable reserves position, poor financial resilience and an adverse external audit opinion.

(ii) **Enhanced Monitoring:** Achieving stronger accountability will need improved monitoring and better information to understand not just headline variances but also the underlying trends and pressures. Current Targeted Budget Management reports are beginning to provide this type of analysis which will be developed further for 2016/17 to help Members and officers manage risks. There will also need to be consideration of Member oversight of the much higher level of risk in future. Currently the financial position is reported to Policy & Resources Committee approximately 5 times per year and, since the start of this year, to the Cross-Party Budget Review Group monthly. Members and officers will keep governance arrangements under review alongside the information and analysis provided to determine whether this provides effective oversight.

(iii) **Approach to Managing Financial Risk:** The traditional approach to managing risk in BHCC has been to provide service pressure funding for anticipated demand or cost increases and then hold a central risk provision against potential under-estimates and/or against potential under-achievements of savings. This approach has not worked well in 2015/16 and required the use of £2m one-off Care Act money and other one-off measures as described in paragraph 3.44 above. Further, in 2016/17 the authority cannot afford to fund all potential demand-led cost pressures across social care and homelessness and will need to manage this risk. A central risk provision of £3m will be held but this is being held against substantial and multifarious risks in 2016/17 including:

- The achievement of a £19.347m savings programme in services;
- The accuracy of the predictions of overall potential demand and cost pressures of which approximately £12m has been funded;
- The ability to manage down potential demand-led pressures and other risks. primarily through effective demand management, to avoid a worst-case scenario where all potential pressures come to pass;
- Other potential risks and impacts including pressures on acute hospitals and Welfare Reform changes (most notably the reduced benefit cap from April 2016).

The authority will continue to hold a one-off working balance and has other earmarked reserves that could be called on in an emergency only. However, there would need to be a plan to replenish these quickly in future years otherwise the financial resilience and sustainability of the council will be weakened and called into question by the external auditor. The use of such reserves does not therefore remove the need for further action or decisions but merely delays them for a short period.

During the 4-year period, it is hoped to operate with a more sophisticated contingency and reserves arrangement that reflects a more devolved management approach and strengthened accountability. Services cannot be held accountable or be required to manage and hold risk locally if they have no room for manoeuvre. However, this may be difficult to finesse in practice and care must be taken not to engender a non-collaborative approach across the council.

(iv) **Demand Management:** A key factor in the scale of savings required next year and over the next 4 years is the level of estimated demand and cost increases relating to demand-led budgets such as social care and homelessness. The level of cost increases experienced in 2015/16 and estimated in 2016/17 are not sustainable when compared to projected financial resources over the next 4 years. The financial scenario projected by the Local Government Association, whereby councils would find it hard to fund much beyond social care and waste collection & disposal by 2019/20 will become a reality if the authority and its partners are not able to contain the rate of increase in demands and/or associated costs over the period.

Support for demand management activities and initiatives is therefore critically important and the pace and strength of delivery of programmes such as the Better Care Fund, Dynamic Purchasing for homelessness and newly developed models of social care practice in Children's Services will be key to the authority's financial position. This will require working with our partners to manage change, including accelerating the pace at which we find alternative resources wherever possible and deliverable.

(v) **Investing in Change:** Delivering the large savings programme and modernising and changing services to be able to manage demands and continue to provide appropriate services with less resource requires significant one-off investment. This is needed to ensure that change can happen within an appropriate timescale but also to provide the resources and support necessary to support modernisation. The level of investment required will need to cover the following:

- The 4-Year Service & Financial Plans require investment in services to support spend-to-save initiatives and service redesigns. This is estimated to be a minimum of £6.000m over the 4 year period with £2.750m required in 2016/17. This will be held in a new reserve and only released through approval of the officer Corporate Modernisation Delivery Board based on proven business cases.
- The 4-Year Service & Financial Plans will also require additional support to co-ordinate and project-manage the implementation of savings and modernisation programmes. The estimated cost including legal support is £3.500m over the 4 year period with £0.550m required in 2016/17;
- Managing changes in the level of staffing. Approximately 580 posts are expected to be deleted from the council's staffing establishment over the 4 years. This will happen through a mixture of normal turnover, redeployments and severance. The latter, preferably through voluntary severance, will inevitably need resourcing and an estimated £5.000m will be needed over the 4 years with £2.500m required in 2016/17;
- Modernising the council's customer service offer will require significant investment in digital services. The 'Customer First in a Digital Age' (CFDA) programme has identified an investment requirement of £6.000m to provide digital services such as improved web site access and mobile working. This has been funded through the council's capital investment programme.

Providing for these one-off investment requirements, except CFDA, is covered in paragraph 3.25 above and requires the use of £1.738m capital receipts alongside one-off revenue resources identified earlier in the report.

4-Year Plans: High Level Rationale for Resources Allocation

3.48 Appendix 1 shows the resulting allocations to services taking into account all of the resource allocations including savings, service pressure funding, inflation provision and other commitments. This shows the level of financial challenge facing the authority with an overall 3.00% reduction in service budgets but also provides a high level summary of the overall impact of resourcing and savings proposals. The table below summarises the high level rationale for the relative allocations of resources to services. The basic principles used in determining resource allocations are as follows:

- Providing relative protection of social care budgets, particularly Adult Social Care, recognising the high levels of underlying and predicted demands and costs in 2016/17;
- Recognising that those areas providing 'universal services' (i.e. services available to all resident groups, sometimes age related, without assessment of individual need) have greater flexibility around the provision of these services, including whether or not to continue to provide or fund them. In this respect, Children's Services have a greater proportion of universal services (e.g. Children's Centres) than Adult Social Care which is almost wholly personal social care provided through assessed individual need;

- A recognition that some areas have greater income generating capabilities than others, for example Assistant Chief Executive services which covers museums and event venues. These services can be expected to move further toward becoming self-sustaining.

Service Directorates	2015/16 Net Budget £'000	2016/17 Proposed Net Budget £'000	Increase/ Decrease Over 2015/16 %	High Level Rationale for the relative levels of service funding allocations
Adult Services	77,909	78,199	+0.37	Predicted high demand and complexity of need plus new Care Act and Living Wage pressures together with existing underlying pressures and unachievable prior year savings. Medium to high cost services with limited ‘universal services’.
Children's Services	54,827	52,791	-3.71	Higher levels of growth provided for in previous years, partially through availability of Dedicated Schools Grant (DSG) resources. High cost social care services with greater universal service flexibilities.
Public Health	4,226	4,012	-5.06	Reduction in ring-fenced service.
Environment, Development & Housing	30,675	28,764	-6.23	Mainly universal services with significant income generating opportunities (e.g. commercial waste and other revenues). Some demand-led budgets (homelessness) but these are of a smaller scale than social care.
Assistant Chief Executive Services	14,865	13,697	-7.86	Mainly non-statutory and/or universal services (e.g. Cultural Services, Museums, Brighton Centre & Libraries) with significant flexibility and considerable income generating opportunities.
Finance & Resources and Law	28,817	27,515	-4.52	Mainly staffing budgets except some ICT budgets and Corporate Landlord property budgets. High levels of savings taken in previous years. Service pressure funding has been limited to ICT investment only.
Total Services	**211,319**	**204,978**	**-3.00**	

4-Year Plans: Summary of Proposals

3.49 Appendix 7 provides a more detailed analysis of the 2016/17 savings proposals and indicates the results of the service review methodology outlined above. The summary shows that savings proposals are categorised as follows:

Table 4 Savings Categorisation	2016/17 £'000
Stop funding	4,184
Service Redesigns:	
- Service redesign of directly provided services	7,423
- Service redesign through digital development (CFDA)	893
- Service redesign with community co-delivery	610
- Public sector partnerships	90
Demand management	4,372
Workstyles Value for Money (VFM)	330
Commercial Approach:	
- Outsourcing, private sector partnerships or third sector partnerships	810
- Shared Services *	0
- Trusts *	0
- Income & Debt Management VFM	1,524
- Third Party Spend VFM	831
Total Savings Package 2016/17	**21,067**
Less savings in Public Health used to address 2015/16 grant reduction	-1,096
Less savings relating to tax base changes reflected in resources	-624
Net Directorate Savings Package 2016/17	**19,347**
*Memorandum note: Management Spans & Accountability (MSA) ** *	*1,954*

* *These show as zero as although work has started on implementation, savings are not projected until later years.*

** *MSA savings relating to management delayering and reductions using the MSA guideline methodology. These savings are incorporated within the Service Redesign savings listed above. MSA savings equate to 5.1% of the total cost of management grade posts excluding professionals such as Social Workers.*

3.50 The directorate budget strategies and 4-Year Service & Financial Plans at Appendix 7 set out in more detail the savings proposals under each of the categories above and provide further explanation and rationale for each saving proposal.

Staffing Implications

3.51 At this stage in the budget process it is difficult to determine exactly how many staff may be affected by the proposals. Currently it is likely that approximately 250 posts may be removed from the council's staffing structure as a result of the savings proposals set out in Appendix 7. However, actual numbers will be dependent on the detailed options proposed and on the results of formal consultation where required. Some of these posts are already vacant and some will become vacant through normal turnover and therefore the number of staff at risk is likely to be less. Whilst a significant number of consultation processes have started with staff, others consultation processes will start in the coming months following the outcome of public consultation and/or detailed service redesign work.

3.52 The 4-year integrated service and financial plans provide further information about reductions in posts up to 2019/20 and currently indicate that approximately 580 posts will be removed from the staffing structure. This figure is likely to increase as service plans become clearer for subsequent years. This information will be used to plan for reductions in the workforce to mitigate the impact on staff and focus on redeployment, outplacement and voluntary severance activity. In addition the transfer of some services to alternative models of delivery will result in the TUPE transfer of some staff to other organisations. Discussions regarding potential TUPE transfers will continue both this year and in future years as proposals become clearer.

3.53 It is planned to support staff at risk of redundancy through:

- Providing appropriate support to staff throughout the change process to enable them to maximise any opportunities available;
- An offer of online outplacement support across the organisation to ensure staff are supported in applying for new and different opportunities both within and outside the council;
- Controlling recruitment and ensuring there is a clear business case for any recruitment activity;
- Managing redeployment at a corporate level and maximising the opportunities for movement across the organisation;
- Limiting the use of temporary or agency resources through the financial controls currently in place.

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

3.54 Every effort will be made to reduce the impact of the proposals by offering voluntary severance where appropriate to staff in service areas affected by budget proposals on a case by case basis. This targeted voluntary approach to releasing staff in areas undergoing change will be managed to support service redesigns, whilst ensuring that the organisation retains the skills that will be needed into the future.

3.55 The council has adopted organisation design principles for management structures which identify an optimal model across the organisation of a maximum of 6 layers of management (from Chief Executive to front line) with an average of 6 direct reports (there could be more, but only less in exceptional circumstances). These principles, referred to as Management Spans & Accountability (MSA), ensure that there is clarity of decision making accountability and that efficiencies are made through de-layering where appropriate. Therefore management levels and numbers are being reviewed where structures are being reviewed, with the expectation that they will reflect the design principles agreed. The service and financial plans at appendix 7 include estimated MSA savings proposals of £1.954m.

Annual Minimum Revenue Provision (MRP) Statement and Prudential Indicators

3.56 The council is required by statute to set aside a prudent minimum revenue provision (MRP) each year to reduce the outstanding borrowing used to finance capital expenditure (known as the Capital Financing Requirement, or CFR). The largest part of the council's general fund CFR is debt where the government has provided revenue support. The council's current MRP policy regarding supported borrowing is to set aside 4% of the opening balance of the supported borrowing CFR in each financial year on a reducing balance basis. A number of councils have recently reviewed and changed their MRP policies and have adopted alternative methodologies for supported borrowing. As a result, a review of BHCC's current policy has been commissioned to see whether an alternative approach would benefit the council.

3.57 The review has now been undertaken and supported by the council's treasury advisors. Following the review, it is proposed that the council adopts an alternative methodology for writing down it's supported borrowing CFR, and moves from a 4%

reducing balance methodology to a 2% straight line (or “equal instalments”) methodology. The change will allow a re-profiling of the supported borrowing, which will free up much needed resources in the medium term whilst enabling a prudent approach is maintained as the supported borrowing will be fully repaid over 50 years; under a reducing balance methodology the balance will never be fully extinguished. This change will result a reduction in the Financing Costs revenue budget of £2.140m. The overall net adjustment at the end of the 4-year planning period is £1.630m.

3.58 It is proposed that the revised methodology is adopted within 2015/16 releasing one-off resources of £2.300m in 2015/16. This requires a revision to the council’s Annual Minimum Revenue Provision (MRP) Statement for 2015/16 in addition to the approval of the new MRP statement for 2016/17. The revised MRP statements for 2015/16 and the new MRP statement for 2016/17 are set out in appendix 8.

3.59 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 9. 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

3.60 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 council’s agreements with bus operators, the centrally held unringfenced grants income budget that reflect the announcements from government, and the former employees’ pension costs.

Financing Costs

3.61 The Financing Costs Budget for 2016/17 is forecast to be £6.705m, a decrease of 22.0% (or £1.893m) on the adjusted base for the current year. This reduction is a result of the re-profiling of the minimum revenue provision outlined in paragraph 3.57 (£2.140m) offset by lower investment rates which have been impacted by further delays to UK interest rate rise expectations caused by current weaknesses in the global economy.

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 risk provisions and other resources awaiting transfer to services. The proposed contingency for 2016/17 is £4.077m as detailed in table 5.

Table 5: Contingency Summary	£m
Corporate recurrent risk provision	1.500
Corporate one-off risk provision	1.500
Modernisation Fund	0.550
Provision for pay related matters	0.100
Legal costs relating to temporary accommodation – one off	0.180
Contingency for grants and other resources still to be announced	0.242
Council tax reduction grant for Parish/Garden Committees	0.005
Total Contingency	**4.077**

Change in use of reserves

3.63 The budget for 2016/17 draws on reserves to support the one-off investment identified in table 2.

4. COUNCIL TAX

4.1 The Administration is proposing a council tax increase of 3.99% including the 2% flexibility for Adult Social Care. A council tax increase of 3.99% results in a band D council tax of £1,392.03 for the council's element, an increase of £53.35 on this year.

4.2 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 agreed a band D council tax of £148.91 for 2016/17 which is a £5.00 increase. East Sussex Fire Authority is due to set their 2016/17 Band D council tax on the 11 February 2016. Rottingdean Parish agreed a band D council tax of £28.57 which is the same level as 2015/16.

Supplementary Budget Report to Budget Council

4.3 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:-

- The final confirmed Local Government Finance Settlement 2016/17.
- Any other grants that are announced before Budget Council.
- An updated high level Medium Term Financial Strategy.
- The agreed council tax set by East Sussex Fire Authority.
- The statutory council tax calculations required under the 1992 Local Government Finance Act.
- 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) will be updated to reflect the final Local Government Finance Settlement for 2016/17 and indicative allocations up to 2019/20 and will include revised 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 2016/17 and the Capital Programme. It also considers key medium term issues faced by the council and provides 4-year plans that go some way to addressing predicted budget gaps in later years.

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. Given the financial difficulties experienced during this financial year, greater attention has been paid to demand-led budget predictions, while historic unachievable savings and other unmet pressures have also been reviewed in more detail.

6.3 In setting the budget for 2016/17, 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 2016/17 has therefore been set taking into account the trends and issues identified in the TBM Month 9 (December) report and further projections of future demand and cost.

6.4 Service and cost pressure funding totalling around £12m has been provided, of which approximately £10m has been allocated to manage demand trends across Children’s and Adults social care services and homelessness. This compares with total potential service and cost pressures of up to £18m including unachievable savings from previous years of over £2m and other risks and issues identified. A key aspect of this high level of projected pressures relates to demand-led areas and therefore demand management activities will be key to managing these pressures effectively as described in paragraph 3.47(iv) above.

6.5 In recent years, the council has demonstrated its ability to continue to deliver significant savings programmes, however implementation of some proposals have been subsequently delayed or overturned by Committees and these are recognised as unachievable savings. In 2015/16, savings of £19.198m are expected to be achieved against a target of £21.089m which represents substantial achievement of the savings programme. However, pressures on demand-led areas have led to some under-achievement and increased cost pressures elsewhere.

6.6 Given the above pressures and the need to achieve further substantial savings in 2016/17 of over £19m, an increased risk provision of £3m, split between recurrent and one-off resources, is considered the minimum necessary to guard against these risks and any risks not quantifiable at budget setting time, for example, the potential impact of further welfare reforms. The Council will also need to maintain a minimum working balance of £9m alongside other earmarked reserves to manage any short term pressures, unmanageable risks or further unachievable savings. If utilised, this would need a clear and immediate plan for replenishment in the following year. The Council will need to monitor the implementation of savings proposals closely as the prospect of significant budget gaps in future years means that non-achievement of savings will store up even greater difficulties for the years ahead.

Adequacy of Reserves

6.7 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 provided at Appendix 5.

6.8 As indicated above, the analysis indicates that continuation of a working balance at a level of £9.000m (excluding school balances) is prudent having taken into account all known and foreseeable risks in relation to the 2016/17 budget. This represents 4.4% 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 I remain mindful of the need to keep reserves as low as possible.

6.9 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, and are not therefore available to support the annual revenue position.

Assurance Statement of the Council's Section 151 Officer

6.10 In relation to the 2016/17 General Fund revenue budget, the Section 151 Officer has examined the budget proposals and considers that, whilst the spending and service delivery proposals are increasingly challenging, they are nevertheless achievable with strong governance and accountability at all levels and given Member and Executive will to implement the changes and maintain impetus. Although very difficult, 2015/16 has again shown that the council is able to manage potential financial risks through emergency controls if necessary. However, this is not a sustainable way of managing risks and there will need to be a stronger focus on managing change during 2016/17 to avoid unplanned and potentially damaging impacts on services.

6.11 In terms of the adequacy of reserves, the Section 151 Officer considers a working balance of £9.000m 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 eligible political parties to put forward viable alternative budget and council tax proposals to Budget Council on 25 February 2016. Budget Council has the opportunity to debate both the proposals recommended by Policy & Resources Committee at the same time as any viable alternative proposals. However, all budget amendments must have been "signed off" by finance officers no later than 12 noon on Thursday 18 February 2016.

8. COMMUNITY ENGAGEMENT AND CONSULTATION

8.1 Local Government budgets and finances are complex and therefore the council has attempted to provide a range of information, including an updated ‘budget animation’, to aid understanding and encourage residents and others to share their views, primarily via the council’s web site or via social media. Consultation and feedback in relation to the 2016/17 to 2019/20 4-year budget was promoted and invited from all quarters through a range of engagement processes including:

- A meeting held 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.
- Sending an email flyer to businesses via the Chamber of Commerce and Brighton & Hove Economic Partnership business directories inviting comment and feedback on proposals and advising them of any changes to the business rate system in 2016/17;
- Ongoing consultation and engagement with Community Works in developing proposals. 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 potential impact of the General Fund budget proposals were discussed at a meeting on 18 January 2016. This is a public minuted meeting and agenda and minutes are available on the council’s website.
- Meetings with Trades Unions branch secretaries and Departmental Consultative Groups (DCGs) which provided an opportunity for consultation with Trades Unions’ representatives across all council services.

8.2 Alongside the above meetings and consultation, the council provided an on-line questionnaire through its on-line consultation portal available to citizens and businesses. This was provided alongside general information about the budget and budget process which was promoted and placed on the council’s website and through various media routes as normal. The questionnaire was also made available in paper form in Libraries where people could then be assisted to complete the questionnaire on-line. An analysis of the feedback from the on-line questionnaire is at Appendix 13.

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: 03/02/16*

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”. 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 2016/17 financial year, an increase of more than 4% - including the Adult Social Care precept of 2% - will be regarded as excessive. Therefore, local authorities opting for an increase of more than 4% (including the Adult Social Care Precept) will be required to hold a referendum.

Lawyer Consulted: Elizabeth Culbert *Date:03/02/16*

Equalities Implications:

10.6 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 10. All the Equalities Impact Assessments are included at Appendix 11.

Sustainability Implications:

10.7 A carbon budget has been set for 2016/17. This shows the level of spend on energy and the estimated carbon emissions across each carbon budget area and includes a planned 4% reduction on the 2015/16 budget level. This target will be challenging to meet on the basis of the current approach to carbon management.

10.8 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 action 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 £8.565m each year heating and lighting its buildings, lighting our neighbourhoods and travelling around the city to deliver key services.

10.9 The council’s 2014/15 Carbon Reduction Commitment (CRC) footprint accounted for 15,441 tonnes of CO^2 from council buildings for which the council purchased £0.241m worth of CRC allowances at £15.60 per tonne. This was the first year of phase 2 of the CRC scheme and the first time that school consumption is excluded and street lighting is included. It is not therefore possible to compare the 2014/15 result with the previous year on a like for like basis. 2015/16 CRC allowances will rise to £16.10 per tonne although the council purchased our requirements in advance at £15.60 per tonne.

10.10 Half-hourly electricity and gas prices decreased by an average of 3.6% and 11.5% respectively in October 2015. Non-half hourly electricity supplies are on a three year fixed price contract expiring in April 2016.

10.11 The council's carbon budget data update is detailed in Appendix 12 and profiles spend and CO^2 carbon footprint for 2014/15 across the council and sets out the target for 2016/17.

SUPPORTING DOCUMENTATION

Appendices:

1. Movements in Budget Allocations 2015/16 to 2016/17
2. Changes in the budget projections since the 3 December 2015 budget report to Policy & Resources Committee
3. Summary of special and specific grant allocations for 2015/16 and 2016/17
4. Review of the council's reserves including the planned use of reserves
5. Assessment of Risks
6. Council Budget Strategy
7. 4 Year Service & Financial Plans
8. Minimum Revenue Provisions statements
9. Prudential Indicators 2016/17 to 2018/19
10. Equalities Impact Assessment – Cumulative impact
11. Equalities Impact Assessment – Individual Assessments
12. Carbon Budget for 2016/17
13. Summary report on Budget Consultation

Documents in Members' Rooms

1. None

Background Documents

1. Budget files held within Finance
2. Consultation papers