

*Appendix 2 to P&R Medium Term Financial Strategy report 11 Feb 2004*

## **Brighton & Hove City Council**

## **Medium Term Financial Strategy**

**Strategic Finance**  
**February 2004**

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## **executive summary**

The City Council has a good record of reallocating resources to priorities whilst at the same time protecting front line services. In 2003/04 over £6m of savings in the revenue budget were allocated to priority areas.

The council has also has been highly successful in generating major capital investment in the City using a broad range of non-conventional sources of funding for a wide variety of projects such as the Dome redevelopment, the Raceground, Jubilee Street redevelopment, Schools PFI and waste management PFI.

However, the City Council faces a very difficult and uncertain financial future over the medium term.

On the revenue budget side, the new grant formula introduced for 2003/04 has, as expected, been particularly unfavourable and the City Council can only expect to receive floor increases in grant for the foreseeable future.

Significant changes are also planned for the capital finance system with the introduction of the new Prudential regime. The City Council has some ambitious capital aspirations with several major projects planned over the life of this strategy.

The financial strategy also sits within the context of the national and local economic situation. The Government's spending plans are grounded on some optimistic forecasts. Failure to meet key targets could result in a tightening of public expenditure whilst a general economic downturn could also put pressure on a number of budgets.

The Corporate Plan sets out the Council's priorities over the period 2003-2007 in the context of the wider Community Strategy for the City. To deliver the Plan requires financial stability so that resource planning can be effectively targeted. This Medium Term Financial Strategy contains 8 key financial objectives that need a corporate commitment to help achieve that stability;

- The council will endeavour to balance its revenue budget over the planning period without using reserves. If reserves are used in one year, the aim will be to replace them in the following year.
- The council will maintain its resource base to take into account inflation, known commitments and implementing the effects of new legislation and/or changes in function.
- Where there are significant unavoidable demand led changes in services all options for controlling and meeting that increased demand will be explored prior to making decisions on how they should be funded.
- The council will seek to maintain a minimum general fund working balance of £6.5m throughout the planning period and will aim for its unallocated reserves to be at the Audit Commission guideline level by 31 March 2006. HRA balances will be maintained at the guideline level of £2.8m.

- Spending will be contained within budget. If it becomes apparent during the financial year that the revenue budget will overspend, the Management Team will implement the expenditure restraint measures as specified by the Chief Finance Officer. The procedure for dealing with capital overspending is set out in financial regulations. The overall position will be within CPA guidance.
- The council's capital programme will be fully funded each year.
- The City Council will aim for its annual capital spends to be within 5% of budgetary total of the last reviewed capital programme.
- Directorates will be expected to generate efficiency savings equivalent to 2% of their net variable budgets per annum.

The revenue budget projections show significant resource gaps over the planning period. These will need to be bridged by council tax and/or savings. Furthermore, 2007 will see the introduction of new property valuations for council tax. Initial modelling shows that this could be considerably detrimental to council taxpayers in Brighton and Hove.

To meet its capital aspirations, funding solutions outside mainstream approaches will need to be sought. The state of the local property market will be vital in the delivery of these major projects as they all, to a greater or lesser extent, require funding from enabling development. The City Council will also need to take a robust approach to asset management to ensure that capital receipts can be generated to support the capital programme from poor performing assets.

The future of the Housing Revenue Account needs to be determined on the basis of a robust options appraisal for the ownership and management of the council's housing stock in accordance with government guidance and timetables.

The financial strategy is highly sensitive to a range of external and internal risks. It is vital that strategies are put in place that mitigates these risks as far as possible. The level of usable balances is currently significantly below guideline and needs to be increased to an acceptable level by the end of this strategy period if they are going to be effective in responding to unforeseen circumstances.

# introduction

Finance is a finite resource. Because of this, difficult decisions on allocating limited financial resources are made by all organisations.

Brighton & Hove City Council is no different from other organisations in having to make these difficult decisions. This strategy aims to move the City Council on from year to year budget decision making to integrated service and financial planning over the medium term.

On 6<sup>th</sup> March 2003, the City Council agreed the revenue budget and council tax for 2003/04 along with its capital expenditure plans. Projected financial forecasts up to 2006/07 were also presented. Council agreed a net revenue budget of £271m and a capital programme of £51m for 2003/04.

The revenue and capital budgets reflect the priorities of the City Council in terms of the balance between council tax and its spending priorities.

The position for 2003/04 was made particularly difficult by the Government's review of local government funding, the outcome of which was especially disadvantageous for the City Council's finances. This led to the need for difficult decisions on spending and council tax.

Nevertheless, despite the difficulties the City Council has allocated resources in the revenue and capital budgets to support the delivery of the City's priorities including;

- A £7.5million increase in schools budgets which includes extra money for teachers pensions
- Increased spending of £2.8m on looking after children. This covers work on child protection, fostering and adoption and looking after children with disabilities
- £6.3 million extra on looking after older people and people with special needs through the increases in the budget for Adult Social Care.
- £1.6m on waste disposal and recycling including £1.3m for the joint waste disposal Public Finance Initiative (PFI) project with East Sussex County Council.
- Capital investment of £51m including £18.2m for housing, £6.8m for transport, £8.5m for major coastal protection works and £10.3m for schools.

The City Council will look for ways of achieving economies that will protect front line services as far as possible For 2003/04 savings of £6million were found that included;

- Savings on senior management posts and central administration
- Less spending on councillors due to a reduction in their numbers
- Better use of office accommodation and new ways of working

- Reducing the overall cost of interest payable on debt
- Reducing the costs of refuse collection and street cleansing through procurement of new vehicles and changes to the rounds and working practices

The on-going effects of the grant review will be felt for a number of years as grant increases will be at the minimum floor level. The City's financial strategy will have to adapt to this as well as meeting the on-going demands for additional spending.

## **The Period of the Financial Strategy**

5 year capital resource and expenditure estimates have been included in this strategy from 2003/04 to 2007/08. Capital projects, especially major schemes, require a great degree of planning and often take a number of years before they can commence. Although resource estimates are uncertain, it is reasonable to include longer-term financial projections for capital.

Revenue forecasts are included for 3 years following 2003/04, i.e. up until 2006/07. Revenue resources and expenditure forecasts are more volatile and hence are much less meaningful for future years.

# **the city council's key financial aims and objectives**

The financial strategy is being developed to put into place a financial framework to support the delivery of the City Council's Corporate Plan. The Corporate Plan identifies the following priorities;

- 1. Developing a prosperous and sustainable economy**
- 2. Liveability (improving the quality of life in the city)**
- 3. Social well being and caring for vulnerable people**
- 4. Thriving 14 year olds able to participate in the life of the city**

Against all of these there are a series of key deliverables for the Council. This strategy identifies the resourcing options for each of these, many of which will present real challenges for the Council, given its overall financial position. Furthermore, it will need to continue to deliver a full range of core services, many of which are facing significant funding pressures in their own right. Working in partnership and making the most of all funding streams will be essential.

Appendix 4 describes in detail the service prioritisation in the budget strategy. In summary the impact of each priority is as follows:

## **PRIORITY 1 – DEVELOPING A PROSPEROUS AND SUSTAINABLE ECONOMY**

This is the area with the greatest number and variety of initiatives identified within the Corporate Plan. However, the financial strategy assumes that wherever possible these are funded by diverting existing resources into priority areas or by leveraging in funding from external sources.

## **PRIORITY 2 – LIVEABILITY (IMPROVING THE QUALITY OF LIFE IN THE CITY)**

This is an area consistently raised as a priority by members of the public. It is assumed within the financial strategy that the deliverables will be achieved either through calls on the Strategic Priorities Fund (SPF) or through shifts in existing resources.

## **PRIORITY 3 – SOCIAL WELL BEING AND CARING FOR VULNERABLE PEOPLE**

This is one of the areas of greatest financial risk to the council's revenue budget position and this is reflected in the levels of projected spend on financial risk in this strategy.

## **PRIORITY 4 – THRIVING 14 YEAR OLDS ABLE TO PARTICIPATE IN THE LIFE OF THE CITY**

This is the other area of greatest financial risk to the City Council and again the levels of projected spend on financial risk reflects this.

### **Impact on the financial projections**

The overall financial projections included in this strategy at Annex 1 incorporate all of the above. However the exact profile of annual investment in each of the above areas will be determined on the basis of the most recent cost and demand data, and the level of savings identified in non-priority areas.

From its own financial perspective, the City Council will need to put in place a financial regime and culture that ensures that full value is extracted for every pound spent. The key aim of the Medium Term Financial Strategy can be summarised as follows;

#### **Aim of the MTFS**

To provide financial stability over the medium term to support the City Council's values and service priorities.

This strategy endeavours to move the City Council on from the year to year budget approach to integrated service and financial planning over the medium term. The scale of the currently forecast revenue budget deficit in each year is identified in the strategy and Members will need to make key decisions on council tax levels and savings to meet these deficits.

3 year indicative block allocations for directorates are included and these will provide the financial framework for their business planning over the medium term.

To support the delivery of the MTFS aim the following key financial objectives have been developed;

#### **The City Council's Key Financial Objectives**

The council will endeavour to balance its revenue budget over the planning period without using reserves. If reserves are used in one year, the aim will be to replace them in the following year

The council will maintain its resource base to take into account inflation, known commitments, meeting the Minimum Schools Budget Requirement and implementing the effects of new legislation and/or changes in function.

Where there are significant unavoidable demand led changes in services all options for controlling and meeting that increased demand will be explored prior to making decisions on how they should be funded.

The council will seek to maintain a minimum general fund working balance of £6.5m throughout the planning period and will aim for its unallocated reserves to be at the Audit Commission guideline level by 31 March 2006. HRA balances will be maintained at the guideline level of £2.8m.

Directorate spending will be contained within budget. If it becomes apparent during the financial year that the revenue budget will overspend, the Management Team will implement the expenditure restraint measures as specified by the Chief Finance Officer. The procedure for dealing with capital overspending is set out in financial regulations. The overall position will be within CPA guidance.

The council's capital programme will be fully funded each year.

The City Council will aim for its annual capital spend to be within 5% of budgetary total of the last reviewed capital programme.

Directorates will be expected to generate efficiency savings equivalent to 2% of their net variable budgets per annum.

## context of the financial strategy

The City Council receives the majority of its money from the Government. Indeed, 68% of the net general fund revenue budget is funded from Government support. What the Government can afford is based on its own political priorities in terms of taxation and spending as well as the future economic prospects for the country.

As well as these macroeconomic situations the City's position is also influenced by the local economy which will vary from the national situation to a greater or lesser degree.

### SPENDING REVIEWS

Spending Review 2002 set out the Government's expenditure plans for the period 2003/04 to 2005/06. The review includes an average real terms increase of 4.2% for local government services within the Office of the Deputy Prime Minister (i.e. excluding major services such as education and personal social services). It also contains announcements of a number of other grants for local authorities.

Spending Review 2004 will set out the Government's spending plans for 2005/06 to 2007/08. The financial strategy will therefore, straddle two spending review periods.

The headline figures in the Spending Review manifest themselves as resources for the City Council in a number of ways.

**Formula Spending Shares (FSS)** – Following the Government's Review of Grant Distribution Standard Spending Assessments (SSA's) were replaced in 2003/04 by Formula Spending Shares as the means by which Formula Grant is distributed – at £183m in 2003/04 the single most important funding stream for the City. The City's revenue budget is principally funded by a combination of Formula Grant and council tax. It follows therefore that the level of Formula Grant is critical to the level of council tax.

**Specific Grants** – The Government funds some services through specific grants. Where as Formula Grant is not earmarked for a particular service, specific grants are, as their name suggests, only available for funding specific types of expenditure.

**Targeted Grants** – These are a type of ring fenced grant that have conditions attached which specify a broad outcome. Examples include the Neighbourhood Renewal Fund and LPSA Performance Reward Grant.

**Borrowing Approvals** – These are issued to local authorities to allow borrowing for capital investment. The new Prudential Regime for capital will eliminate the need for borrowing approvals as the controls on local authority borrowing will be through affordability in the revenue budget.

The sections on the capital and revenue budgets consider the prospects for these resources over the duration of the financial strategy.

## **LOCAL GOVERNMENT ACT**

The Local Government Bill received Royal Assent on 18<sup>th</sup> September 2003. This followed the Draft Local Government Bill in summer 2002 and the White Paper – *Strong Local Leadership, Quality Public Service* – which was published in December 2001. The Act sets out a range of legislative proposals on local government finance, which were initially consulted on in the Green Paper: *Modernising Local Government Finance* in September 2000.

The key measures set out in the Act in so far as they relate to local government finance are;

- a new, prudential capital finance system;
- new duties on local authorities in relation to financial management;
- new wide ranging power to enable ministers to make grants to local authorities without further legislation
- establishment of business improvement districts;
- changes to non domestic rates, including rate relief for small businesses;
- introduction of a statutory revaluation cycle for the council tax,
- changes to the operation of the council tax including the reduction of council tax discounts for second homes and empty properties
- changes to housing finance;
- new powers to charge for discretionary services and to trade;
- new powers for the Secretary of State to remove controls on authorities depending on their performance classification;
- incentives for local authorities to retain a share of business rate income arising from new businesses in their area.

The implications for the City Council as far as they can be determined at this stage are contained within this paper.

## **THE NATIONAL ECONOMIC POSITION**

The plans announced by the Chancellor in Spending Review 2002 were ambitious and included an overall a £61bn package of public spending including significant increases for education and health. The package assumed that the economy will grow by at least 2.5% a year so as to generate the tax revenues required to support the spending plans.

In Budget 2003, the Chancellor announced that his forecast of growth for 2003/04 is 2-2.5% with the forecast for 2004 unchanged at 3-3.5%. The new forecast for 2005 is also 3-3.5%. The majority of independent economic analysts considered the growth forecasts to be very optimistic and that the inevitable need for tax rises or reductions in public expenditure had just been delayed. Recent GDP figures have been more promising however.

Interest rate decisions are now made by the Bank of England, which is given the target of keeping inflation to between 1.5% and 3.5% with a goal of 2.5% after 2 years. Inflation is currently at a low level and well within the Bank's targets. The City Council's economic advisors currently anticipate base interest rates to rise by about ½% by the end of 2004. However, they stress that the economic outlook is extremely uncertain.

The downturn in the stock market has affected the City Council's financial position particularly with regard to the employer contributions to the East Sussex Superannuation Fund. The next actuarial review is due in 2004 and significant increased contributions are currently forecast.

## THE LOCAL ECONOMIC POSITION

The City's economy is deeply affected by events nationally. Although the council can clearly influence local economic conditions to a degree, ultimately macroeconomic decisions will provide the dominant forces for change in the local economy. (It should be noted that, although there have been some down-sides such as rising homelessness costs, the council's revenue and capital budgets are generally benefiting from the current buoyant economic position with for example, income levels high).

The City's housing situation has a number of direct effects on the council's budget. For example, the lack of affordable housing coupled with rising private rents has been a major factor in the increasing costs of homelessness. It has also led to the planning policy requiring 40% of new housing developments to be affordable thereby reducing the value of potential capital receipts to the council. Conversely, any rise in interest rates that leads to significant increased mortgage costs and reduce housing demand could see further pressures on the homelessness and housing benefits budgets as well as reduced income in areas such as land charges and planning applications.

Unemployment in Brighton & Hove has remained stubbornly higher than the regional and national unemployment rates for many years. This follows a steep decline in the city's fortunes as a resort from the 1970's onwards. For a long time local falls in unemployment have only mirrored those that have occurred at a regional and national level, so that the relative rate of unemployment has remained unchanged. A significant rise in unemployment could impact on the housing market with the resultant effects as detailed earlier. There could also be further income losses in, for example, leisure and recreation services as well as pressures on the council's commercial rents portfolio.

Table 1 shows an analysis of some key economic indicators at both the national and local level.

<b>Table 1 Indicator:</b>	<b>Source</b>	<b>B&amp;H</b>	<b>National</b>
Unemployment	Labour Force Survey (May 2002)	7.8%	4.9%
Income Support Claimants	IS/JSA Claimants – March 2003	3.2%	2.7%

<b>Table 1 Indicator:</b>	<b>Source</b>	<b>B&amp;H</b>	<b>National</b>
Housing Benefit Claimants	2002/03 SSA (Proportion)	4.2%	3.1%
Average Earnings	New Earnings Survey 2002	£22,467	£24,527
GDP per head	Economic Devlt (1998 figs)	£10,206	£12,548
Average House Price	Land Registry – Jul-Sept 2002	£181k	£149k

The table highlights the paradox in Brighton & Hove where the economic position on a range of factors is worse than the national average whilst average house prices are significantly higher.

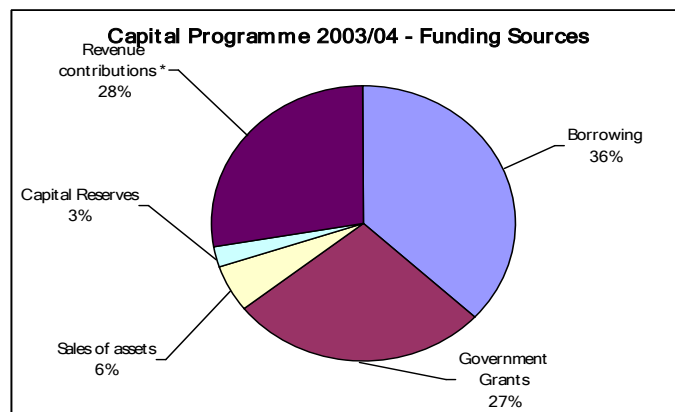
# capital

## WHERE WE ARE NOW

The 2003/04 capital programme is £61.4m including slippage. This includes £2m for the Strategic Investment Fund and £0.5m each for the Property Improvement Fund and ICT Strategy Fund.

Government grants and borrowing comprise the greatest element of the capital programme funding. Together they account for 55% of the total.

Receipts from asset sales accounted for 6% of the funding. The aspirations of the City Council will depend on the management of its assets and the ability to generate capital receipts for reinvestment.



## CAPITAL PROSPECTS OVER THE NEXT 3 YEARS

Fundamental changes to the local authority capital financing system are expected from 1 April 2004. Borrowing approvals are to be abolished and will be replaced with borrowing based on affordability as determined by a number of locally set indicators. The Government will continue to provide revenue support for borrowing up to a limit.

The Government does not give forward estimates of capital allocations and with the new system coming into effect, there is considerable uncertainty at this stage over what resources will be available over the medium term. However, based on an anticipated level of affordable borrowing, forward estimates of the capital programme have been produced for the period up to 2007/08. These are included at annex 1.

The City Council has some ambitious capital investment aspirations including complete redevelopments of the King Alfred Leisure Centre, the Brighton Centre and the Black Rock site. There will insufficient conventional resources available to meet these aspirations and alternative funding solutions will be sought. All of these projects will to a greater or lesser extent rely on enabling development and hence are considerably influenced by property values and above all residential house prices.

## **CAPITAL STRATEGY**

The City Council's Capital Strategy outlines the process for the prioritisation and evaluation of capital investment projects. The full updated strategy is attached at appendix 1.

A summary of this strategy is detailed below:-

- ◆ the pooling of all non-scheme specific capital resources and allocating to corporate priority areas of investment, taking into account the formula allocations included within the Single Capital Pot (Education, Housing, Personal Social Services and Transport).
- ◆ allocate at least £1m per annum to address the key capital strategic priorities of the council (the Strategic Investment Fund);
- ◆ allocate £0.5m per annum towards the Information and Communication Technology (ICT) Fund to address the problems of under-funding in central network support and improvements to the ICT infrastructure;
- ◆ allocate £0.5m per annum towards a Property Improvement Fund;
- ◆ generate capital receipts from the disposal of surplus or under-used assets for re-investment as identified through the Asset Management Plan (see below);
- ◆ proceeds from the sale of capital receipts will be used for reinvestment in the capital programme or used for debt repayment or investment, for example, to offset any loss of rental income in the revenue budget;
- ◆ explore all funding options including partnerships and bidding processes.
- ◆ ensure that capital resource allocations meet the objectives of the Area Investment Framework (AIF).

This Strategy allows the council to maximise current and future capital resource allocations. It also allows for the allocation of resources to address the key strategic issues of the council whilst at the same time providing funding to support the council's ICT and property infrastructure.

## **ASSET MANAGEMENT PLAN**

The demand for capital investment means it is essential that full value is achieved from the council's assets. The City's geographical location means that there are limited sites available for development and all possible options need exploring.

The key tool for determining whether an asset's contribution is being maximised is the Asset Management Plan and in particular the associated Property Performance Indicators.

Where the property PI's indicate that an asset is not achieving maximum value or service departments identify a property as surplus to requirements, and it is also not contributing effectively to the achievement of one of the council's strategic priorities, that asset will be marketed for sale. The sale proceeds, net of any amount required to cover rental income loss, will be pooled in the

Strategic Investment Fund, thereby helping to build up the capital “war chest” needed to support the City’s investment needs.

# revenue

## WHERE WE ARE NOW

The City's 2003/04 council tax of £1,074 is slightly below the national average. The increase in the City Council's element was 14.5%.

Government support increased by the minimum (floor) amount of 3.5% following the introduction of the new finance system. Savings of £6m were identified to bridge the gap between forecast spending and resources available.

## REVENUE RESOURCE PROSPECTS OVER THE MTF5 PERIOD

The medium term resource position for the City Council is extremely difficult. It is probable that government support will increase by the floor amount only for the next 4 or 5 years. This will mean that a combination of above inflation council tax increases and savings will be required to bridge the budget gap.

The City Council's plans for services therefore, will be developed against a reducing resource base providing a significant challenge for the authority.

The Government has not given details of what the floor increase will be beyond 2004/05. For 2004/05 the increase will be 4.1%. The Government's own spending plans for local authorities in general point to a reduction in the floor for future years. Furthermore, there could also be a tapering off of the floor protection. The floor increases for 2005/06 and 2006/07 are projected at 3% and 2.5% respectively.

The Government has stated that the current increases in council tax nationally are unsustainable. It retains reserve powers to cap local authority budgets and the Local Government Minister has stated that he is prepared to use targeted capping powers in 2004/05.

A high level review of the balance of funding of local authority expenditure is currently underway and is due to be completed in April 2004. It is uncertain at the time of writing what the outcome of the review will be and in particular whether there will be fundamental reform to the system.

In reality the City Council will require council tax increases significantly above the rate of inflation to make up for the loss in Government support.

## INCOME GENERATION

The 2003/04 general fund revenue budget includes over £67m of customer and client receipt income.

The Local Government Act gives local authorities more freedom to charge for discretionary services. The legislation allows for the recovery of costs for these services. A Working Group has been established to look at the potential this could have for the City Council although it is unlikely that any additional income generated will make a significant impact on overall resources.

The approach to income generation will vary according to the service provided. Special consideration will be required where charges could conflict with the City Council's anti-poverty strategy. On the other hand, where income is being generated on a commercial or trading basis, it is vital that an outwardly focused entrepreneurial attitude is encouraged to ensure that the City is making the most of these opportunities.

Charges should be meaningfully reviewed as part of the business planning cycle to ensure that they link with policy priorities.

## **EXPENDITURE PROJECTIONS OVER THE MTFS PERIOD**

The expenditure projections for 2003/04 to 2006/07 include a number of commitments and service pressures including;

- ◆ An allowance for pay awards of 3.0% per annum and for general inflation of 2.5% per annum.
- ◆ A commitment to passport FSS increases to schools to meet the Minimum Schools Budget Requirement.
- ◆ Provision for the revenue costs of the waste disposal PFI.
- ◆ Additional pension fund contributions.

Schools budgets are under considerable pressure. The funding shortfall for 2003/04 has necessitated the use of £3.5m of one-off funding. Although the Government has allocated transitional funding of £1.5m to help schools ultimately savings in schools budgets will be required.

The City Council will also face additional pressures in other areas for a number of reasons;

- ◆ New Government legislation and initiatives such as library standards, new licensing powers, abandoned vehicles and recycling targets.
- ◆ National and local economic factors which could have a major impact on income levels and other budgets.
- ◆ The on-going difficulties in children and adult social care.
- ◆ Increased demand for services.
- ◆ Meeting the priorities of the community strategy.
- ◆ On-going council initiatives such as the implementation of single status

## **REVENUE BUDGET STRATEGY 2003/04 TO 2006/07**

The tables in Annex 1 summarise the City Council's forecast expenditure and resource position over the MTFS period.

To address the forecast budget gaps, the City Council's will;

- Systematically review its services to ensure that resources are targeted at priority areas;
- Ensure that council tax increases are kept as low as is reasonably feasible whilst at the same time maintaining service levels wherever possible.

# reserves

## WHERE WE ARE NOW

The total of Brighton & Hove's general fund reserves and earmarked reserves in the 2002/03 accounts is £27.8m including schools' balances.

The total of unallocated general fund reserves is currently £8.0m including a working balance of £6.5m with the balance available to meet unforeseen expenditure and emergencies.

## WHAT WE SHOULD HAVE

The Chartered Institute of Public Finance and Accountancy has issued guidance on local authority reserves and balances. This sets out the criteria an authority would need to meet in order to be ranked as "good" in terms of its financial performance under the Audit Commission's Corporate Performance Assessment (CPA) regime. The City Council received a good score in its 2002 CPA for use of reserves (a score of 4 out of 4).

To comply with this minimum requirement the City Council should have unallocated general fund reserves of £9m.

This is the minimum requirement. The City Council has a considerable level of exposure to a number of financial risks and should consider further allocations above this level.

## RESERVES STRATEGY

The key objective is to have a level of financial reserves in line with at least the CIPFA minimum criteria by 31<sup>st</sup> March 2007. This will be achieved through a combination of;

- Planned contributions
- Year-end underspends
- Reallocations from earmarked reserves.

The budget strategy will include planned contributions to bring the level of reserves at least up to the guideline level.

Underspending may occur and these will partly be the consequence of robust budget monitoring and timely decision making to address problem areas. Any net year-end underspends should go to general reserves.

Regular reviews of earmarked reserves will take place over the financial strategy period to determine whether individual reserves are still required for the purpose originally intended. If not they will be transferred back to general reserves.

As part of the annual budget report Members will receive a full statement of reserves and their intended purpose along with any recommendations for reallocations.

## **housing revenue account**

### **WHERE WE ARE NOW**

A local authority's HRA must be in balance. This means that, in its financial planning, a local authority must show that income meets expenditure and as a consequence the HRA is viable.

In 2003/04 Housing Revenue Account expenditure is budgeted at £55.5m. Capital expenditure on housing stock for 2003/04 is forecast at £12.3m. The Council's overall housing Annual Capital Guideline reduced by £2.425m in 2003/04 from the 2002/03 position following a change in the way the ACG is calculated.

HRA balances are currently at the recommended level of £2.8m.

### **THE DECENT HOMES' STANDARD AND THE STOCK CONDITION SURVEY.**

The Government has issued a challenging performance framework for all social housing. This encompasses the management of its housing stock - rent collection, voids management, repairs response times etc - as well as the condition of the stock. The latter is covered by the Government's Decent Homes Standard. All social housing is expected to reach this standard by 2010 and one third by 2004.

The key issues when considering the HRA over the life of the MTFs are;

- Whether income from rents and subsidy over the period will be sufficient to maintain a viable HRA and achieve the Government's performance indicators and
- Whether sufficient capital resources will be available to bring and maintain the housing stock up to the Decent Homes Standard by 2010.

In May 2002, consultants Chapman Hendy carried out a housing stock options appraisal for the City Council. The report concluded that;

- The HRA is likely to remain viable based on the income assumptions in the business plan. However, performance targets will have to be achieved despite cost increases being kept to inflation only.
- A capital funding shortfall of £62m was forecast for the next ten years.

The report concluded that a new stock condition survey was required prior to decision making. This has been carried out by Savills who have concluded that 52% of the housing stock does not meet the Decent Homes Standard and most

of the rest could potentially be “non-decent” by 2010. Savills suggested that investment of about £177m would be required in the next 5 years to bring all properties up to a reasonable condition.

## **THE HRA BUSINESS PLAN AND THE HOUSING STOCK OPTIONS APPRAISAL**

The City Council has to produce an HRA Business Plan by spring 2004 setting out the plans for the next 30 years. This business plan will focus on the Decent Homes Standard and the options for the housing stock following the stock condition survey.

The options available for the stock are;

- Full or partial transfer of housing stock to housing association (Large Scale Voluntary Transfer)
- Arms Length Management Organisation (ALMO)
- Private Finance Initiative (PFI)
- Housing remains with the authority.

Consultants are being appointed to provide the financial modelling on the best stock options to feed into the business plan. A full and final appraisal following full tenants’ consultation has to be presented to Government by July 2005 with the proposed outcome.

## **IMPACT ON THE MTFS**

The final outcome of the options exercise could have a material effect on the Medium Term Financial Strategy. There could be a significant impact over a range of general fund costs such as housing benefits, financing costs and support service costs. No provision has been made in the estimates at this stage because of the uncertainties over the options.

## **risk and uncertainty**

The degree of risk and uncertainty contained within this financial strategy cannot be understated. Indeed, local authorities in the past have often taken the view that realistic resource and expenditure projections over the medium term are not possible to produce.

The financial system within which the City Council works is complex and highly sensitive to a range of variables. Factors that can have a material effect on the financial position of an authority include;

- The lack of any certainty in future years' Government support – a 1% change in external support equates to £1.8m;
- Changes in function;
- Changes in how services are funded;
- Changes in the economy;
- Changes in Members' priorities;
- Unmanaged service pressures;
- Decisions on council tax;

Risks to the finance strategy arise from both external and internal factors. External risks include, for example, Government policy decisions that have an adverse impact on the City Council. External risks are generally the most difficult to manage and plan for.

Internal risks can also arise for a number of reasons, such as cost overruns or changing priorities. They may also be influenced by external factors. It is vital to have adequate mechanisms to manage internal risks if financial stability is to be achieved.

There are a number of ways in which the effects of risks can be managed and these are set out in the risk assessment contained at annex 3. Furthermore, the City Council's key financial aims and objectives, detailed earlier in this document, aim to minimise the impact of some of the major financial risks and impact on the delivery of the City's key priorities.

# appendix 1 – capital strategy

## Introduction to the Brighton & Hove Capital Strategy

### THE CITY COUNCIL'S CAPITAL STRATEGIC AIMS

To deliver capital investment that supports the services local people and businesses need.

To consult all stakeholders and work with partners to use capital investment to support the City Council's values and priorities.

The Corporate Plan sets out the City Council's values and priorities.

The values, which provide a "compass" to set directions both in longer term planning and in shorter term decision making, are

- delivering high quality, cost effectiveness services;
- civic pride and local democracy;
- sustainability;
- inclusivity;
- working in partnership.

The City Council's 3 priorities, against which key deliverables are measured are;

- Developing a sustainable economy
- Public safety and respect for the built and natural environments
- Improving social well-being

These priorities have been used to structure activities up until 2007.

This capital strategy is a fundamental component of the City Council's Medium Term Financial Strategy which has been developed to support the key deliverables in the Corporate Plan.

## The city council's capital investment priorities

### THE CITY COUNCIL'S CAPITAL INVESTMENT AIMS AND GOALS

Delivering key investment projects underpins the City Council's strategic objectives. The aim is to maximise investment in Brighton & Hove to make it more attractive, build more homes, improve leisure and cultural facilities for residents and visitors, maintain the City's historic buildings and make the best use of community facilities, including schools.

The goal is to maximise investment in Brighton & Hove and complete key investment projects on time.

The key areas of capital investment within services are determined by the following-

**Housing** – The high level of housing need in Brighton & Hove arises from;

- the unavailability of affordable housing because of high rent levels and a buoyant rented market;
- high levels of street sleeping and households in temporary accommodation
- over 13,000 households living in unsuitable housing ;
- 10% of all private sector homes failing to meet fitness standards;
- a £177m identified requirement over the next 5 years to bring all council housing up to a reasonable condition.

The Housing Strategy sets out the direction of the Housing Investment Programme that involves in the order of £18m investment in housing provision to address these critical demands.

Capital investment in Housing over the next 3 – 5 years will be targeted to;

- increasing the supply of appropriate, affordable rented housing.
- reduce the use of temporary and bed and breakfast accommodation and cease for family use by March 2004.
- bringing the housing stock up to a decent standard.

The housing investment strategy is part of an integrated approach to addressing a range of corporate priorities such as;

- meeting life time standards and therefore help people to live independently within their home;
- improving community safety and reduce fear of crime;
- contributing to urban preservation;
- delivering a sustainable future through a range of energy efficiency improvements.

The Council has recently completed a stock condition survey of its Council Housing and is considering options for the future management of the housing stock.

The Council will maximise the resources available for housing by earmarking capital receipts from housing assets (excluding Right to Buy) for reinvestment in housing enabling and housing stock.

**Education** -The City Council's priorities are to ensure that every school is successful and improving; every individual has access to high-quality educational opportunities and every community is a learning community.

The Education Asset Management and Development plans form the basis for the investment in schools capital and acknowledges the importance of capital investment in encouraging and stimulating a learning environment thereby contributing to key educational outcomes. Total investment in schools buildings in 2003/04 is £11m.

Work has been completed on a PFI project for the extension of 4 schools, sports facilities for a school with specialist sports status, a library, a community centre and a school canteen with an estimated value of £27m.

Consultation on the possible closure of Comart is currently underway, the outcome of which is likely to have capital implications.

Key targets for capital investment in Education over the next 3 - 5 years are to;

- create another 500 secondary school places.
- reduce the schools outstanding repairs for works in condition category D by 50% and in category C by 25% by 2006.

Education capital however, does not exist in a vacuum and the City Council recognises the positive economic and social benefits arising from investment in education. Outside of schools capital the City Council has and will continue to invest in lifelong learning projects and in particular will harness the potential of community based ICT training. The new central library will also provide a state of the art and stimulating community learning environment.

**Personal Social Services** – A joint review of property with the Health Authority has been completed. The council and the new Primary Care Trust are now rationalising property and identifying requirements in conjunction with service reviews to ensure asset management decisions meet the future service needs.

A recently completed cross agency best value review of services for children, young people and families has identified recommendations for service improvements such as an integrated family support service across agencies. The capital implications of these recommendations will be considered through of the City Councils capital resource allocation process.

The council has secured Department of Health grant of £1.55m toward redesigning a resource centre for the elderly to provide intermediate care services in the future.

Key targets for capital investment in Adult Social Care over the next 3 - 5 years are to;

- Ensure that Adult Social Care properties are accessible to all and conform with the requirements of the DDA.
- Eradicate the backlog of programmed works.
- Substantially increase the number of additional respite places.

**Transport** – The Local Transport Plan sets out the City Council's capital investment priorities over the next 5 years. The main principles of the overall strategy are to improve safety for all road users, provide for and encourage increased use of public transport, walking and cycling as alternatives to the car and maintain roads, footways and bridges to a high standard.

Good progress has been made in investing capital in sustainable transport measures which focus on parking enforcement, bus priority measures and passenger information, pedestrian and cycle routes, and traffic calming. However, surveys have confirmed an overall deterioration of the road network, which needs arresting and reversing. The LTP currently indicates that at least £12 million is required to maintain A Roads and bridges/structures over the next five years.

Key targets for capital investment in Transport over the next 3 - 5 years are to;

- Eliminate the maintenance backlog on A roads and bridges / structures.

- Further extend the successfully implemented Decriminalisation of Parking Enforcement regime.
- Ensure that 100% of transport capital is spent as per target.
- Increase bus usage through measures such as creating clearer through routes in urban centres as included in the City Council's Local Public Service Agreement.

In line with the council's overall capital strategic aims, the transport strategy, Local Transport Plan and individual schemes have been and will continue to be subject to wide consultation with the community, when appropriate. The approach taken to the development of proposals in support of the DPE initiative is a good example of this.

**Culture & Regeneration** – The City Council's developing Cultural Strategy provides the focus for its activities and priorities in the future. The strategy will confirm the major redevelopment requirements for the City.

The delivery of key investment projects is a core priority outlined within the City's Regeneration Strategy published by the Brighton & Hove Regeneration Partnership. The strategy provides a framework within which the whole diversity of physical, social, economic and environmental regeneration activities across the City will be co-ordinated and managed.

The City Council has been successful in securing funding for a range of exciting major public and private sector projects;

- King Alfred Leisure Centre – selection of property developer Karis to deliver a landmark scheme (subject to planning permission) designed by world-renowned architect Frank Gehry. The scheme will provide a new £25m leisure centre and 438 residential units 175 of which will be affordable.
- Major refurbishment of the Dome complex – The Dome Concert Hall reopened in Feb 2002 following an extensive refurbishment that took 3 years and cost £22m. The scheme was facilitated through the transfer of the asset on long lease and funded from Arts Council lottery, SRB, private trusts and donations as well as £2.5 City Council funding.
- Brighton Museum and Art Gallery – Recently completed £10m scheme funded from Heritage Lottery Fund, SRB and private trusts.
- Brighton Jubilee Street redevelopment – The project comprises 2 integrated elements on the site. One is the provision of a new affordable central library funded through £13m PFI credits, and an associated mixed use residual land development project incorporating housing, retail, doctors surgery, workshops, office restaurants, Hotel and new public square.
- Improvements to the seafront – Extensive and comprehensive regeneration programme that started in 1993 continues with phase 7 in 2003-04 following agreement of £250,000 from the Strategic Investment Fund.

These developments will be permanent landmarks, shaping the look of the city in the future. In addition they will create wealth and opportunities to improve quality of life.

Further investment is required in a range of initiatives;

- The essential redevelopment of the Brighton Centre is a key and exciting opportunity for the city its partners in all sectors and regions
- The City Council is working with Brighton & Hove Albion Football Club on the development of a new community stadium at Falmer.
- The Brighton International Arena has been selected as the preferred developer for Black Rock.
- The process for selecting the preferred developer for Preston Barracks is underway with the objective of obtaining an exciting regenerating mixed development.

**Waste** – The City Council needs to provide a sustainable solution to waste disposal and to substantially improve recovery and recycling rates to meet future statutory targets. A joint PFI contract with East Sussex County Council and Onyx has been agreed.

**Planned Maintenance & the Property Investment Fund** –The majority of the £3m cash limited planned maintenance budget is centrally managed. The City Council has established a Property Investment Fund (PIF) of £500,000 per annum to increase resources for corporate property issues such as DDA and asbestos removal

**ICT Strategy** – The City Council has set aside £500,000 per annum for an ICT strategy fund which is subject to a separate bidding process. The fund has been established to ensure that the City Council is in a position to take advantage of the opportunities offered by ICT and respond to the challenges of e-government. Allocations from the fund are made through the cross-directorate ICT Strategy Group.

**Sustainability** - The City Council's Sustainability Strategy sets out the commitment to take action for a more sustainable future and is intended to provide a starting point for a Local Agenda 21 for Brighton and Hove. The Strategy identifies key objectives that will be incorporated into the evaluation process for considering allocations of capital resources.

**Equalities in Brighton & Hove** – Through consultation with its stakeholders, the City Council will incorporate the principles behind its equalities policy "Celebrating Diversity" in its capital priorities to ensure inclusion. The requirements of the DDA will be met as part of the drive to improve access to services. The City Council's Disabled Access Advisory Group is currently prioritising buildings to comply with the duty to remove physical barriers by 2004.

**Best Value** – The City Council's cross cutting approach to best value review links with the Local Public Service Agreement process of identifying specific targets and priorities. This is also integrated with priorities as part of the community strategy. The options for meeting any investment will be considered against the background of the City Council's priorities and the Asset Management Plan.

# the city council's capital investment regime

The aims of the City Council's capital investment regime

The City Council will aim to ensure that;

- All funding options are explored including partnerships and bidding processes.
- Capital investment proposals are prioritised in a structured and strategic manner and projects included in the capital investment programme are appraised as the most beneficial option available for meeting the identified needs and objectives.
- The recommendations of the procurement best value review are implemented to ensure best practice in procurement.
- All projects are monitored robustly during progress and evaluated at the end.

**Exploring Funding Options** – The City Council will explore with its partners the capital investment needs for the City and the options available for funding them.

These funding options include the City Council's own capital resources, Government bidding regimes (e.g. SRB & Lottery), European funding and private sector partnerships including the Private Finance initiative.

When making investment decisions however, regardless of funding, the City Council will ensure that any capital investment meets its priorities. PFI will be considered as a solution where it offers best value for money and is affordable. Given the high costs of project development associated with PFI this is unlikely to be for anything other than major multi-million pound proposals.

The City Council uses the property PI's and other information generated from the Asset Management Plan to determine if the utilisation of an asset is being optimised. Those assets not being used to optimum effect are considered for disposal, or other uses, taking into account the uniqueness of the portfolio in Brighton & Hove, any strategic implications of holding the asset and current market conditions. The proceeds from the sale of these assets will firstly be used for debt repayment or investment, to offset any loss of rental income in the revenue budget; any remaining resources will be reinvested in the capital programme.

**Prioritisation and evaluation of capital investment projects** – The council's capital resources are pooled in the Strategic Investment Fund (SIF) to ensure a strategic approach to resource allocation although the allocations through the formula element of the Single Capital Pot are expected to form the minimum allocation of resources in these priority areas.

However, the loss of revenue grant under the new Formula Spending Share system means that the financing costs of borrowing under the Single Capital

Pot may not be supported through additional grant. The City Council will have to look carefully at the affordability of capital investment in the light of its council tax strategy and other revenue expenditure priorities. The Government is currently consulting on the mechanism for supporting borrowing under the new Prudential capital system and the City Council's policy in this area will be kept under review.

Cross-service solutions are encouraged where they provide best value and the most effective way of meeting needs and objectives.

After Members and The Management Team have given initial steerage to the broad priority areas for investment, detailed bids, which must be supported by option appraisals, are worked up. Projects requesting capital investment over £100,000 should also be supported by a thorough economic appraisal and risk assessment. Proposals for spend to save projects will be considered on a case by case basis when determining affordable borrowing under the Prudential Code. For any such schemes the financing costs should be met from revenue savings.

The capital financing costs arising from capital investment will generally be met from the corporate financing costs budget whilst other revenue costs should normally be met from directorate budgets. The revenue implications of any proposed schemes must be fully costed and funded for the scheme to be considered.

**Procurement** - The City Council has completed a best value review of procurement and has appointed a Head of Procurement to ensure that best practice is observed and that effective measuring systems to implement procurement planning are implemented. The Council has also approved a new procurement strategy to help officers in the implementation of Best Value approaches to procurement and contracting to secure improvements in quality and reductions in cost. The City Council has developed a partnership contract to provide education facilities in line with Egan principles outlined in the report 'Rethinking Construction'.

**Monitoring and Evaluation of capital projects** Every quarter project managers report on their schemes to date and make predictions about future progress. A consolidated report is prepared for Members highlighting the financial and service implications of those projects not proceeding as originally forecast. The City Council has benchmarked its capital slippage with members of the CIPFA Accountancy Benchmarking Club and introduced the following performance indicator;

**The City Council will aim for its annual capital spend to be within 5% of budgetary total of the last reviewed capital programme**

If schemes are overspending above a threshold a report of explanation has to be produced for Members. A post scheme evaluation process will assess whether the capital investment delivered the service outputs and outcomes originally specified for the project as part of the SIF appraisal. Although this will formally take place at the end of a project, for those projects with a life of 3

years or more, on-going progress reports will be made during the project's development.

As part of the monitoring process resources from slipping schemes may be allocated to those projects where service outcomes can be delivered quicker and where schemes are included in the City Council's 3 to 5 year capital investment programme.

## working with partners

### The City Council's approach to partnership working

The City Council accepts that partnership working is essential for the maximisation of resources and to ensure that the most appropriate solution is found to meet capital investment needs. The City Council uses its own capital resources to influence partners to deliver these needs.

It will continue to develop its proven track record of working with other public and private sector partners.

Brighton & Hove City Council's long history of partnership working has enabled the development of a number of major capital investment projects through a range of traditional and innovative solutions.

The City Council will continue to work with private and public sector partners with the aim of achieving the optimum solutions to capital investment needs. The council's successful SRB bid to purchase the Preston Barracks site provides the opportunity to influence the development of the brownfield mixed use site to meet strategic priorities through the planned disposal to public and private sector partners to provide new business premises, starter units, social housing and academic facilities.

The Local Strategic Partnership (LSP) functions as an over-arching, strategic framework to co-ordinate and facilitate effective partnership work. It will have input into decisions on capital investment projects that will be incorporated into the community strategy as part of the community planning process.

Regional Partners	Key Partners for Major Projects	Other Partners
<ul style="list-style-type: none"> <li>• SEEDA</li> <li>• SEERA</li> <li>• GOSE</li> <li>• South East Arts</li> <li>• South East England Tourist Board</li> </ul>	<ul style="list-style-type: none"> <li>• Brighton Festival &amp; Heritage Lottery Fund (Dome / Museum)</li> <li>• East Sussex County Council (Waste)</li> <li>• Shoreham Port Authority, Adur District Council, West Sussex County Council, Sussex Enterprise (Shoreham Port)</li> <li>• Worthing Borough Council, Adur District Council, West Sussex County Council (Shoreham Airport)</li> <li>• St Modwen Property(</li> </ul>	<ul style="list-style-type: none"> <li>• Brighton &amp; Hove Chamber of Commerce</li> <li>• Housing Corporation</li> <li>• Voluntary Sector Forum</li> <li>• Area Based Partnerships e.g. Hangleton &amp; Knoll, East Brighton, Sure Start, Town Centre Business Partnerships</li> <li>• City Partnerships e.g. B&amp;H regeneration partnership, Responsible Authorities Partnership, New Deal Steering Group; Local Learning Partnership, Early</li> </ul>
<p><b>Strategic Local Partners</b></p> <ul style="list-style-type: none"> <li>• Local Strategic Partnership</li> <li>• Sussex Police</li> <li>• Employment Service</li> <li>• University of Sussex</li> <li>• University of Brighton</li> <li>• Primary Care Trust</li> <li>• Brighton &amp; Hove Economic</li> </ul>		

Partnership • EB4U	Brighton Racecourse/ West Pier) • Brighton & Hove Albion F.C. (Community Stadium) • Brighton International Arena (Black Rock)	Years & Partnership, Board for Health	Childcare for
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## consulting on capital investment

### The City Council's consultation aims

The City Council is committed to local participation and will continue to consult local people on the major capital investment decisions in the City in the most appropriate manner.

The council's priorities, which determine capital investment decisions, will reflect the outcome of the community planning process.

The City Council has a history of consulting with the community on the major capital investment decisions in the City. For example, a referendum was held to decide on the preferred site for the new community stadium in partnership with Brighton & Hove Albion F.C. For the development of the new central library and regeneration of Jubilee Street a Consultation Panel was set up, who managed the consultation process and acted in an advisory capacity on the public consultation exercise. This Panel comprised representatives from English Heritage, Commission for Architecture in the Built Environment, Library User Group and the Amenity Group (Brighton Society, Regency Society, Brighton Urban Design, North Laine Traders and North Laine Community). The City Council will continue this approach to consultation on major capital investment projects. The options for the redevelopment of the King Alfred Leisure Centre were subject to widespread consultation.

## appendix 2 - formula grant over the financial strategy period

The City Council's 2003/04 actual Formula Grant is £183.3m, which includes £12m of protection through the floors and ceiling mechanism.

### FORMULA SPENDING SHARE (FSS)

The FSS determines the level of an authority's Formula Grant. The City Council's 2003/04 FSS is £257.2m. 2003/04 is the first year of the new grant system and the Government has announced a freeze in the distribution methodology until 2006/07 which means that changes in FSS will be predominantly limited to data changes only. It is highly unlikely therefore, that the City Council's FSS will increase significantly over the financial strategy period. Indeed, the City's population position and the impact of other census data could have a negative effect on the FSS.

## NATIONAL INCREASES IN AGGREGATE EXTERNAL FINANCE AND FORMULA GRANT

For 2003/04 SR2002 includes an increase of 7.7% in External Aggregate Finance (AEF) for local authorities. AEF includes Formula Grant and specific and targeted grants. The increase in Formula Grant in the 2003/04 local government finance settlement is 5.9%. The difference between the increase in AEF and Formula Grant reflects the continuing trend in increasing specific and targeted grants and this trend needs to be taken into account in estimating future years' Formula Grant levels.

The prospects for AEF and Formula Grant after SR2002 are dependent on the national economic position. The projections include an assumption that the economic position after the SR2002 period will not be as favourable as during the period. This is based on the general consensus being reached by independent analysts that the Chancellor's current growth and borrowing targets are highly optimistic.

### GRANT FLOORS

Although pressed to do so by the Local Government Association and individual local authorities, the Government has not given any indication of future grant floor levels. For the purpose of the financial strategy, it has been assumed that the grant floor will fall below that for 2003/04 over the planning period. This is based on the following;

- ◆ The figures in SR2002 point towards a reduced level of AEF and hence Formula Grant in total.
- ◆ Grant floors are part of a self-contained system paid for by grant ceilings. Authorities who are currently seeing their grants constrained by the ceiling are likely to exert pressure to see a greater share of their calculated grant.
- ◆ Floors are transitional arrangements and Government may take the view that local authorities should be planning for reduced grant levels.

The level of the floor in 2003/04 is set at 3.5%. The figures in the Spending Review 2002 suggest that the floor in the years to 2005/06 will be less than this. The increase in the floor for 2004/05 is 4.1% but this includes a one-off allocation to help reduce council tax increases. An increase of 3.0% is included in the budget strategy for 2005/06.

The following table shows the assumptions about Formula Grant included in the budget strategy. The table shows that it is highly probable that the City Council's Formula Grant will be at the floor level only over the financial strategy period. Indeed, on trends, the City Council could only be receiving floor increases in grant for 2 or 3 years after the strategy period.

	SR2002 Period			
	Actual 2003/04	Provisional 2004/05	Projection 2005/06	Projection 2006/07

SR2002 AEF increase	7.7%	7.7%	6.9%	4.0%
Formula Grant increases	5.9%	5.5%	5.0%	2.5%
Grant Floor Increases	3.5%	4.1%	3.0%	2.0%
B&H Calculated Formula Grant (£m)	171.3	169.3	171.5	177.7
B&H Formula Grant at Floor increase (£m)	183.3	183.6	189.1	192.8
Grant Protection (£m)	12.0	14.3	17.6	15.1

The figures in SR2002 also point towards an implied council tax increase of about 6.2% per annum over the period. Actual authority council tax increases tend to be significantly above this figure.

## **appendix 3 - an assessment of the impact of council tax revaluation in brighton & hove**

The Local Government Bill 2002 includes provision for the introduction of a statutory 10 yearly council tax revaluation cycle for domestic properties with new valuations being used for council tax from April 2007. Thereafter, new valuations will have to be undertaken at least every 10 years. The council tax burden is distributed on the basis of up-to-date property values.

If the legislation is enacted in good time, work could start on the revaluations in 2005.

The Bill also provides for Government to introduce more valuation bands although it is uncertain whether this would be introduced for 2007.

Council tax currently uses 1991 property values. Nationally, there has been a 118% increase in property values since mid 1991<sup>1</sup>. The position in Brighton & Hove is a 148% increase. This differential between the national and local increase will have a significant effect for the City's council tax payers.

Strategic Finance has modelled the possible effects of the revaluation. This shows that the average council tax in Brighton & Hove could increase by 7% as a result of the revaluation.

### **BASIS OF THE ANALYSIS**

The modelling has been carried out on the same number of valuation bands as at present. The band values have been increased to reflect the national increase in property prices since 1991. For example, band d range is currently £68,000 to £88,000. These values have been increased to £149,000 to £192,000.

It has been assumed that property values within bands are distributed on a straight line basis. A threshold has then been calculated, based on the increase in Brighton & Hove property values over the period. The properties in each band for 2003/04 have then been reallocated to the new bands based on whether a property is above or below the threshold. If a property is below the threshold it remains in its current band, if above it moves into the next band. This allows a revised taxbase to be calculated. This in turn allows the amount of Formula Grant to be modelled.

The modelling shows that had the 2003/04 settlement been calculated using the new taxbase, the City Council would have received £7.3m less Formula Grant. It should be noted that this ignores the effect of grant floors and is based on the calculated level of grant rather than the actual level.

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<sup>1</sup> Source: Nationwide Building Society

The average council tax<sup>2</sup> in Brighton & Hove before taking into account the grant floor protection<sup>3</sup> would increase from £956 to £1,026, an increase of £70 (7.3%).

The Government does have the option of putting in place transitional arrangements. However, it would have to consider this in the context of the overall amount of support to local authorities. Furthermore, as discussed previously, the City Council's grant increases are still likely to be at the floor level when the new revaluation system comes into effect.

The following table sets out the calculation;

	<b>2003/04 Original</b>	<b>Revaluation</b>	<b>Difference</b>
FSS (£;000)	257,220	257,220	-
Taxbase (£)	91,113	98,759	7,646
Assumed National Council Tax (£)	1037.46	1037.46	-
Share of ANCT	0.91508086	0.91508086	-
Assumed Income from ANCT (£'000)	86,499	93,758	7,259
Business Rate (NNDR) (£'000)	75,146	75,146	-
Revenue Support Grant (Before Floor) (£'000)	95,575	88,316	- 7,259
Total Formula Grant (£'000)	170,721	163,462	- 7,259
Budget Requirement (£'000)	270863	270863	-
Formula Grant (Before Floor) (£'000)	170,721	163,462	- 7,259
B&H Council Tax Required (£'000) *	100,142	107,401	7,259
Police Precept (£'000)	8,687	9,317	630
Number of dwellings	113,805.	113,805	-
Average Council Tax (£)	956	1,026	70
* For modelling purposes, the total council tax requirement ignores the impact of grant floors and hence this figure is higher than the actual council tax requirement			

<sup>2</sup> Average council tax = Total tax requirement / Number of chargeable dwellings

<sup>3</sup> Average council tax in 2003/04 after floor protection is £839.

# appendix 4 – service prioritisation in the budget strategy

## Priority 1 – Developing a Prosperous and Sustainable Economy

This is the area with the greatest number and variety of initiatives identified within the Corporate Plan. However, the financial strategy assumes that wherever possible these are funded by diverting existing resources into priority areas or by leveraging in funding from external sources.

Area of spend	Assessment of current spend	Financial impact of this strategy	Impact on Delivery of the Corporate Plan
Major infrastructure projects	Significant investment already undertaken or underway primarily using non-conventional funding streams.	Further significant internal capital resources required and revenue support.	The aspirations in the Corporate Plan cannot be delivered solely by the Council's own resources. The Area Investment Framework will be the key tool for identifying the resource requirements and funding options.
Sustainable transport	The Council spends £9 million revenue on transport including highways, support for public transport & transport planning. This is partly offset by £3.7million parking income.  Capital spend on Local Transport Plan schemes is £6.8m in 2003/04.	Significant investment required to meet aspirations for sustainable and rapid transport systems for the City.	The aspirations in the Corporate Plan cannot be delivered solely by the Council's own resources. The Area Investment Framework will be the key tool for identifying the resource requirements and funding options.
Tourism	Spend in 2003/04 £2.4m.	Assumed continued spending at current levels subject to prioritisation decisions over the course of the strategy.	Outcomes closely linked to progress of major infrastructure projects.

<b>Area of spend</b>	<b>Assessment of current spend</b>	<b>Financial impact of this strategy</b>	<b>Impact on Delivery of the Corporate Plan</b>
Skills / low wages	2003/04 spend on economic development £3.2m.	Assumed continued spending at current levels subject to prioritisation decisions over the course of the strategy.	Outcomes closely linked to progress of major infrastructure projects.

## **Priority 2 – Liveability (improving quality of life in the city)**

This is an area consistently raised as a priority by members of the public. It is assumed within the financial strategy that the deliverables will be achieved either through calls on the Strategic Priorities Fund (SPF) or through shifts in existing resources.

<b>Area of spend</b>	<b>Assessment of current spend</b>	<b>Financial impact of this strategy</b>	<b>Impact on Delivery of the Corporate Plan</b>
Waste, street cleaning and recycling	Street Cleaning £5m per annum. Waste Collection £7.3m per annum.	Some additional investment in recycling and waste disposal as a result of the PFI. Further investment in recycling to be generated by savings in waste collection and street cleansing.	Recycling targets will only be achieved through significant savings elsewhere in the service through redesign.
Parks and Green Spaces	£5.4m in 2003/04	Outcome of grounds maintenance retendering unknown at time of writing.	The key deliverables other than the commencement of the new grounds maintenance contract will only be delivered through realisation of savings or use of the Strategic Priorities Fund.
Public Safety	Spend is predominantly carried out by other agencies.	No additional internal resources.	The deliverables in the Corporate Plan will require partnership working with other agencies and use of government grant funding.

## **Priority 3 – Social Well Being and caring for vulnerable people**

This is one of the areas of greatest financial risk to the Council's revenue budget position and this is reflected in the levels of projected spend on

financial risk in this strategy. The key areas of spend contributing to this priority are set out below describing the impact of this strategy on the resource base.

<b>Area of spend</b>	<b>Assessment of current spend</b>	<b>Financial impact of this strategy</b>	<b>Impact on Delivery of the Corporate Plan</b>
<b>Adult Social Care</b>	Spend in 2003/04 (before specific Government grant) £59m.	This service has a history of needing additional resources in line with national trends despite efforts made to contain spending.  This is a significant risk budget within the MTFS.	Delivering the LPSA target relating to independent living for older people requires significant resource shift and the development of new services, for example intermediate care.  Some additional investment is anticipated but the development of new commissioning strategies and the reduction in the elderly population means that this area should ultimately stabilise.
<b>Housing</b>	Lack of affordable housing impacts on recruitment and retention of staff across all service areas and directly on the homelessness budget where spend is 318% above the unitary average and 35% above England average.	Assumed continued spending at current levels.  However, budget remains high risk to MTFS because of its demand led nature.	Funding for the development of affordable housing is identified in the capital strategy from HIP, HRA capital receipts as part of the Local Plan policy.  Stabilisation of spend on homelessness is expected as a result of preventative measures including those funded by government grant.

## **Priority 4 – Thriving 14 year olds able to participate in the life of the city**

This is the other area of greatest financial risk to the Council's revenue budget position and this is reflected in the levels of projected spend on financial risk in this strategy. The key areas of spend contributing to this priority are set out below describing the impact of this strategy on the resource base.

<b>Area of spend</b>	<b>Assessment of current spend</b>	<b>Financial impact of this strategy</b>	<b>Impact on Delivery of the Corporate Plan</b>
<b>Children's Social Care</b>	Spend in 2003/04 (before specific Government grant) £23.7m.	This service has a history of needing additional resources in line with national trends despite efforts made to contain spending.  This is a significant risk budget within the MTFs.	Additional investment is required to develop preventative services and to ensure we keep children safe.  In the longer term the preventative strategies and the new approach to commissioning through the Children's Trust aim to reduce numbers of Looked After Children and therefore overall spend.
<b>Schools</b>	Individual Schools Budgets £78.6m in 2003/04.  An estimated £3.5m one off funding used by schools in 2003/04 which require planned expenditure reductions by schools from 2004/05.	Per pupil increases built into projections to meet the Minimum Schools Budget Requirement. Schools will need to undertake careful financial planning to ensure that balanced budgets can be achieved.	The Council will continue its commitment to passporting of Education funding in support of the key deliverables for educational attainment.
<b>Childcare</b>	2003/04 spend £7.1m on pre-school education. Government childcare grant received of £2.1m.	Assumed continued spending at current levels subject to prioritisation decisions over the course of the strategy.	The Corporate Plan key deliverables require continued use of external funding sources or resource shifts internally.

## **Impact on the financial projections**

The overall financial projections included in this strategy at annex 1 incorporate all of the above. However the exact profile of annual investment in each of the above areas will be determined on the basis of the most recent cost and demand data, and the level of savings identified in non-priority areas.

# **annex 1 financial projections 2003/04 to 2007/08**

***NOTE***

*These will be available following agreement of the 2004/05 revenue budget, council tax and capital programme*

## **annex 2 directorate plans**

***NOTE***

*These will be available following agreement of the 2004/05 revenue budget, council tax and capital programme*

# **annex 3 financial strategy risk assessment**

Risk	Probability of occurrence (H/M/L)	Scale of Impact	Possible Impact on Financial Strategy	Mitigation / Management
<b>External risks</b>				
Grant floor lower than expected	M	1% difference = £1.83m	<ul style="list-style-type: none"> <li>• Pressure on services and/or council tax</li> </ul>	<ul style="list-style-type: none"> <li>• Lobbying for resources.</li> <li>• Advanced Planning.</li> </ul>
Changes in specific grants	H - M	?	<ul style="list-style-type: none"> <li>• Loss of resources.</li> <li>• Switch to general grant funding may result in resource shortfall.</li> </ul>	<ul style="list-style-type: none"> <li>• Identify “at risk” grants.</li> <li>• As far as possible ensure that “at risk” grants do not cover on-going expenditure.</li> <li>• Lobby Government on impact</li> </ul>
General economic downturn	M	1% of external support = £1.83m 1% of council tax = £870k	<ul style="list-style-type: none"> <li>• Reductions in Government spending leading to cutbacks in Local Government resources.</li> <li>• More stringent use of capping powers as Government forces local authorities into “belt tightening”.</li> </ul>	<ul style="list-style-type: none"> <li>• Build up reserves to use to mitigate short term problems.</li> <li>• Plan for expenditure reductions</li> </ul>
Local economic downturn	M	Unknown but could be several £m as some major budgets could be affected.	<ul style="list-style-type: none"> <li>• Increases in “economy driven” costs such as HB payments and homelessness</li> <li>• Income shortfalls, e.g; commercial rents, land charges, planning fees.</li> </ul>	<ul style="list-style-type: none"> <li>• Build up reserves to use to mitigate short term problems.</li> <li>• Plan for expenditure reductions</li> <li>• Prudent budgeting to ensure that obvious windfalls are not built into base budget.</li> <li>• Staff flexibility in vulnerable areas</li> </ul>
New Prudential Regime reduces	M	1% of borrowing	<ul style="list-style-type: none"> <li>• Unable to meet capital</li> </ul>	<ul style="list-style-type: none"> <li>• Consider alternative investment</li> </ul>

<b>Risk</b>	<b>Probability of occurrence (H/M/L)</b>	<b>Scale of Impact</b>	<b>Possible Impact on Financial Strategy</b>	<b>Mitigation / Management</b>
capital resources available		= £120k	investment needs	strategies
Government uses reserve capping powers to restrict future council tax increases	H - M	Each 1% of council tax raises £870k	<ul style="list-style-type: none"> <li>Budget cuts to replace council tax revenue.</li> <li>Risk to schools passporting</li> </ul>	<ul style="list-style-type: none"> <li>Make Government aware of impact on B&amp;H and lobby against powers being used.</li> <li>Carry out effective consultation</li> <li>Ensure cost effective budgeting.</li> <li>Plan for savings.</li> <li>Short term use of reserves.</li> </ul>
Major civil incident e.g. flood	M	0.2% of net budget (£500k) "Bellwin" threshold	<ul style="list-style-type: none"> <li>Budget overspend</li> <li>Pressures on other budgets</li> </ul>	<ul style="list-style-type: none"> <li>Ensure adequate levels of reserves to cover threshold expenditure</li> </ul>
Education floor lower than anticipated	H - M	1% of schools budgets = £1m	<ul style="list-style-type: none"> <li>Pressure to increase schools funding leading to pressures on other budgets/council tax.</li> </ul>	<ul style="list-style-type: none"> <li>Make Government aware of impact and lobby</li> <li>Consultation with schools</li> </ul>
New census data results in lower FSS	H - M	1% of External Support - £1.83m but depends on decisions on grant floor.	<ul style="list-style-type: none"> <li>Possible loss of grant.</li> <li>Council stays at grant floor longer.</li> <li>Pressure on council tax or expenditure reductions</li> </ul>	<ul style="list-style-type: none"> <li>Lobby for higher grant floors and longer retention</li> </ul>
Schools passport not properly reflected in grant floor	M	1% of schools budgets = £1m	<ul style="list-style-type: none"> <li>Pressure to increase schools funding leading to pressures on other budgets/council tax.</li> </ul>	<ul style="list-style-type: none"> <li>Make Government aware of impact and lobby</li> <li>Consultation with schools</li> </ul>

Risk	Probability of occurrence (H/M/L)	Scale of Impact	Possible Impact on Financial Strategy	Mitigation / Management
<b>Internal risks</b>				
Unplanned spending required to meet Member priorities at short notice	H	Unknown	<ul style="list-style-type: none"> <li>Possible cuts in other budgets</li> <li>Non-achievement of core programmes</li> <li>Impact on council tax</li> </ul>	<ul style="list-style-type: none"> <li>Ensure flexibility in revenue budgeting through inclusion of Strategic Priorities Fund in expenditure planning.</li> <li>Availability of Strategic Investment Fund for capital expenditure.</li> </ul>
Budget overspends due to; <ul style="list-style-type: none"> <li>Increased service demand</li> <li>Price variations</li> <li>Unachieved income levels</li> </ul>	H - M	1% overspend on GF budget = £2.8m in 2003/04	<ul style="list-style-type: none"> <li>Departmental service pressures that can only be met through additional resources or cuts elsewhere.</li> <li>Impact on reserves.</li> </ul>	<ul style="list-style-type: none"> <li>Identify corporate critical budgets and put in place intensive monitoring regimes.</li> <li>Apply strict cash limits whilst at the same time meeting statutory responsibilities.</li> <li>Identify possible allies or LGA and join together to lobby Government.</li> </ul>
Cost overruns on major projects	H - M	Unknown but 1% overspend on say new Leisure Centre at King Alfred about £300k	<ul style="list-style-type: none"> <li>Reserves or other capital resources redirected to fund overspend</li> <li>Unable to meet capital investment needs</li> </ul>	<ul style="list-style-type: none"> <li>Risk transfer to partners as far as possible</li> <li>Effective cost control and expenditure monitoring</li> </ul>
Council Tax collection rate falls, perhaps following higher	M	£870k per 1% of council tax	<ul style="list-style-type: none"> <li>Deficit on collection fund</li> <li>Increased future council tax</li> </ul>	<ul style="list-style-type: none"> <li>Robust collection</li> </ul>

Risk	Probability of occurrence (H/M/L)	Scale of Impact	Possible Impact on Financial Strategy	Mitigation / Management
increases				
Cashflow position deteriorates	M - L	1% of net financing costs budget = £100k	<ul style="list-style-type: none"> <li>• Overspend on budget leading to pressures on other services</li> </ul>	<ul style="list-style-type: none"> <li>• Effective Treasury Management</li> <li>• Effective cash collection management</li> </ul>