Agenda Item No:	**10.2**		**Report No: 18/15**
Report Title:	**General Fund Revenue Budget 2015/2016**		
Report To:	**Cabinet**	**Date**	**12 February 2015**
Cabinet Member:	**Councillor Andy Smith**		
Ward(s) Affected:	**All**		
Report By:	**John Magness, Director of Finance**		

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Purpose of Report:

To present the Medium Term Budget Outlook and the 2015/2016 General Fund Revenue Budget.

Officers Recommendation(s):

That Cabinet:

1 Reviews the detailed contributions to reserves and use of reserves as set out in Appendices D, F, G, H and I.

2 Considers the recommendations of the budget Scrutiny Committee.

3 Notes the Council Tax and Business Rates Collection Fund balances to be returned in 2015/2016.

4 Considers the implications of the public sector funding outlook and impact upon the Council's Medium Term Budget Outlook through to 2019/2020.

5 Considers the statutory report of the Director of Finance as required by section 25(1) of the Local Government Act 2003, set out in section 15.

6 Adopts an extension of the Transitional Business Rate Relief scheme for small and medium properties in line with the guidance published by the Department for Communities and Local Government in January 2015.

7 Approves setting aside a recurring £100,000 when the savings target for 2015/2016 is exceeded by that amount, in order to fund the costs of enhancing the joint working arrangement with Eastbourne Borough Council.

8 Considers the recommendations of the Independent Peer Review of Special Expenses.

9 Notes completion of the statutory Non Domestic Rates Return (NNDR1) with retained rating income of £25,066,082.

10 Delegates approval of NNDR1 returns to the Council's Chief Finance Officer in consultation with the Leader and the Constitution be updated to reflect this.

That Cabinet recommends to Council

11 An aggregate Council Tax requirement of £6,632,448 (a Council Tax reduction of 1.5% for the aggregate Lewes District Council "Council Tax Requirement), comprising

a. A General Expenses Council Tax requirement of £6,020,459 (a Council Tax freeze for Lewes District Council's General Expenses).

b. A Special Expenses Council Tax Requirement of £611,989.

12 That following publication of the Final 2015/2016 Local Government Finance Settlement the Director of Finance be authorised to make the necessary adjustments to maintain the general Expenses Council tax requirement at the above level and to report any adjustments to the next Cabinet meeting.

Reasons for Recommendations

1 Cabinet is required to approve the estimates in accordance with the Council's Constitution. This budget report sets out the level of General Fund revenue resources needed to support the Council's priorities and services.

2 The Council has a statutory duty to determine its Council Tax Requirement and level of Council Tax for the coming year. Cabinet makes a recommendation to Council on this matter having taken account of the Director of Finance's statutory report on the adequacy of reserves and balances.

1 National Background

1.1 Delivering the Deficit Reduction Plan remains a national priority.

1.2 On 3 December 2014, Chancellor of the Exchequer, George Osborne MP, gave his annual Autumn Statement to Parliament. Measures announced within it include the following:

- Public Sector Expenditure: Public Sector Expenditure is set to fall at the same rate as between 2010/2011 and 2014/2015 until 2017/2018. It is then forecast to increase by inflation in 2018/2019 and 2019/2020.

- The Government will carry out a review of the future structure of business rates. This will report by Budget 2016.

- The current doubling of Small Business Rates Relief will continue in 2015/2016. It is expected that this measure should be revenue neutral for local authorities based on the current arrangements.

- The 2% cap on the increase to the Business Rates Multiplier in 2014/2015 will also be applied in 2015/2016.

- The current £1,000 business rates discount to retailers (announced in Autumn Statement 2013), will continue in 2015/2016 and will increase to £1,500.

- An extension of the business rates Transitional Relief scheme, the cost of which will be fully reimbursed to Councils.

1.3 The Government issued guidance for the extended Transitional Relief scheme on 14 January 2015 which can be found here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/395131/TR_extension_guidance.pdf

1.4 The provisional Local Government Finance Settlement for 2015/2016 confirms that the central government core grant to run local services nationally will fall by 14%. The fall for shire districts nationally is 15% and that is the same as Lewes District Council's reduction.

1.5 This reduction excludes the availability of the New Homes Bonus Funding Stream which is reflected within each Council's overall "Spending Power" figures. The reduction is lower when New Homes Bonus is taken into account.

1.6 Many councils including Lewes District are rebalancing budgets to reflect the reduction in core funding. In order to rebalance their budgets many councils (not including Lewes District) are using their New Homes Bonus to support ongoing expenditure. More are expected to do so in future.

1.7 Details of the 2015/2016 Provisional Local Government Finance Settlement can be found here: https://www.gov.uk/government/speeches/provisional-local-government-finance-settlement-2015-to-2016

2 The context for preparation of the 2015/2016 General Fund Revenue Budget

2.1 Cabinet has set Financial Principles and Objectives in its Medium Term Financial Strategy. These are used as part of the framework to guide estimate preparation and compilation of the Medium Term Budget Outlook. They are reproduced at Appendix A.

3 Council Tax Referenda

3.1 The Localism Act 2011 introduced a requirement for referenda to approve or veto council tax increases that exceed limits set out by the Secretary of State (and approved by Parliament) in "principles" defined for the following financial year.

3.2 The Secretary of State has indicated that the threshold for 2015/2016 is 2% for principal authorities. This threshold is applied to changes in the aggregate of an authority's "General" and "Special" Expenses.

3.3 The referenda position is still under consideration for Town and Parish Councils and a decision will be made following consideration of responses to the Provisional Settlement. The Lead Cabinet Councillor has sent a written response to the Minister requesting that Town and Parish Councils be excluded from any referenda requirement (Appendix K).

3.4 Implications remain if just one preceptor exceeds the referendum limits, even though Lewes District Council will have a further year's freeze.

3.5 A neighbouring district council has estimated the cost of a council tax referendum to be in the order of £200,000 and re-billing at £100,000 (assuming an in-year re-billing is preferred to an adjustment on the following year's tax bill).

4 Council Tax Freeze

4.1 The Government is making available a further grant for councils which freeze council tax bills in England in 2015/2016. The grant is equivalent to a 1% increase in the 2014/2015 council tax and is payable for 2015/2016. The grant is expected to be included in the core funding baseline from the financial year 2016/2017. This would be consistent with the treatment of previous tax freeze grants.

4.2 For planning purposes, the Government has provisionally calculated the value of this Council's grant to be £75,459.

4.3 At its meeting on 20 November 2014 Cabinet agreed the Medium Term Financial Strategy (MTFS) which included a further year's council tax freeze in 2015/2016.

5 Lewes District Council's own council tax requirement for 2015/2016

5.1 The Council's average band D tax each year is calculated as follows:

$$\frac{\text{Aggregate Council Tax Requirement}}{\text{Band D taxbase}} = \text{Band D tax requirement}$$

5.2 The aggregate Band D requirement in the current year is £192.48. Keeping at this level or below triggers entitlement to a Council Tax freeze grant next year.

5.3 The aggregate Council Tax Requirement comprises two elements. The majority part is General Expenses. In the current year the General Expenses band D requirement is £172.11. The remainder is attributed to Special Expenses.

5.4 The Council gave a commitment that any savings arising in next year's budgets from the new grounds maintenance contract would be passed into the Special Expenses requirement. There has been a saving next year as Appendix L shows.

5.5 The Council's commitment means that next year (2015/2016) the General Expenses Band D tax will remain at £172.11 and the Special Expenses element will reduce. The aggregate for next year of £189.61 is a 1.5% reduction against the aggregate of £192.48 in the current year. Appendix E shows the modelled council tax requirement for future years.

5.6 An Independent Peer Review of the Special Expense process has been completed and the report has been published on the Council's website. It can be found here: www.lewes.gov.uk/council/21887.asp The report concludes that the Council has complied with the council tax setting legislation. There are a number of recommendations for Cabinet to consider in the report.

6 The 2015/2016 General Fund Budget

6.1 The General Fund Budget Summary for next year is shown at Appendix B.

6.2 The following table analyses the high level movement in the budget from 2014/2015 to 2015/2016:

		2014/15 £	2015/16 £	Variation £
	Change in Net Service Expenditure (Appx B line 9)			
1	Net service expenditure	13,111,100	12,726,800	-384,300
2	Less items funded from reserves	-1,033,700	-795,800	237,900
3	Recurring service expenditure	12,077,400	11,931,000	-146,400
4	Recurring savings target	-511,000	-561,000	-50,000
5	Provision for mid-year delivery of savings	255,000	280,000	25,000
6	Sub-total	11,821,400	11,650,000	-171,400
7	Other operating income & expenditure			
8	Town and Parish reduction grant	278,300	236,600	-41,700
9	Financing costs /investment income and expenditure	-758,300	-829,500	-71,200
10	Net expenditure before contribution to Reserves	11,341,400	11,057,100	-284,300
11	Contribution to Service Priorities	390,000	241,200	-148,800
12	Transfers to reserves	2,414,030	2,466,000	51,970
13	Net expenditure requirement	14,145,430	13,764,300	-381,130
	Change in taxation and grant income			
14	Retained business rates	-2,444,930	-3,006,858	-561,928
15	Government grants	-4,213,100	-3,662,389	550,711
16	Council tax income	-6,738,390	-6,697,498	40,892
17	Total taxation and grant income	-13,396,420	-13,366,745	29,675
18	Net use of working balance	749,010	397,555	-351,455

(a) The movement in recurring service expenditure at line 3 reflects the impact of the Council's deficit reduction programme, inflation, variations in income and changes in demand for services. A statement showing the major variations is given at Appendix C.

(b) A balanced budget for next year requires a total savings target of £611,000 and a contribution from the working balance of £397,555. The savings target has been increased by £61,000 to reflect the shortfall in fees and charges income. £50,000 will be achieved by 1 April and this been incorporated in the 2015/2016 estimates. The residual savings target for 2015/2016 is £561,000 (line 4). This is explained in more detail in section 7.4 of this report. A provision has been included in the budget (line 5) in recognition of the fact that the savings will be delivered progressively through the year.

(c) At its meeting in December 2013, Cabinet agreed a schedule of grant payments to Town and Parish Councils, passing on Government funding in respect of the Council Tax Reduction Scheme (line 8).

(d) The net variation in financing costs and investment income and expenditure is the result of a number of factors including:

- £40,000 rental income received for The Maltings, Lewes, an investment property acquired during 2014/2015
- increase in the net surplus from commercial rents, £25,000
- presentational change in respect of investment properties, £43,000 net reduction
- increased provision for repayment of borrowing, £44,000

(e) A budget of £241,200 is available in 2015/2016 to support the implementation of service priorities (line 11). This budget can also be used to fund non-recurring items of either revenue or capital expenditure.

(f) The details of contributions to and from reserves (lines 2 and 12) are shown in Appendix D. The overall contribution into reserves for 2015/2016 has risen primarily because of an increase in the amounts of New Homes Bonus grant offset by a reduction in LA Error Housing Benefit Subsidy grant. These grants are held in reserves pending use. Cabinet has previously approved the use of £2.25m of the 2015/2016 and 2016/2017 New Homes Bonus resources for investment in the next phase of the Council's Organisational Development Strategy.

(g) Contributions to earmarked reserves are a key component of the annual budget process. These reserves are needed to support the sustainability of services. They are built up to meet specific identified future need (such as replacing refuse vehicles) and to help equalise expenditure that is recurring but over a longer time span than one year (eg elections every four years). A summary of all reserves is given in Appendix F. The Revenue Equalisation and Asset Maintenance Reserve (REAM) and the Change Management and Spending Power Reserve hold funds earmarked for specific purposes. These reserves are analysed at Appendix G and H. The Strategic Priority Fund is analysed at Appendix I.

(h) Line 14 shows the income from Business Rates retained by the Council under the retention arrangements introduced by the Government from 1 April 2013. The amount shown is net of a tariff (£7.3m in 2015/2016) payable to the Government (because the Council's assumed business rates income exceeds its assumed spending needs baseline) and a levy (£0.8m in 2015/2016) in respect of growth in business rates income. All such levies are now payable into the East Sussex Business Rates Pool and redistributed back to pool members. Cabinet approved the basis of redistribution in September 2014.

(i) Details of Government grants (line 15) are shown in Appendix B. Key movements are the reduction in Revenue Support Grant (£0.62m) and Housing Benefit Administration Grant (£0.04m) and an increase in New Homes Bonus (£0.20m) generated from 187 additional homes in the District.

(j) Council tax income (line 16) generated from taxpayers when setting the council tax at the levels explained in section 5 reduces in total.

6.3 Pay and Price Assumptions

(a) The 2015/2016 draft budget has been prepared in accordance with the following framework:

Base budget:

(i) No new items to be added to the estimates except where approved by Cabinet in the year to date.

(ii) Savings reported to and agreed by Cabinet to date to be incorporated within draft budgets.

Employee budgets:

(iii) An average provision of 2.2% has been made for movements in the pay bill in line with the recent national agreement.

(iv) Provision has been made for annual contractual salary increments.

(v) The Council's budgeted employer's pension contribution rate for 2015/2016, reflected in the cost of each service, is the same as that proposed by the actuary following the three-yearly review of the East Sussex Pension Fund finalised in December 2013. The following contributions are proposed by the actuary:

2015/2016 20.5% plus £97,000 (equates to 21.5% in total)

2016/2017 20.5% plus £151,700 (equates to 22.1% in total)

Inflation:

(vi) No allowance for general price increases other than where these are unavoidable eg business rates

(vii) Agreed cost indices in tendered contracts.

(viii) Should average price inflation (excludes pay) exceed assumptions in the budget outlook by 1%, this would add around £100,000 to the budget savings target.

(ix) Income from general fees and charges is largely related to usage and activity levels. The MTFS had assumed an inflationary increase of 1.9% for income. At that level, the target aggregate income for 2015/2016 would be £2.266m. However, the fees and charges recommended by Cabinet to Council are estimated to generate £2.205m in 2015/2016. The income component of next year's budget has fallen short by £0.061m in real terms and has resulted in the savings target increasing by the same amount.

7 Deficit Reduction Programme

7.1 The Government has clearly stated its position that the economy will grow throughout the period of the next Parliament and that public sector funding will continue to reduce.

7.2 The Autumn 2014 statement confirmed that further public sector funding reductions are to be expected. The national 2016 spending round will identify where the additional cuts will fall. None have been anticipated in the current MTFS.

7.3 The Council's MTFS through to 2019/2020 already reflects a widely held expectation that core funding from Revenue Support Grant will be extinguished by the end of that period.

The Council's Savings Plan

7.4 Appendix J shows the savings plan through to 2020. The target for the current year has now been achieved, mainly through the Voluntary Severance scheme. If the coming year's savings are not in place by the start of each financial year the strain will be taken up by an additional budget that recognises savings will be delivered on average by the mid-point of the year. This budget is shown in Appendix E.

7.5 The savings for 2015/2016 will mainly derive from the Organisational Development programme and from introduction of a 2% vacancy savings target. The gross savings for the year are likely to deliver a recurring saving of £400,000. £100,000 of this will be retained to ensure adequate provision to cover forthcoming changes in the back office service arrangements and to enhance the joint working initiative with Eastbourne Borough Council which will deliver further savings in future years.

8 Medium Term Budget Outlook

8.1 The Medium Term Budget Outlook is shown at Appendix E together with a detailed commentary. It builds upon the estimate for 2015/2016 and sets out the stated assumptions.

8.2 2015/2016 delivers a tax freeze for the General Expenses. There is a 14.1% reduction in the average Special Expenses Band D tax requirement. The combined General and Special Expenses reduce by 1.5%.

8.3 The average Band D Special Expenses is reduced because three sites have been removed (£53,999) from the base as they are due to be devolved prior to the start of the next financial year. There is also a reduction arising from the retendering of the grounds maintenance contract.

8.4 Council tax levels for 2016/2017 onwards have been modelled at 2% (the underlying long term rate of CPI). In line with the objectives in the Budget Outlook delivers a sustainable recurring base budget by 31 March 2020, with no call on the Working Balance, and with no reliance upon Revenue Support Grant. The five year savings target from 2015/2016 to 2019/2020 amounts to £2.665m.

8.5 The downside risk of this strategy is considerable. In the event that savings fail to materialise it would be necessary to fully utilise the New Homes Bonus spending power and even then a substantial budget gap would remain. The Council's reserves and balances would be under great pressure and the shape of the Council's service provision would be biased more towards statutory services.

8.6 A number of underlying risks need to be constantly monitored:

(a) Retained business rates: There is likely to be a loss of retained rate income associated with regeneration projects in Lewes and Newhaven. This will be partly balanced by newly created non domestic premises and additional New Homes Bonus spending power where non domestic premises are replaced with domestic dwellings. In such cases there may be a need to use the additional New Homes Bonus spending power to cover any loss in retained business rates.

(b) General income levels: The review of fees and charges for next year highlighted that the estimate of aggregate receipts has not kept pace with CPI. This resulted in a higher savings target (an extra £61,000) to cover the shortfall.

(c) Receipts from recyclable material sales are vulnerable as world commodity prices fall and as households exercise greater control over their budgets. This can lead to lower tonnage volumes and lower income receipts.

8.7 Throughout the coming year Cabinet will receive updated Medium Term Budget Outlooks which incorporate any significant variations arising from internal monthly budget monitoring, projections to the year end, national policy changes and Cabinet decisions.

9 Interaction of the Revenue and Capital Accounts and the Council’s unallocated reserves and balances

9.1 The Prudential Code requires local authorities to plan their capital expenditure programme for at least three years ahead. This corresponds with the time scale covered by the Council’s Capital Strategy. Understandably, the most detailed information is available for Year 1, with the programme for years 2 and 3 liable to variation when more precise forecasting can be undertaken in terms of both the availability of capital resources and spending requirements.

9.2 Revenue contributions to capital can be made either by the provision of a non-recurring contribution in the Revenue budget when circumstances permit or by annual recurring contributions if further savings can be generated within the revenue budget. Alternatively, contributions can be made from unallocated reserves and balances, or by using balances on reserves which are no longer required.

9.3 The Capital Programme report demonstrates that a programme focussed on statutory requirements and core service needs and priority Council projects can be achieved for the next 3 years.

10 Conclusion

10.1 In light of the above commentary it is essential that Cabinet carefully controls the recurring base budget.

10.2 The Working Balance can be used as a short term measure to manage the pressures arising from lower income, rises in demand for statutory services and the time needed to deliver savings. It needs to be used with great care because it can only be used once. The solution is to realign the recurring base budget within the time frame of the Medium Term Budget Outlook at Appendix E.

10.3 The Council's earmarked reserves could be reassigned to balance a future budget in exceptional circumstances, but again this is not a sustainable solution.

10.4 Current and medium term pressures require the recurring base budget to be significantly reduced. Unless there is a compelling business case that helps achieve the base budget restructuring any calls for additional recurring resources need to be carefully considered and resisted until the desired savings target is delivered.

10.5 There is capacity within the budget to meet time limited initiatives of a non-recurring nature, either from specific earmarked reserves, the Working Balance, or the contribution to the capital programme/service priorities shown in Appendix E.

10.6 The Council needs to be reassured that the aggregate of reserves and the working balance is sufficient to meet the medium term finance strategy principles and objectives.

11 Usable Reserves Estimate

11.1 Section 25 of the Local Government Act 2003 contains the statutory duty on the Chief Finance Officer to report to the authority on the robustness of the estimates it makes when setting the Council Tax and on the adequacy of its proposed financial reserves.

11.2 The Chartered Institute of Public Finance and Accountancy issued updated guidance in July 2014 (The Local Authority Advisory Panel Bulletin no. 99) in relation to reserves and balances. This has been taken into account in this report.

11.3 The Council's reserves and balances need to cover all significant identified risks and operational service needs. As part of the annual budget and closing of accounts processes, the Council reviews and approves the position on its reserves. This is a mandatory requirement for all councils.

11.4 Where it is known in advance of a financial year that a reserve will be used, the expenditure is budgeted for and included in the draft budget and a contribution is made from that reserve. The Leader can authorise additional uses up to £100,000 during the year in accordance with the Council's Constitution and Council above that amount. The Director of Finance can authorise purchase of vehicles in the approved renewals fund programme up to one year ahead of requirement.

11.5 Savings can be achieved by reducing the annual level of contributions to reserves, but reserves are essential to ensure the financial sustainability of services. Making short term cuts to annual contributions is not a sustainable course of action but reviewing the level of contribution in parallel with service reviews and realignment exercises may enable reductions to be achieved. Reviews are made at least twice a year, during the budget cycle and as part of the accounts closure process.

11.6 The Scrutiny Committee reviewed the level of reserves at its meeting on 15 January 2015. No changes were proposed to Cabinet.

11.7 A statement of the Council's Reserves projected through to 31 March 2016 is shown at Appendix F.

11.8 The recently created Business Rates Equalisation Reserve will still be required to cater for timing differences between financial years. This happens when specific initiatives such as the doubling of small business rate relief result in the diversion of income from the statutory Business Rates Collection Fund to the General Fund.

11.9 In normal circumstances the estimated retained rates income used in the estimates would match that on the statutory NNDR1 form which has to be completed and returned to the Government by 31 January each year. The reality is that the data programs to populate this form have not been available until the end of January and this is too late in the estimates production cycle. We therefore use readily available data to prepare a pre estimate of the NNDR1 retained rates income for estimates production.

11.10 **The Revenue Equalisation and Asset Maintenance Reserve** (REAM) helps even out budget increases that would otherwise result from cyclical expenditure. The estimated position of this reserve at 31 March 2016 is shown at Appendix G.

11.11 **The Change Management and Spending Power Reserve** is necessary to support the Organisational Development programme. It is used to provide time limited funding for innovative solutions that will address the savings target. This includes £2.25m investment to deliver the next phase of Organisational Development that is anticipated to produce recurring savings of £1.2m by 2020. It is the repository for receipts from the New Homes Bonus funding stream and their use and also provides spending power for the Strategic Priority Fund and the Council's general needs. Appendix H sets out the position on this reserve and its two sub elements.

11.12 **The Strategic Priority Fund** was established in 2013/2014 to support existing and developing projects that have the potential to develop permanent ongoing income or expenditure reductions for the Council. A statement of use is shown at Appendix I.

12 Collection Fund Balance

12.1 The Council Tax Collection Fund Balance and the Non Domestic Rates Collection Fund Balance are key components of the Council Tax setting process. A principle of the MTFS is to achieve a zero balance (or as close as possible) each year. A review of the likely Collection Fund position is made at 31 March 2015 including a review of the provision for doubtful debts.

12.2 There is an estimated credit balance of £403,010 on the Council Tax Collection Fund which can be utilised during the 2015/2016 budget setting process. The surplus would be redistributed to preceptors as follows:

Council Tax Collection Fund	£
East Sussex County Council	283,960
Lewes District Council	65,050
Sussex Police and Crime Commissioner	33,930
East Sussex Fire and Rescue	20,070
Total	403,010

12.3 The statutory Non Domestic Rating Return (NNDR1) was submitted before the deadline of 31 January. The retained rates income for 2015/2016 has been estimated at £25,066,082 and a zero balance is estimated on the Non Domestic Rates Collection Fund at 31 March 2015.

12.4 The NNDR1 is not available until January each year and it must be returned certified by the Chief Finance officer before 31 January. The retained rates income estimate would normally be approved by Cabinet but the meetings cycle does not readily facilitate this. This being the case, Cabinet is requested to delegate completion and return of future NNDR1 returns to the Council's Chief Finance Officer in consultation with the Leader. If approved the Constitution will be updated to reflect this.

13 General Fund Working Balance

13.1 The Council uses a risk-based approach to setting the level of General Fund Working Balance. This requires consideration of service risks as well as providing for the Council's day to day cash flow requirements.

13.2 As a guideline the Council has aimed for a minimum overall level of Working Balance of £500,000 but this needs to reflect the economic climate and the extent to which earmarked service reserves exist. In recent years the Council has sought to extend the service sustainability concept into the management of its finances. Part of this approach has been to establish earmarked service reserves.

13.3 Using this approach and taking into account the extent to which the balance will be used over the next two years to rebalance the budget I would recommend the following components are provided for:

Basic provision to cover	£
Unforeseen emergencies not covered by the Bellwin Scheme, a 5% capital programme overrun and general requirements	500,000
General provision for service risks	50,000
Working balance needed to support the realignment process through to 2019/2020	532,555
Provision for delivery delays in the deficit reduction programme	459,795
Provision for contingencies to be used in accordance with Financial Procedure Rules	50,000
Total Estimated Working Balance at 1 April 2015	1,592,350

13.4 I would recommend that the level of working balance set out above be approved. This level of Working Balance together with reserves will provide a sufficient buffer to support delivery of the Council's core services and key priorities through to 2020 and provide resilience during the current economic climate. This balance is reflected Appendix E.

Achieving a reduction in Council Tax by use of balances alone is not sustainable. The proposal in the Medium Term Budget Outlook is achievable and sustainable for the period 1 April 2015 through to 31 March 2020 provided that the savings targets are achieved.

14 Setting the Council Tax including the other preceptors

14.1 The calculation of the overall tax requirement will be presented to Council on 25 February 2015, when all precept details will be known. The precept details for East Sussex County Council, East Sussex Fire Authority and Sussex Police Authority should all be available before Council meets.

14.2 At the time of writing this report, not all Town and Parish Councils had notified the Council of their precept requirements.

14.3 Lewes District Council introduced Special Expenses for recreation grounds and open spaces from the 2014/2015 financial year. A schedule of next year's Special Expenses is attached at Appendix L.

15 Report of the Chief Finance Officer (Director of Finance)

15.1 The Chief Finance Officer is the Council's principal financial advisor and has statutory responsibilities in relation to the administration of the Council's financial affairs (Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988).

15.2 The budget proposals before Cabinet have been prepared in accordance with the Council's policy framework and reviewed by Corporate Directors, Heads of Service, Lead Councillors and the Scrutiny Committee.

15.3 The Council remains focussed on delivering its deficit reduction programme. A key income stream affecting the bottom line is that from the business rates retention scheme, introduced from April 2013. A reassessment has been undertaken to confirm the integrity of the Council's retained share of business rates income, in light of national policy decisions made in the Autumn 2014 budget statement. The income estimate has been validated and used to inform the Council's deficit reduction plan which runs through to 31 March 2020.

15.4 The recurring budget is undergoing significant realignment to bring it back into balance over the medium term. Each year's savings targets have been met and substantial progress has been made on delivering the coming year's target. It will become progressively harder to deliver targets in future years. The Council's track record demonstrates a commitment and ability to deliver the required savings. A savings plan has been formulated to indicate how the significant targets will be achieved through to 31 March 2020 and Cabinet has invested resources to ensure delivery of the significant targets.

15.5 Prudent use of reserves and balances is an appropriate short term measure to balance the budget whilst the realignment is secured (Appendix A: Principle 9 of the MTFS).

15.6 The General Fund Working Balance is finite and can only be used once. In the current climate it is less likely that the Working Balance will be replenished other than by savings from stringent budget management and earlier delivery of savings targets.

15.7 The underlying earmarked reserves will continue to be replenished from annual contributions in the base budget.

15.8 The earmarked reserves are not used to fund the recurring base budget or to fund initiatives that will add to the recurring base budget. There are just two posts funded from reserves in 2015/2016. One relates to neighbourhood planning where the initial grant was added to reserves and is now used to fund a time limited post. The other post is the Change Programme Manager funded from the Change Management and Spending Power Reserve.

15.9 The commentary within this report provides a framework for achieving a sustainable medium term budget position. The level of the Council's reserves, balances and provisions are adequate and prudent for the commitments within the Medium Term Financial Strategy.

15.10 In my opinion the estimates presented are robust for the purpose of determining the statutory calculations required by section 32 of the Local Government Finance Act 1992.

16 Legal Implications

16.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

16.2 Chief Financial Officers also have a duty to report on the robustness of estimates and adequacy of reserves under Section 25 of the Local Government Act 2003.

16.3 Section 151, of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

16.4 The implications of the extended Business Rates Transitional Relief Scheme for 2015/2016 and 2016/2017 are as follows:

As this is a measure for 2015/2016 and 2016/2017, the Government is not changing the legislation around transitional relief. Instead the Government will, in line with the eligibility criteria set out in this guidance, reimburse local authorities that use their discretionary relief powers, under section 47 of the Local Government Finance Act1988, as amended, to grant relief.

It will be for individual local billing authorities to adopt a local scheme and decide in each individual case when to grant relief under section 47. Central Government will fully reimburse local authorities for the local share of the discretionary relief (using a grant under section 31 of the Local Government Act 2003). In view of the fact that such expenditure can be reimbursed, the Government expects local Government to grant discretionary relief to qualifying ratepayers.

17 Sustainability Implications

17.1 I have not completed the Sustainability Implications Questionnaire as this Report is exempt from the requirement because it is a strategic budget report.

18 Risk Management

18.1 I have completed a risk assessment in accordance with the Council's Risk Management methodology and the following risks and mitigating factors have been identified.

(a) Revenue Budgets – these have been compiled in accordance with the approved budget preparation guidelines, mitigating the risk that the budgets do not reflect likely expenditure needs or income levels. Cabinet will consider the estimates and recommend an overall budget to Council, having assessed the position in relation to its approved MTFS.

(b) The Council has adequate Reserves and Balances established as a mechanism to support the Council through its deficit reduction programme and preparing for the future.

(c) Further drops in income – the working balance and specific service reserves provide a buffer to absorb further falls in income and property related transactions in the short to medium term.

(d) As inflation begins to rise there is every prospect that future pay settlements will follow a similar pattern. The Medium Term Budget Outlook anticipates inflation rates in line with national projections including pay and price movements through to 31 March 2020 and takes into account local circumstances.

(e) With the drop in world commodity and oil prices there is the potential for a deflationary period. In the worst case this could lead to negative investment interest rates and to a drop in income receipts that are driven by CPI formulae. At the same time the Council would have a continuing obligation to meet its fixed term fixed interest rate borrowings. The mitigation is that the Office for Budget Responsibility will flag up the underlying soundness of the public sector finances in its periodic reviews and the Government will take appropriate action to deliver its financial strategy for the country. In order to help understand the impact on the Council's financial strategy of a deflationary period, modelling will be undertaken.

(f) The Chancellor's Budget of December 2012 heralded cessation of the employer's National Insurance contracted out rebate from April 2017, where employers provide their own approved pension schemes. We estimate the additional cost to be around £170,000 pa, of which £51,000 relates to the Housing Revenue Account and £119,000 to the General Fund. We have included this cost in Appendix E. Technically this cost should be covered by the national new burdens funding protocol. We shall need to wait and see how the next spending review addresses this change. In the absence of funding to cover this cost, the mitigation is an addition to savings targets, raising council tax or a combination of the two.

(g) The Revenue Support Grant income stream is used by the Government to exercise influence over local spending power allocations. Should Revenue Support Grant be extinguished by 31 March 2020 that avenue of influence would cease. A potential scenario is that existing specific grants will be transferred into the Revenue Support Grant funding stream during the next national Spending Review. This scenario could have an impact on the Council's ability to deliver a sustainable budget by 31 March 2020. The recently established Commission on Local Government Finance has also identified a scenario where funding streams could be merged. The Commission is due to issue its final report soon so that the next government can take account of its findings in the 2016/2017 and future years spending review.

(h) There is a risk that delay in completion of the three sites intended for Devolution beyond 31 March 2015 could leave responsibility for expenditure with Lewes District Council, which would mean the costs would need to be covered by General Expenses rather than Special Expenses. The mitigation is that confirmation has been sought from the Town/Parish clerks that their Town/Parish Councils have included the running costs in their local precepts.

19 Equality Screening

19.1 The proposals in the report have been screened for impact on equalities. As no potential negative impacts were identified, a full equality impact assessment is not required.

20 Background Papers

20.1 Information on the Provisional Local Government Finance Settlement for 2015/2016 is available from this website: http://www.local.communities.gov.uk/finance/1415/settle.htm

21 Appendices

Appendix A – Medium Term Finance Strategy – Principles and Objectives.

Appendix B – The 2015/2016 General Fund Budget Summary.

Appendix C – Variations in recurring service expenditure 2014/2015 to 2015/2016.

Appendix D – Statement of Contributions to Reserves and Use for Revenue Expenditure.

Appendix E – Medium Term Budget Outlook 2015/2016 to 2019/2020 and commentary.

Appendix F – A Statement of the Council's Reserves and how they are used through to 31 March 2016.

Appendix G – Reserves Analysis - The REAM Reserve.

Appendix H – Reserves Analysis - The Change Management and Spending Power Reserve.

Appendix I – Reserves Analysis - The Strategic Priority Fund.

Appendix J – Savings Plan.

Appendix K – 2015/2016 provisional Local Government Finance Settlement. Consultation Response.

Appendix L – Special Expenses 2015/2016