APPENDIX 2

Derivation of Budget Reduction Target and Summary of the Proposed Budget Package

Budget Reduction Target	**£ million**
Changes in Government funding:	
• Reduction in Formula Grant	17.2
• Loss on Function and Funding changes	1.0
• Spending pressures created by the ending of some specific grants	5.8
• Council Tax freeze grant	-3.0
• New Homes Bonus	-0.6
Spending pressures:	
• Pay and price inflation	3.0
• Demographic and cost pressures	7.1
• Ongoing commitments and reinvestment*	1.9
• Provision for the financing costs of the new historic records office "The Keep"	0.3
1% reduction in council tax	1.2
Total Budget Reduction Target	**33.9**
Budget Reduction Package	
Proposed Savings Package (Full Year Effect)	28.0
Social Care funding transferred from Health Service	3.3
Improvement to council tax collection	0.5
Permanent reductions in corporate budgets:	
• Outcome of triennial review of Pension Fund - pension contributions increase not as high as anticipated	0.4
• Removal of projected pay provision for 2011 pay award	1.3
• Numbers of concessionary bus journeys not increased as originally anticipated	0.2
• Permanent VFM initiatives budget converted to one-off budget funded by reserves	0.2
Total Budget Reduction Package	**33.9**

* Commitments and reinvestment of £2m shown in the body of the report has been:
  - Reduced by the one-off budgets for the May elections of £0.34m and transition funding for Castleham Industries and Brightstart Nursery of £0.267m funded from reserves.
  - Increased by £0.5m to reflect further reinvestment in preventative services in 2012/13.

APPENDIX 3

Function & Funding Changes
(including specific grants transferring to Formula Grant in the 2011/12 Local Government Finance settlement)

	2010/11	Transfer
	£'000	£'000
Changes in Funding		
ABG Grants		
Supporting People	11,249	11,249
Economic Assessment Duty	65	65
Carers Grant	1,232	1,232
Child & Adolescent Mental Health	466	466
LSC Staff Transfer	407	407
Services for Children in Care	281	281
Child Death Review	35	35
ASC Workforce	689	689
LINKS	147	147
Preserved rights	1,596	1,596
Mental Health	819	819
Learning Disability Development Fund	232	232
Mental Capacity Act	145	145
Transport Services	320	212
Other Grants		
Concessionary Bus Fares	1,804	1,490
Personal Social Services (combines grants below)		1,536
Social Care Reform	1,167	Included above
National Stroke Strategy	93	Included above
Aids Support	455	455
Housing Strategy for Older People	70	70
Changes in Function		
Academies		-518
Private Sewers		-118
South Downs National Park – Planning service		-12
Planning Inspectorate Sustainable Drainage Systems appeal costs		-5
Total	**21,272**	**20,473**

APPENDIX 4

Summary of Specific and Special Grant allocations

	2011/12 £m	**2012/13 £m**
Early Intervention Grant	10.658	10.853
Housing Benefit and Council Tax Benefit Admin	3.258	Autumn 2011 announcement
Preventing Homelessness	1.300	1.300
Learning Disabilities and Health Reform Grant	6.564	6.719
Lead Local Flood Authorities	0.141	0.249
Council tax freeze grant	2.995	2.995
New Homes Bonus (for 6 years starting in 2011/12)	Provisional 0.596	Provisional 0.596
New Homes Bonus (for 6 years starting in 2012/13)		Depends on new homes 2011 data
Community Safety Grant (Home Office) – largely from Stronger Safer Communities and Young People Substance Misuse Partnership	0.283	0.143
Drug Intervention Programme	0.280	Not yet known
Asylum Seekers	Based on claims	
Renaissance in the Regions	Based on bidding	
Music Grant (Department for Education)	National total unchanged but awaiting local authority allocations	
Extended Rights to Free Transport (Department for Education)	Under review	
Schools PFI	2.390	2.390
Libraries PFI	1.505	1.505
Waste PFI	1.498	1.498
Council Tax Benefit payment transfer grant	Based on claims	
Housing Benefit payment transfer grant	Based on claims	
Dedicated Schools Grant (exact amount depends on pupil numbers)	149.540	149.988
Pupil Premium (exact amount depends on number of eligible pupils)	Provisional 2.000	National allocation to increase from £625m to £2.5bn by 2014/15
Young People's Learning Agency (Sixth Form funding)	Announcement due end of March	

APPENDIX 5

Review of Reserves

Adequacy of Reserves – working balance

Putting in place appropriate levels of reserves is essential to provide the council with a safety net for risks, unforeseen or other circumstances. The working balance must last the lifetime of the council unless contributions are made from future years' revenue budgets. The minimum level of balances cannot be judged merely against the current risks facing the council as these can and will change over time. This is critical given the volatility and unpredictable nature of the financial environment within which the budget and MTFS are being set.

Determining the appropriate levels of reserves is not a precise science or a formula but must be a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions, and the council's track record in budget management.

The consequences of not keeping a minimum prudent level of balances can be serious. In the event of a major problem or a series of events, the council would run a serious risk of a deficit or of being forced to cut spending during the year in a damaging and arbitrary way.

The recommendation on the prudent level of balances has been based on the robustness of estimates information and the Corporate Risk Register. In addition, the other strategic, operational and financial risks taken into account when recommending the minimum level of the working balance include:

- There is always some degree of uncertainty over whether the full effects of any economy measures and/or service changes will be achieved. Commissioners have been advised to be prudent in their assumptions and that those assumptions, particularly in respect of demand-led budgets, should hold true in changing circumstances.
- The Bellwin Scheme for Emergency Financial Assistance to Local Authorities provides assistance in the event of an emergency. The Local Authority is able to claim assistance with the cost of dealing with an emergency over and above a threshold set by the Government.
- Risks of rising demand and falling income given economic conditions.
- The risk of major legal challenge, both current and in the future.
- Risks in the financial inter-relationship between NHS partners and the council.
- Major and unforeseeable volume increases, for example due to new legal requirements, in demand led budgets, particularly in children's services.
- The need to retain a general contingency to provide for some measure of unforeseen circumstances which may arise.
- The need to retain reserves for general day-to-day cash flow needs.

The potential financial sensitivity of the budget and financial risks has been analysed. In addition, the cash flow risk for unitary authorities is significant given the full range of services provided. £9.0m represents about 4 weeks of council tax revenue. The working balance would help cover any costs arising from delays in council tax billing. This could arise, for example, from a systems failure.

Schools' Balances

Schools' balances, while consolidated into the Council's overall accounts, are a matter for Governing Bodies. Nevertheless, under the council's Scheme for Financing Schools the council has a duty to scrutinise whether any school holds surplus balances. The council's Scheme for Financing Schools is in line with the requirements of the Secretary of State for Children, Schools and Families and the arrangements in place are considered adequate.

Estimated Earmarked General Fund Revenue Reserves

Processes are in place to regularly review the council's earmarked revenue reserves. Details of the review of reserves are included in the table below.

Section 106 receipts

The review of reserves has thrown up an issue associated with the interest on Section 106 receipts which needs to be resolved. The council has a policy of paying interest on unspent balances for Section 106 receipts each year. Interest is currently allocated to the specific scheme for which the unspent funds were provided. In many cases where the scheme has finished the accumulated interest remains unspent but not available. From 2011/12 it is recommended that interest paid on unspent Section 106 balances will be pooled and used to fund projects that will benefit the community as a whole rather than, as current, the original project. This change will ensure that accumulated interest on schemes that have finished is then available for other community projects. Where there is a contractual requirement for the interest to be spent in a certain way, or returned to the original payer, then this requirement will continue to be met. The financial impact in 2011/12 of this proposal is neutral.

Review of Reserves **APPENDIX 5**

Description	Forecast Balance at 1 April 2011	Planned usage in 2011/12	Release funds	Forecast Balance at 31 March 2012	Review Arrangements	Conclusions
	£'000	£'000	£'000	£'000		
General Fund Working Balance	9,000	0	**0**	**9,000**	Reviewed against register of financial risks, taking into account CIPFA guidelines and requirements of Local Government Act 2003.	To meet CIPFA guideline a minimum unallocated reserve of £9.000m is required.
Schools LMS Balances	2,567	0	**0**	**2,567**	Following closure of accounts.	Reserves held on behalf of individual schools for use by the schools.
Collection Fund Working Balance	0	0	**0**	**0**	Reviewed in January each year as part of council Tax surplus / deficit calculation.	Collection Fund is expected to be break even at 31st March 2011.
General Fund General Reserves	2,789	1,444	**-4,233**	**0**	Following closure of accounts and TBM monthly monitoring.	The balance of £4.190m is being released to support the 2011/12 budget.
Restructure & Redundancy Reserve	2,616	0	**0**	**2,616**	Following closure of accounts.	This reserve is held to spread the costs of early retirements and redundancies. There is a planned transfer of £3.500m to this reserve to support the delivery of the savings in the 2011/12 budget. This transfer is included in the separate table below.

Review of Reserves **APPENDIX 5**

Description	Forecast Balance at 1 April 2011	Planned usage in 2011/12	Release funds	Forecast Balance at 31 March 2012	Review Arrangements	Conclusions
	£'000	£'000	£'000	£'000		
Finance Costs Reserve	1,195	-730	**-118**	**347**	Following closure of accounts.	This reserve was initially set up to smooth out significant fluctuations in interest rates. Interest rates are projected to be less volatile and the reserve is not expected to be required beyond 2012/13. Therefore a balance of £0.118m is available for reallocation.
Insurance Reserve General	6,975		**0**	**6,975**	The insurance fund is subject to a bi-annual health check by the actuaries. The next health check is due to report back in May 2011 to feed into the closedown process.	There is no reason to believe the fund review should result in a significantly different level from its current level. The level of this reserve to be maintained at £6.975m in line with the most recent actuarial advice.
Capital Reserves	5,077	-4,993	**0**	**84**	Following closure of accounts.	Committed to fund capital programme.
Contribution to Single Status Reserve	13,046	0	**-3,500**	**9,546**	Following closure of accounts.	Earmarked for equal pay and one off costs.
Waste PFI Project Reserve	8,635	0	**-3,500**	**5,135**	Following closure of accounts.	Further details of the review of this reserve are included in Appendix 5b.
HRA Working Balance	3,725		**0**	**3,725**	Following closure of accounts.	Working balance in line with CIPFA guidance. Any residual balance can only be used to support the HRA.

Review of Reserves **APPENDIX 5**

Description	Forecast Balance at 1 April 2011	Planned usage in 2011/12	Release funds	Forecast Balance at 31 March 2012	Review Arrangements	Conclusions
	£'000	£'000	£'000	£'000		
Brighton Centre Redevelopment Reserve	3,346	550		**3,896**	Following closure of accounts.	Retain to support the development. A contribution of £0.550m is included in the 2011/12 budget.
Building Schools for the Future	2,201	-1,350	**0**	**851**	Following closure of accounts.	Reserve held to support investment in schools buildings. £1.000m is planned to be used to support the Education capital programme in 2011/12.
Schools PFI Project Reserve	1,761	0	**0**	**1,761**	Following closure of accounts.	Use for funding the project over the life time of the PFI.
Section 106 Interest	515	0	**0**	**515**	Following closure of accounts.	The council has a policy of paying interest on unspent balances for Section 106 receipts each year. Please see earlier note.
Winter Maintenance	422	0	**0**	**422**	Following closure of accounts.	Held to fund exceptional costs of extreme weather.
Carbon Management Fund	387	0	**0**	**387**	Following closure of accounts.	Retain for spend to save schemes that reduce energy usage.
Priory House Dilapidations Reserve	350	-350	**0**	**0**	Following closure of accounts.	Priory House is due to be vacated during 2011/12 and therefore the reserve is expected to be used during 2011/12.

Review of Reserves **APPENDIX 5**

Description	Forecast Balance at 1 April 2011	Planned usage in 2011/12	Release funds	Forecast Balance at 31 March 2012	Review Arrangements	Conclusions
	£'000	£'000	£'000	£'000		
Mercury Abatement Reserve	344	90	**0**	**434**	Following closure of accounts.	Earmarked for works required to the crematorium to meet mercury abatement legislation.
Jack Thompson - Hove Museum	269	0	**0**	**269**	Following closure of accounts.	Reserve for acquisitions/refurbishment at Hove Museum in accordance with bequest.
Investment Properties (Dilapidations)	257	0	**0**	**257**	Following closure of accounts.	Retain for specified purpose for buildings such as Patcham Place.
Library PFI Reserve	251	40	**0**	**291**	Following closure of accounts.	Use for funding the project over the life time of the PFI.
Accommodation Strategy Reserve	250	-250	**0**	**0**	Following closure of accounts.	Reserve to be used during 2011/12 as part of the accommodation strategy.
Carry Forward - LPSA	207	-207	**0**	**0**	Following closure of accounts.	Held to fund LPSA2 allocations in 2011/12 to be agreed by the Public Services Board.
Land Charges Provision	219	0	**0**	**219**	Following closure of accounts.	Provision for possible refunds relating to land charges personal searches.
Dome Planned Maintenance	205	0	**0**	**205**	Following closure of accounts.	Retain - subject to lease agreement with Brighton Dome & Festival Society.
Sustainable Temporary Accommodation Reserve	204	0	**0**	**204**	Following closure of accounts.	Held for dilapidation costs for leased temporary accommodation.

Review of Reserves **APPENDIX 5**

Description	Forecast Balance at 1 April 2011	Planned usage in 2011/12	Release funds	Forecast Balance at 31 March 2012	Review Arrangements	Conclusions
	£'000	£'000	£'000	£'000		
Sect 117 Mental Health Act	132	0	**-132**	**0**	Reserve to be released	Confirmation received that all cases have been resolved therefore the balance of £0.132m is available for reallocation.
Insurance Reserve Risk Management	111	-111	**0**	**0**	Following closure of accounts.	Earmarked for specific risk management projects during 2011/12
HMO Licensing Fees Reserve	109	-55	**0**	**54**	Following closure of accounts.	Retain to support annual inspections of HMO premises.
Connexions/Prospects Pensions Reserve	108	50	**0**	**158**	Actuarial pension valuation	Held to fund the net actuarial costs of pensions transferred to Prospect
Damage Deposit Guarantee Scheme	106	0	**0**	**106**	Following closure of accounts.	Retain to guarantee deposits for supporting people service users moving into the private rented accommodation.
Museum Objects Acquisitions Reserve	101	0	**0**	**101**	Following closure of accounts.	Retain for specified purpose.
Cemetery Replacement	95	0	**0**	**95**	Following closure of accounts.	Retained for maintenance & replacement as required.
Cemetery Maintenance of Graves in Perpetuity	85	0	**0**	**85**	Following closure of accounts.	Retained for maintenance & replacement as required.
Cemetery Maintenance of Monuments	16	0	**0**	**16**	Following closure of accounts.	Retain for maintenance & replacement as required.

Review of Reserves **APPENDIX 5**

Description	Forecast Balance at 1 April 2011	Planned usage in 2011/12	Release funds	Forecast Balance at 31 March 2012	Review Arrangements	Conclusions
	£'000	£'000	£'000	£'000		
Portslade Community College	80	0	**0**	**80**	Following closure of accounts.	Use at the discretion of the College.
James Green Foundation	64	0	**0**	**64**	Following closure of accounts.	This reserve was set up from a donation by Colonel James Green in 1993. The James Green reserve is used to help fund the Burmese collection.
Pavilion Renewals Fund	60	-60	**0**	**0**	Following closure of accounts.	Used to support maintenance and improvements to the Royal Pavilion during 2011/12
Civil Contingencies Reserve	35	0	**-35**	**0**	Reserve to be released	The working balance and risk provisions within the 2011/12 budget are available to cover this risk and therefore the reserve is released.
Vehicles Reserve Fund - Animal Welfare Vehicles	31	-31	**0**	**0**	Following closure of accounts.	Reserve used in 2011/12.
Brunschwig Royalties	26	0	**0**	**26**	Following closure of accounts.	This reserve was set up from the royalties paid by Brunschwig, an American firm who have used the pavilion motif on wallpaper and fabrics they produce. It is used to fund conservation projects in the Royal Pavilion.

Review of Reserves **APPENDIX 5**

Description	Forecast Balance at 1 April 2011	Planned usage in 2011/12	Release funds	Forecast Balance at 31 March 2012	Review Arrangements	Conclusions
	£'000	**£'000**	**£'000**	**£'000**		
Brighton & Hove Natural History Society	5	0	**0**	**5**	Following closure of accounts.	Reserve for maintaining the assets of Brighton & Hove Natural History Society which are held at the Booth Museum.
	67,977	**-5,963**	**-11,518**	**50,496**		

Planned Use of Released Reserves **APPENDIX 5 (a)**

	Planned Usage £'000	2011/12 £'000	2012/13 £'000
Available from above	**11,518**		
Contribution from Reserves to support Budget:			
Full Year Effect of Savings Proposals	-3,296	-3,296	0
VFM 2 - Investment in programme over 2 years to deliver savings	-300	-150	-150
VFM 3 - Investment in programme over 2 years to deliver savings	-1,000	-500	-500
Additional legal support for the VFM programme over the next 18 months	-200	-135	-65
Castleham Industries transitional funding	-180	-180	0
Brightstart Nursery transitional funding	-87	-87	0
One - Off Risk Provision	-750	-750	0
Transfer to Reserves:			
Transfer to Restructure & Redundancy Reserve	-3,500		
New Reserve - Investment in Customer Access	-1,500		
Transition Fund for Youth Services	-500		
Available balance	**205**		

APPENDIX 5 (b)

Review of the Waste PFI Reserve

Background information

The waste disposal budget has been set at a level to cover the anticipated costs and income from the disposal of waste over the whole life of the PFI contract i.e. 30 years. In the early years of the contract net costs are lower and a reserve is built up in order to pay for the higher anticipated costs later in the contract. The reserve was last reviewed in detail in December 2008 and as a result of that review £20m was released and earmarked for potential equal pay single status costs. The reserve as at 1 April 2010 was £8.6m and this is projected to rise to £9.6m by 31 March 2011.

The review has required the updating of a series of very complex financial models and the underlying assumptions under-pinning the models and a re-assessment of all the financial risks associated with PFI project. This piece of work is virtually complete and some indicative figures have been produced for use in the 2011/12 budget. It is essential that the reserve is kept at a level that is capable of covering both the future net projected costs of waste disposal and a reasonable provision for anticipated risks. The projections and risks will be reviewed and updated on a regular basis to ensure that the reserve and budget is maintained at an appropriate level throughout the contract.

Outcome of the review

The level of future waste tonnages generated by the city is the most important factor when determining the likely costs of waste disposal over the life of the contract. The paragraphs below set out the main reasons why the forecasts have changed but reductions in both the actual and forecast tonnages mean that resources can be released from the reserve. The resources can be released as a combination of annual budget reductions and/or a one-off transfer to usable reserves.

The proposed reductions are:

- A £900,000 per annum reduction in the waste disposal budget starting in 2011/12.
- A transfer of £3.5m from the waste PFI reserve to usable reserves on 31 March 2011.

Central Scenario – January 2011

The waste PFI financial models are based on a set of assumptions that officers believe on the basis of information currently available are most likely to happen. The central forecast on waste tonnage is that it will grow in proportion to the forecast number of new households in the city but that the amount of waste generated by each household will not change. The level of energy recovery will increase sharply when the Energy from Waste (EfW) facility at Newhaven is opened later this year and improvements are anticipated in recycling performance over the next few years. Table 1 at the end of this note shows the current forecast proportion of waste going through each type of disposal. Once the EfW facility is opened the amount of waste going to landfill is forecast to be below 5% of the total waste stream for the remaining life of the contract. Despite the very low levels of waste going to landfill there are still financial incentives to increase recycling within the city even if none of the council's waste goes to landfill as the council will also share the financial benefits of less East Sussex waste going to landfill.

Risk Provision

The risk provision is determined by looking at the impact of likely variations in the assumptions and applying probabilities to those variances. Risk allowances provide cover for example for tonnage estimates being understated, forecasts of inflation and landfill tax being too low and forecasts of investment interest, recycling and electricity income being too high. The risk provision links directly to the risk register for the whole PFI project and the assessed likelihood of those risks.

Main Changes in the assumptions since December 2008

The reduction in waste tonnages has the biggest positive effect on the reserve and the tables at the end of this note show the waste tonnage and disposal assumptions in December 2008 with the latest January 2011 assumptions.

The reasons for the changes to the tonnage forecasts are:

- The actual tonnage in 2009/10 is less than the forecast largely as a result of waste minimisation measures including subsidised household compost bins. This lower starting point is then reflected over the life of the contract.
- In December 2008 DEFRA had published draft regulations on an expanded definition of household waste that included for example all educational establishments, hospitals, prisons, care homes and charities. Relevant local authorities are responsible for the disposal of all household waste and meeting the costs of disposal. Local authorities have subsequently been successful in lobbying DEFRA to amend their regulations to remove the additional waste responsibilities. The provision for the additional waste made in December 2008 can therefore be removed.

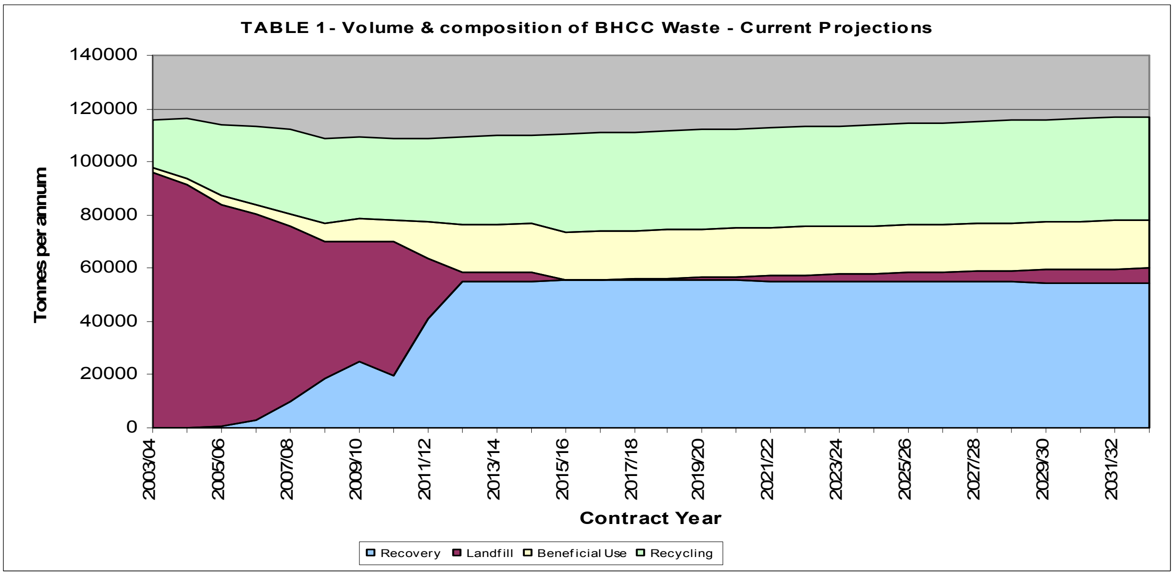
The other main changes that have had a positive impact on the reserve are:

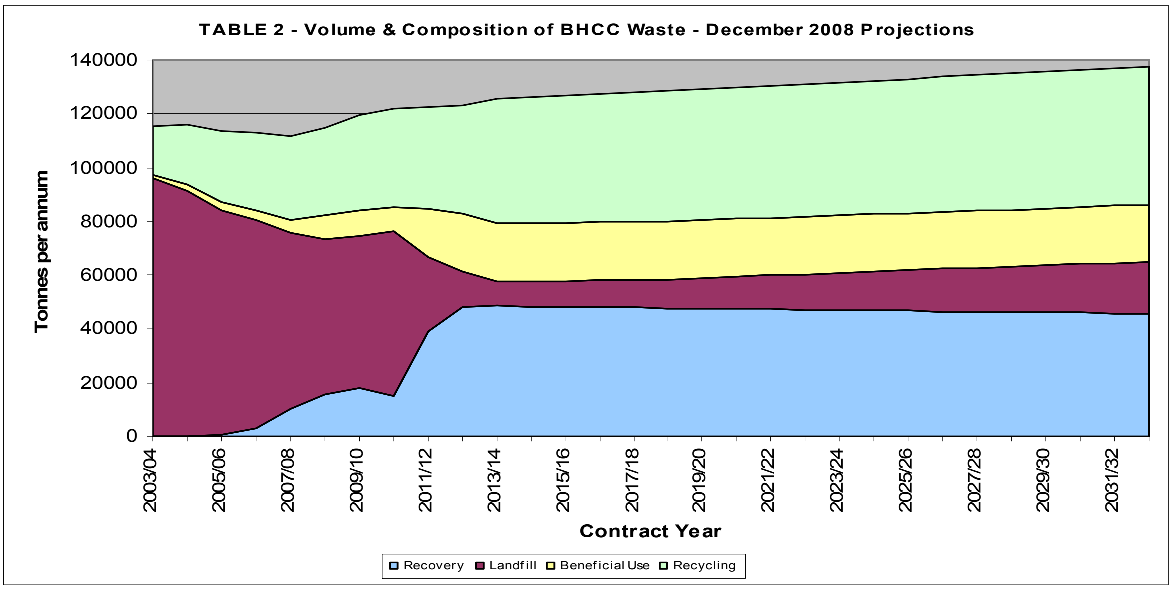
- The councils negotiated an electricity income sharing arrangement with Veolia when the PFI contract was extended whereby the councils receive 50% of any electricity income above a threshold. Electricity prices have risen substantially since December 2008 and are now above the threshold. Income from the sharing arrangement has therefore now been built into the financial models starting when the EfW facility is operational.
- Both authorities having thoroughly reviewed their contract management arrangements for this contract and have made significant savings. The resultant reduction of 30% in the annual contract management costs has now been built into the financial models.
- The recession caused the income that could be generated from recycled materials to plummet in 2008/09 and these low levels were reflected in the financial models. Since that time income levels have recovered and the financial models have been adjusted accordingly.
- After protracted negotiations with the landowner Members agreed in early 2009 to purchase the EfW site at Newhaven rather than enter into a long lease. The purchase option provided a significant saving over the lifetime of the project which has now been built into the financial models.

The main changes that have a negative impact on the reserve are:

- Following consultation with local authorities the Government is expected to end the Landfill Allowance Trading Scheme (LATs) in 2013 rather than continuing until 2020 and beyond. The council had anticipated having a substantial surplus in permits which could be sold to other local authorities to generate income. This income stream has now been removed completely from the financial model.
- The assumed annual increase in landfill tax was £3 per tonne and this has been increased to £8 per tonne in line with Government policy. Whilst this is a huge increase in the cost of landfill the impact is less significant because the anticipated tonnage going to landfill is much lower than previously forecast.
- Annual uplifts for inflation have been higher than anticipated in the last 2 years and with inflation likely to remain high for the time being the forecast for next year has also been increased.
- Investment interest earned on the reserve has been lower than anticipated because interest rates have remained at historic lows for longer than originally expected.

Comparison of current and previous waste disposal projections





APPENDIX 6

MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2014/15

Council Tax Strategy

The resource projections within the Medium Term Financial Strategy (MTFS) are based upon a reduction in council tax of 1% in 2011/12 following by planned increase in council tax for the period 2012/13 to 2014/15 of 2.5% per annum. A council tax freeze or reduction attracts a council tax freeze grant from the Government of about £3m equivalent to the income from 2.5% on the council tax and is payable to the council each year over the spending review period.

The overall level of council tax is also dependent upon the council taxes set by the Sussex Police Authority and East Sussex Fire Authority. Overall the comparable band D council tax for Brighton & Hove residents is slightly above the national and unitary average but well below the average in Sussex.

Financial Planning Principles

The combination of inflationary and demographic pressures on the budget, substantial decreases in Government grant and the council tax targets mean that significant savings will need to be identified in future budgets. As part of this savings package the council is committed to maximising efficiency savings and improving value for money over the planning period.

The underlying principles to be adopted in the savings process will be:

- Value for Money programme.
- Aligning resources with priorities.
- Using intelligent commissioning to secure the most effective service outcomes.
- Working with our partners to ensure we provide joined up services and share costs wherever possible.

Value for Money

The Value for Money programme has been set out in more detail in Appendix 11. Further savings from VFM 2 are expected to contribute to the 2012/13 budget setting process but some have been fast tracked to support the 2011/12 budget. Savings from VFM 3 are already built into the 2011/12 budget setting process with the exception of those expected from a renewed focus on the council's customer access strategy and opportunities for further collaboration. Options appraisals and business cases will be developed to identify the scale of potential savings that they could deliver for 2012/13.

Aligning Resources with Priorities

The 2011/12 budget has been set on the basis of the council's current priorities. A new corporate plan will be developed in and this will set the council's priorities for the coming four years. This will help set the financial targets for the subsequent 3 years of this MTFS.

Intelligent Commissioning

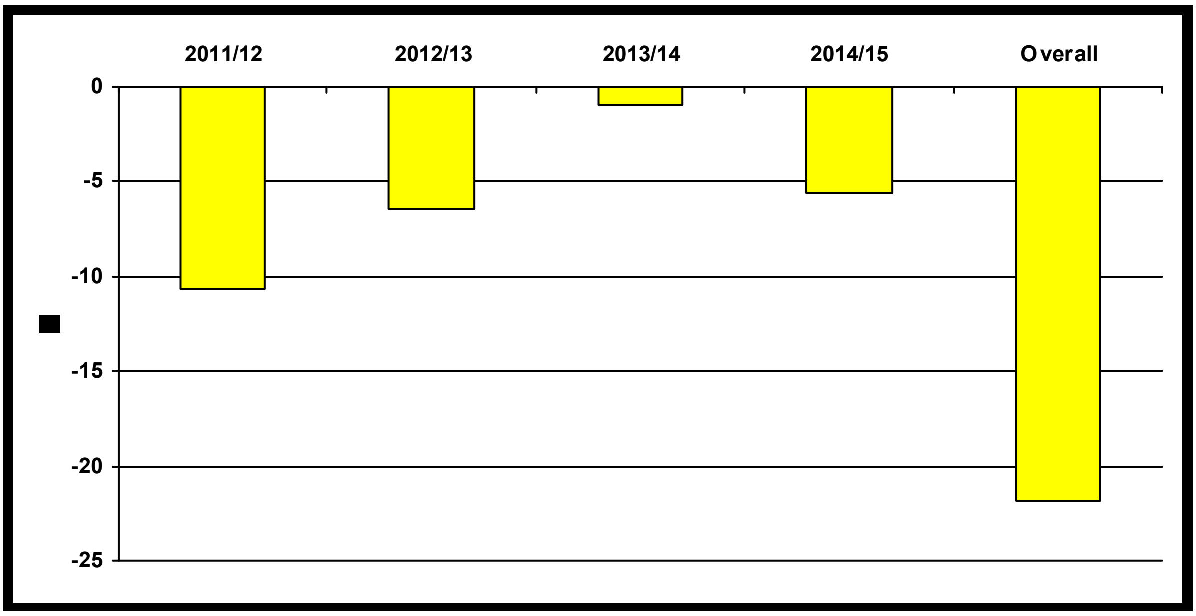
The council's intelligent commissioning model will be fully operational from 1 April 2011 following its transition period from 1 November 2010. Only limited savings in the 2011/12 budget proposals have arisen from this new commissioning approach because of the lead in time to agree the programme of commissioning activity and ensure robust needs analysis and options appraisals are conducted. It is expected that intelligent commissioning will be a critical driver in achieving savings from 2012/13 onwards.

Partnership working

The 2011/12 budget includes examples of close partnership working across the city particularly with health and on community safety activity. The "total place" principles on which this is based will need to continue and strengthen to ensure that all partners in the city understand how their collective resources can be best used. Work with other local authorities across the region will also continue particularly through the SE7 partnership working with East Sussex, West Sussex, Medway, Kent, Surrey and Hampshire. The areas currently prioritised for joint work are ICT, led by Brighton & Hove, Waste, Transport and Special Educational Needs. The focus of this work is particularly joint procurement.

National context

The coalition Government announced the outcome of the spending review of all Government expenditure on 20 October 2010. The spending review sets out spending limits for the next 4 years 2011/12 to 2014/15 and is designed to address unsustainable levels of national debt and put the finances of the country on an even keel. The table below shows the cash reductions in formula grant given in the spending review. Unexpectedly the reductions are not evenly spread over the spending review period but are front loaded with the biggest reduction next year. After taking into account inflation the reductions represent an average 7.1% reduction per annum over the period.



The Government expects continued restraint in public sector pay to reduce the impact of spending reductions on jobs and a pay freeze for all but the lowest paid staff has been imposed for the next 2 years. Inflation has been above target for the last 13 months and is now forecast to reach 5% before falling back later in the year. Higher inflation will increase the pressures for future pay rises, add to the spending pressures within the budget and will increase the pressures on the Bank of England to raise interest rates. Short-term interest rates remain at an all time low of 0.5% and are expected to increase only very slowly back to average levels over the next 3 years. Money market long-term interest rates have risen slightly and are expected to continue to rise to over 5% in the next few months. In the spending review the Government announced that local authority borrowing from the Public Works Loans Board (PWLB) would be increased by 1% with immediate effect. This means that long term borrowing has generally become more expensive for local authorities and money market loans currently offer better value than most borrowing from the PWLB.

Budget and resource projections

MTFS Assumptions

	2011/12	2012/13	2013/14	2014/15
Pay inflation	1.0%	0.5%	2.0%	2.0%
General inflation	2.0%	2.0%	2.0%	2.0%
Formula grant floor change	-13.3%	-9.4%	-5.0%	-10.0%
Dedicated Schools grant per pupil	0.0%	0.0%	0.0%	0.0%
Other specific grants	*	*	0.0%	0.0%
Council Tax change	-1.0%	2.5%	2.5%	2.5%

* Forecasts made for each individual grant as per appendix 4

Function & Funding Changes

For 2010/11 these were set out in detail in appendix 3. Further changes in 2012/13 include more funding being removed from the council for the academies and private sewer adjustments. In 2013/14 the council will gain an additional responsibility for Public Health but the funding transfer is not known at this time.

Inflation

The Government's long term objective is to keep inflation to 2% and this is the assumption included in the projections. The recent inflation increases could put pressure on meeting this objective and lead to higher pay demands. The Government included a 2 year public sector pay freeze for those earning over £21,000 per year in the spending review for 2011/12 and 2012/13. The increased cost of those on the lowest pay is about 0.5% and the higher inflation figure included in 2011/12 also reflect changes in national insurance contributions. The spending review also promised further reform of public sector pay and pensions that has not been built into future forecasts as at this stage the impact is unknown. It is anticipated that public sector pay will be tightly controlled over the planning period therefore the planning assumption will be for a 2% annual increase in pay which will also cover any increase in future pay as a consequence of job evaluation and changes in allowances.

Summary of MTFS projections

	2011/12	2012/13	2013/14	2014/15
	£'000	**£'000**	**£'000**	**£'000**
Budget b/fwd	230,790	231,023	222,950	220,920
Function & Funding changes	20,473	-519	-	-
Revised Budget b/fwd	251,263	230,504	222,950	220,920
Inflation	3,004	2,571	4,346	4,304
Service pressures including specific grant reductions and commitments / improvements	13,943	8,348	10,880	7,951
VFM programme, efficiency & other savings *	-24,229	-21,171	-17,998	-19,064
Changes in corporate budgets & contingency	1,434	-224	-320	293
Contribution from Health	-3,285			
Total	242,130	220,028	219,858	214,404
Change in contribution in reserves	-8,112	2,922	1,062	-
Council Tax Freeze Grant	-2,995	-	-	-
Budget Requirement	**231,023**	**222,950**	**220,920**	**214,404**
Funding				
Formula Grant	112,413	101,377	96,308	86,677
Council Tax	118,610	121,573	124,612	127,727
Total	**231,023**	**222,950**	**220,920**	**214,404**

* Note: the savings total £82.5m over the 4 year period.

Commitments

The main commitments over the period include the impact of financing the capital investment programme on the financing costs budget. It has been assumed that the impact of the East Sussex Pension Fund triennial review due to be implemented in 2014/15 will be neutral as it will depend on investment performance over the next 3 years although there may be some benefits arising from the review of public sector pensions.

Carbon Reduction Commitment (CRC)

The spending review has made major changes to the CRC scheme. The cost of purchasing allocations to cover the carbon output of the council will now have to be met in full. Previously the payments to the Treasury were going to be recycled as income depending on how successful each authority was in reducing its carbon footprint. There is some uncertainty in the guidance but initially the council will need to buy allowances to cover only the largest energy consuming sites. The cost of allowances is under discussion but the guideline of £12 per tonne in 2011/12 requires a budget of £0.1m for next year and the year after. In 2013/14 and beyond the council will need to buy allowances to cover most of its carbon footprint which could cost £0.4m per annum or more if the cost of allowances rises as expected.

Service Pressures

The council has faced significant service pressures in recent years particularly in children's and adults social services through growth in demand, clients living longer and increased complexity of need. Over £7m of pressures are included in the 2011/12 budget and this trend is expected to continue in the coming years. Further pressures arise from specific grants which are assumed to be frozen rather than rise with inflation. In 2013/14 the council will be given responsibility for the council tax benefit scheme and implement savings to cover a 10% reduction in the scheme which equates to approximately £2.6m.

Forecasts of Resources

The council has a gross budget of about £765m in the current year covering the schools budget (met by dedicated schools grant and the new pupil premium), housing and council tax benefit transfer payments (met by Government grant), housing revenue account budget (met largely from council house rents) and the general fund budget. The general fund gross budget is just over £400m this year and is approximately funded 30% by council tax, 30% by fees and charges and 40% by Government grants.

Formula grant

The likely level of formula grant is known for the next 2 years and the percentage change is shown in the assumptions table. The Government is about to start the local resource review which will look at the way local authorities are funded with the intention of increasing the level of income under local control and providing more incentive based grants. It is likely that the results of this review will be implemented in 2013/14 and therefore resource projections for that year and beyond are highly uncertain. The forecasts for 2013/14 and 2014/15 are based on the national figures for formula grant given in the spending review adjusted to reflect the fact that:

- The national totals will need to be top-sliced to provide ongoing funding for the New Homes Bonus, and
- The council in 2012/13 is still in receipt of £10.5m floor protection grant which is likely to continue to be lost over time.

Specific Grants

The reduction in the numbers of specific grants while adding significant complexity in 2011/12 will result in simpler financial planning in the medium term. Details of the specific grants anticipated to be received in 2011/12 and 2012/13 are included in appendix 4. Allocations beyond 2012/13 are prudently assumed to be at the same level as 2012/13 where known. This creates a spending pressure equivalent to the inflation in each year.

The spending review allowed for increases in schools funding at the same rate as increases in projected pupil numbers. The Government is considering a national formula for distributing schools funding between schools rather than the current locally agreed funding formulas. This is likely to have an impact on the amount of funding available for each school in the future.

A major change in council tax benefits is due in 2013/14 when the national regulations will be replaced by a local scheme that will need to be devised to cope with a funding reduction of 10%.

Fees and Charges

The fees and charges are assumed to increase by 2% inflation over the period with the exception of parking income which is in total proposed to remain at 2010/11 levels, a 2% reduction in real terms each year.

Capital Forecasts

The forecasts are included in the Capital Resources and Capital Investment Programme 2011/12 report elsewhere on the agenda.

Appendix 7

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Potential Risks and Opportunities affecting 2011/12 to 2014/15					
Collection of council tax falls due to the difficult financial climate and failure to achieve higher target collection rates resulting in a deficit on the collection fund	2	3 0.1% reduction in council tax collection = £0.1m	6	Immediate impact on reserves Would require reductions in the budgets for the following year to repay reserves	Close monitoring of the collection fund Implement appropriate collection strategies to minimise impact and review effectiveness of the new Debt Prevention Team
Council tax base is lower than anticipated e.g. lower number of new properties / more student exempt properties, resulting in a deficit on the collection fund	2	3 1% reduction in council tax base = £1.1m	6	Immediate impact on reserves Would require reductions in the budgets for the following year to repay reserves	Close monitoring of the collection fund particularly new property developments and student numbers Working with further education establishments to develop more dedicated student accommodation
Pay freeze in 2011/12 and 2012/13 is not fully implemented	2	3 0.25% change in pay award = £0.3m	6	Would require use of risk provision in 2011/12 and possibly lower budgets for future years	Monitor progress on pay award arbitration

Risk	Likelihood of occurrenc e (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Provisions for Equal pay and future pay insufficient to meet liabilities	4	4 1% variation in total pay = £1.3m p.a.	16	Successful equal pay claims above the provision would reduce the level of reserves High levels of successful job evaluation appeals would increase the overall pay bill of the council	Maintain and update the risk register Monitor progress on a frequent basis and update financial forecasts regularly particularly in the light of any new legal rulings
General inflation higher than the 2% forecast	4	3 0.5% change in inflation = £0.4m	12	Would reduce resources within budgets creating the need to find additional savings	Monitor inflation rates and impact on contract costs closely
Investment interest rates lower than anticipated	2	2 0.5% lower = £0.5m	4	Would need more reserves to cover anticipated 3 year shortfall in investment interest budget	Keep investment strategy under constant review
New borrowing as a result of reversing debt repayment (maximum £90m) has to be temporarily invested at lower investment rates	2	3 3% difference = £30k per £1m	6	Would need more reserves to cover anticipated 3 year shortfall in investment interest budget but could use surplus funds to repay debt to mitigate impact until circumstances change	Keep borrowing and investment strategy under constant review particularly timing and amount of new borrowing and use deals available to lock in rates now but borrow later
Long term borrowing rates	3	3	9	Would increase borrowing	Closely monitor long term

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
higher than anticipated		0.5% higher = £0.05m for each £10m borrowed		costs budget over the long-term Would hinder business cases involving borrowing and make invest to save schemes less financially attractive	borrowing rates and future borrowing requirements to help identify the best time to borrow
Services fail to operate within set budgets due to; • Increased service demand • Price variations • Unachieved income levels • Unachieved savings	4	3 1% overspend on net GF budget = £2.2m in 2010/11	12	Departmental service pressures that can only be met through additional resources, such as the risk provision, or savings elsewhere in the budget. Reduction in reserves	Monitor corporate critical budgets and overall budget through TBM. Identify action plans to mitigate cost pressures. Apply strict cash limits but at least repay any use of reserves over no more than 3 years should risk materialise that cannot be accommodated by management or policy action.
Waste tonnages higher than projected resulting in additional landfill costs	2	2 1% increase in tonnage in 2011/12 = £0.1m	4	Would increase the waste disposal budget and compensating savings would need to be identified elsewhere in the budget	Provision for higher tonnages made in assessment of waste PFI reserve Monitor and identify specific areas of growth and

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
					undertake waste minimisation measures
Continuing difficult financial climate has a greater than anticipated impact on collection of income and commercial rents	3	3 1% reduction in income = £1.2m 1% reduction in commercial rents = £0.1m	9	Services would need to identify compensating savings and in particular look at whether expenditure could be reduced in those income generation areas	Identify action plans to mitigate income and rent shortfalls
The uncertainties within housing market and changes in housing benefit create spending pressures within the homelessness budget	3	3 10% increase in homelessness budget = £0.2m	9	Would create additional pressures in the Housing Strategy budget which would need to find compensating savings	Additional specific grant funding for Homelessness Prevention has been retained to invest in this service area
The number of children taken into care is higher than anticipated particularly following recent national high profile cases	3	3 1% increase in looked after children budget = £0.2m	9	Would create additional pressures in the children's services budget to find compensating savings	Monitor corporate critical budget through TBM and develop financial recovery plans

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
Increasing demand for adult social care services above projections	3	3 1% increase in adult social care budget = £0.8m	9	Would create additional pressures in the Adult Social Care & Housing, Learning Disabilities and Health led services budgets to find compensating savings	Monitor corporate critical budget through TBM and develop financial recovery plans
The number of free bus journeys and / or the level of reimbursement to the bus operators is higher than the projection in the budget	2	3 1% of concessionary fares budget = £0.1m	6	Would require use of the risk provision	Number of journeys starting within Brighton & Hove monitored on monthly basis Brighton & Hove local scheme developed to minimise risk of future successful legal challenges
Major civil incident occurs e.g. storm	2	3 Estimated "Bellwin" threshold = £0.8m	6	Budget overspend/reduction in reserves Pressures on other budgets	Ensure adequate levels of reserves to cover threshold expenditure Ensure appropriate insurance cover is in place.
Severe winter weather places additional spending pressures on winter maintenance and other budgets across the council	3	3 Depends on severity of weather event and length of	9	Need to use reserves in one-off risk provisions	Advance planning to minimise possible disruption

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
		cold snap			
Pupil numbers lower than projected	2	3 1% of Dedicated Schools Grant = £1.3m	6	Schools funding through dedicated schools grant lower than anticipated.	Review & improve pupil number projections. Consultation with schools forum.
Cost overruns occur on schemes in the agreed capital programme	2	3 1% cost overrun on total programme = £0.7m	6	Reserves or other capital resources redirected to fund overspend Unable to meet capital investment needs	Effective cost control and expenditure monitoring. Flexibility within programme to re-profile expenditure if necessary.
Capital receipts lower than anticipated	4	3 10% reduction in receipts = £1m	12	Fewer resources available for transport programme and other strategic funds	Flexible capital programme that allows plans to be reduced or re-profiled.
Further risks affecting 2013/14 onwards					
Review of local government finance produces a loss of resources for the city council in 2013/14 and	2	3 1% reduction in grant floor = £1.1m	6	Review intended to give councils more freedom over their resource base Reductions in budgets or upward pressure on council	Provision for losses made in resource forecasts Lobbying Government on review and grant distribution and floor mechanisms

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
thereafter				tax	
Reductions in remaining specific grants in 2013/14 and beyond causing additional budget pressures	2	2 1% reduction in specific grants = £0.6m	4	Reductions in budgets or upward pressure on council tax	Provisions for reductions made in resource forecasts Develop strategies to identify priorities and mitigate impact of reductions
Council fails to deliver a council tax benefit (CTB) scheme with 10% cost reduction from 1 April 2013	2	3 1% of CTB = £0.25m	6	Reductions in budgets or upward pressure on council tax	Define as corporate critical budget, closely monitor and allow for periodic review of adopted scheme.
Transfer of funding for Public Health responsibility from 1 April 2013 insufficient to meet existing service requirements and future demand	2	4	8	Reductions in budgets or upward pressure on council tax	Work closely with NHS to ensure appropriate budget transfer and full knowledge of current and future spending pressures. Monitor budget and spending closely and identify strategies to meet any additional resource requirements.
Further changes in the reimbursement scheme for concessionary fares results in an increase in payments	2	2 1% of concession ary fares	4	Reductions in cash limits or upward pressure on council tax	Lobbying for appropriate reimbursement mechanism and matching resources.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
to the local bus operators		budget = £0.1m			
Reduction in Dedicated Schools Grant following review of existing formula and possible introduction of a national model for distribution between schools	2	4 1% reduction in DSG = £1.5m	8	Additional pressure on schools budgets	Respond to consultation papers and lobby Government on impact
Pension costs increase at next actuarial review in 2014/15 to cover any deficit greater than anticipated	2	2 Each 0.1% additional employer contribution = £0.12m	4	Reductions in cash limits or upward pressure on council tax	Implement actuarial advice on contribution rate. All employment decisions include allowance for full pension costs. Maximise contributions to pension fund where affordable

Likelihood: 1 – Almost impossible, 2 – Unlikely, 3 – Possible, 4 – Likely, 5 – Almost certain.

Impact: 1 – Insignificant, 2 – Minor, 3 – Moderate, 4 – Major, 5 – Catastrophic or fantastic.

Risk (L x I): 1-3 Low, 4-7 Moderate, 8-14 Significant, 15-25 High.

APPENDIX 8

Annual Minimum Revenue Provision (MRP) Statement

For 2011/12 the following provision will be made in the revenue account:

- for debt where the Government provides revenue support the council will set aside a sum of 4% of the notional debt relating to capital investment, but excluding capital investment on the HRA housing stock (known as the non-HRA capital financing requirement),
- for debt where the Government provides no revenue support:
  - where the debt relates to an asset the council will set aside a sum equivalent to repaying debt over the life of that asset in equal annual instalments, or
  - where the debt relates to expenditure which is subject to a capitalisation direction issued by the Government the council will set aside a sum equivalent to repaying debt over a period consistent with the nature of the expenditure under the annuity basis.
- in the case of finance leases and on-balance sheet PFI contracts the MRP requirement will be regarded as met by a charge equal to the element of the lease payment or unitary charge that is applied to write down the balance sheet liability in the year.

APPENDIX 9

Brighton & Hove City Council – Prudential Indicators 2011/12 to 2013/14

The following prudential indicators are recommended to the council. The indicators include the effect of the new accounting standards (International Financial Reporting Standards) introduced into local authority accounting last year.

A Prudential indicators for Affordability

In demonstrating the affordability of its capital investment plan the council must:

- determine the ratio of financing costs (e.g. capital repayments, interest payments, investment income, etc) to net revenue stream for both the Housing Revenue Account (HRA) and non-HRA services for a 3 year period; and
- determine the incremental impact on the council tax and housing rents (in both instances the scope for increases is governed by the Government's ability to limit council tax increases and the current restriction on council rents).

Indicator A1 sets out the ratio of financing costs to net revenue stream. The estimates of financing costs include current commitments and the proposals in this budget report.

A1 Prudential indicator – Estimates of the ratio of financing costs to net revenue stream 2011/12 to 2013/14

	2011/12 Estimate	**2012/13 Estimate**	**2013/14 Estimate**
Non-HRA	**10.6%**	**11.1%**	**11.2%**
HRA	**30.6%**	**32.2%**	**32.6%**

Indicators A2 and A3 set out the estimated incremental impact on both the levels of council tax (Band D equivalent) and housing rents of the recommended capital investment plans and funding proposals. The impact has been calculated using the latest projections on interest rates for both borrowing and investments. The impact does not take account of Government support included for new borrowing within the formula spending share and housing subsidy.

A2 Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the council tax 2011/12 to 2013/14

	2011/12 Estimate	**2012/13 Estimate**	**2013/14 Estimate**
Addition in council tax requirement	**£12.25**	**£20.64**	**£22.60**

A3 Prudential indicator – Estimates of the incremental impact of the new capital investment decisions on the average weekly housing rents 2011/12 to 2013/14

	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
Addition in average weekly housing rent	**£7.15**	**£5.92**	**£6.71**

B <u>Prudential indicators for Prudence</u>

A key indicator of prudence is that, over the medium term, net borrowing will only be for a capital purpose (net borrowing being total borrowing less investment). Under the Code the underlying need to borrow for a capital purpose is measured by the capital financing requirement.

Indicator B1 compares the estimated net borrowing with the estimated capital financing requirement as at 31 March each year. Indicator B1a is supplemental to indicator B1 and compares the capital financing requirement against the aggregate of (i) projected gross debt levels (i.e. before the deduction of investments) and (ii) long-term liabilities under the PFI agreements.

B1 Prudential indicator – Net borrowing and the capital financing requirement 2011/12 to 2013/14

	31 Mar 12 Estimate	31 Mar 13 Estimate	31 Mar 14 Estimate
	£000	£000	£000
Net borrowing	**219,530**	**220,051**	**209,008**
Capital financing requirement	**337,042**	**332,284**	**321,008**

B1a Prudential indicator (supplemental) – Gross borrowing (including PFI liabilities) and the capital financing requirement 2011/12 to 2013/14

	31 Mar 12 Estimate	31 Mar 13 Estimate	31 Mar 14 Estimate
	£000	£000	£000
Gross borrowing	**243,817**	**244,588**	**234,068**
PFI liabilities	**61,038**	**59,719**	**57,977**
Gross borrowing (including PFI liabilities)	**304,855**	**304,307**	**292,045**
Capital financing requirement	**337,042**	**332,284**	**321,008**

Indicator B1a is not a requirement of the prudential code but it does show more clearly the comparison between the underlying need to borrow and outstanding long-term debt and other liabilities.

C Prudential indicator for Capital Expenditure

Elsewhere on this agenda is a report recommending the capital investment plans for the council over the next three years. Indicator C1 summarises the recommendations within that report. Indicator C2 sets out the estimates of the capital financing requirement over the same period.

C1 Prudential indicator – Estimates of total capital expenditure 2011/12 to 2013/14

	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate
	£000	£000	£000
Total non-HRA	**67,764**	**20,147**	**18,391**
Total HRA	**36,937**	**22,529**	**17,904**
Total programme	**104,701**	**42,676**	**36,295**

In considering the capital investment plan the council has had regard to a number of key issues, namely:

- affordability, e.g. implications for council tax/housing rents
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- service objectives, e.g. strategic planning for the authority
- practicality, e.g. achievability of the forward plan.

C2 Prudential indicator – Estimates of capital financing requirement 2011/12 to 2013/14

	31 Mar 12 Estimate	31 Mar 13 Estimate	31 Mar 14 Estimate
	£000	£000	£000
Non-HRA	**226,804**	**217,679**	**207,903**
HRA	**110,238**	**114,605**	**113,105**
Total	**337,042**	**332,284**	**321,008**

The estimates are based on the financing options included in the capital investment report. The estimates will not commit the council to particular methods of funding – the actual funding of capital expenditure will be determined after the end of the relevant financial year.

The council has a number of daily cashflows, both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with the approved treasury management strategy and practices. In day to day cash management no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. It is possible, therefore, that external debt could exceed the capital financing requirement in the short term.

D **Prudential indicators for External Debt**

A number of prudential indicators are required in relation to external debt.

D1 ***Prudential indicator – Authorised limit 2011/12 to 2013/14***

	2011/12 Estimate	**2012/13 Estimate**	**2013/14 Estimate**
	£000	£000	£000
Borrowing	**305,000**	**296,000**	**287,000**
Other long term liabilities	**61,038**	**59,719**	**57,977**
Total	**366,038**	**355,719**	**344,977**

The authorised limit is the aggregate of gross borrowing (i.e. before investment) and other long term liabilities such as finance leases. In taking its decisions on the budget report the council is asked to note that the authorised limit determined for 2011/12 in the above table is a statutory limit required to be determined by full Council under section 3(1) of the Local Government Act 2003.

The authorised limits are consistent with the council's current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Director of Finance confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

D2 ***Prudential indicator – Operational boundary 2011/12 to 2013/14***

	2011/12 Estimate	**2012/13 Estimate**	**2013/14 Estimate**
	£000	£000	£000
Borrowing	**293,000**	**283,000**	**274,000**
Other long term liabilities	**61,038**	**59,719**	**57,977**
Total	**354,038**	**342,719**	**331,977**

The operational boundary is based on the authorised limit but without the additional headroom. The operational boundary represents a key management tool for in-year monitoring by the Director of Finance. As with the authorised limit figures for borrowing (gross) and other long term liabilities are separately identified.

The authorised limit and operational boundary separately identify borrowing from other long-term liabilities. The council is recommended to delegate authority to the Director of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the council at its next meeting following the change.

E Prudential indicators for Treasury Management

A number of prudential indicators are required in respect of treasury management. The indicators are based on the council's treasury management strategy and take into account the pre-existing structure of the council's borrowing and investment portfolios.

E1 Prudential indicator – Brighton & Hove City Council has adopted the "CIPFA Code of Practice for Treasury Management in the Public Services" within Financial Standing Orders.

E2 Prudential indicators – Upper limits on interest rate exposure 2011/12 to 2013/14

	2011/12	2012/13	2013/14
Upper limit on fixed interest rate exposure	**110%**	**110%**	**111%**
Upper limit on variable interest rate exposure	**44%**	**44%**	**44%**

The above percentages are calculated on the net outstanding principal sums (i.e. net of investments). The upper limit of 110-111% is a consequence of the council maintaining an investment portfolio.

Indicator E2a exemplifies the indicator over borrowing and investment.

E2a Prudential indicators (supplemental) – Upper limits on interest rate exposure 2011/12 to 2013/14

	2011/12	2012/13	2013/14
Upper limit on borrowing – fixed rate exposure	**100%**	**100%**	**100%**
Upper limit on borrowing – variable rate exposure	**40%**	**40%**	**40%**
Upper limit on investments – fixed rate exposure	**100%**	**100%**	**100%**
Upper limit on investments – variable rate exposure	**100%**	**100%**	**100%**

Indicator E2a is supplemental to Indicator E2 and shows separately the maximum limits for both borrowing and investments. The indicator is not a requirement of the prudential code but it does show more clearly the interest rate exposure limits within which borrowing and investments will be managed. The effect of the limits is the Director of

Finance will manage fixed interest rate exposure within the range 60% to 100% for borrowing and within the range 0% to 100% for investments.

E3 Prudential indicator – Upper and lower limits on the maturity structure of borrowing 2011/12

	Upper limit	**Lower limit**
under 12 months	**40%**	**0%**
12 months and within 24 months	**40%**	**0%**
24 months and within 5 years	**50%**	**0%**
5 years and within 10 years	**75%**	**0%**
10 years and above	**100%**	**50%**

The limits in Indicator E3 represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period.

E4 Prudential indicator – Principle sums invested for periods longer than 364 days

	2011/12	**2012/13**	**2013/14**
	£000	£000	£000
Limit	**25,000**	**25,000**	**25,000**