POLICY, RESOURCES & GROWTH COMMITTEE	Agenda Item 9 Brighton & Hove City Council

Subject:		**Revenue & Capital Budget Planning and Resources Update 2018/19**		
Date of Meeting:		**13 July 2017**		
Report of:		**Executive Director for Finance & Resources**		
Contact Officer:	**Name:**	**Nigel Manvell** **James Hengeveld**	**Tel:**	**01273 293104** **01273 291242**
	Email:	**nigel.manvell@brighton-hove.gov.uk** **james.hengeveld@brighton-hove.gov.uk**		
Ward(s) affected:		**All**		

Note: The special circumstances for non-compliance with Council Procedure Rule 3, Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 (as amended), (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that key financial information needed to support the revised Medium Term Financial Strategy projections, including the Month 2 Targeted Budget Management, position were not available in time to meet the statutory reporting deadline.

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT:

1.1 This report provides a budget planning and resource update for the 2018/19 budget process including an updated Medium Term Financial Strategy (MTFS) based on latest information and resource projections.

1.2 The government's 4-year settlement offer in 2015 confirmed the continuation of deficit reduction measures up to 2019/20 and indicated that Revenue Support Grant (RSG) would reduce in total by £39.574million over the 4-year period. The reduction of grant in 2018/19 will be £7.474million resulting in a grant of £14.144 million. This will reduce by a further £7.621million in 2019/20 resulting in a grant of £6.523 million. At this time, it is not clear what will happen to the remaining grant after that. Taking projected resources alongside estimated cost and demand increases, and RSG and other grant reductions, further savings requirements of around £21.464 million are anticipated over the next 2 years, with £11.615 million of this being required in 2018/19.

1.3 The local government finance settlement is not normally made available until December each year, which provides little time to alter financial planning assumptions. Therefore, if possible, budget planning will attempt to allow for some flexibility to manage any adverse fluctuation in resources.

1.4 Last year, the 4-Year Integrated Service & Financial Plan (ISFP) approach continued for a second year in support of a longer term approach to planning and to assist in managing the scale of the financial challenge. Over £40 million savings have been identified and implemented through the 4-year ISFP planning process in the last two years. These plans also identified further savings of £11.5 million for 2018/19 and

£7.2 million for 2019/20. The proposals for these two years are currently being refreshed to ensure they are consistent with decisions made by budget council in February and are still achievable. 4-Year ISFPs will not go beyond 2019/20 as there is considerable uncertainty concerning local government finance from 2020/21 onwards, including business rate retention and the longer term funding of social care. The Medium Term Financial Strategy will however provide a high level resource projection up to 2021/22 and will be updated to include known assumptions, commitments and resources as far as is sensible to do so.

2. RECOMMENDATIONS:

That the Policy, Resources & Growth Committee:

2.1 Note the resource and net expenditure projections for 2018/19 and the Medium Term Financial Strategy (MTFS) projections set out in the body of the report and appendices 1 and 2 based on annual 1.99% Council Tax increases and a 3% Adult Social Care precept in 2018/19 only.

2.2 Note the revised savings requirement of £21.5 million over the 2 years 2018/19 to 2019/20, including £11.6 million in 2018/19, to be used for budget setting purposes as detailed at paragraph 3.49.

2.3 Instruct the Executive Leadership Team (ELT) to refresh the current 4 Year Service & Financial Plans and develop further savings proposals to address any outstanding budget gaps for 2018/19 and 2019/20, based on the MTFS assumptions in this report for consideration by Policy, Resources & Growth Committee.

2.4 Agree the proposed approach to reviewing the Council Tax Reduction Scheme as set out in paragraphs 3.18 to 3.20.

2.5 Note the resource projections for the Capital Investment Programme as shown in appendix 3.

3. CONTEXT/ BACKGROUND INFORMATION

4-Year Integrated Service & Financial Planning

3.1 The 2017/18 Budget Council meeting in February 2017 included updated 4-Year Integrated Service & Financial Plans (ISFPs) that covered the second year of the plans setting out detailed savings proposals for 2017/18 together with anticipated savings for 2018/19 and 2019/20. This planning process will continue with the 4-Year ISFPs continuing to contain proposals up to 2019/20 but not beyond as the level of uncertainty over local government finance from 2020/21 makes detailed planning into this period too unpredictable. However high level resource projections will be made up to 2021/22 for planning purposes.

3.2 At the start of the 4-year planning process in 2016/17, a budget gap of approximately £68 million was predicted over the 4 years. The primary drivers were reducing government grant support, projected growth in service demands (mainly for social care and homelessness), and cost increases arising through inflation and the impact of statutory requirements such as the increasing National Living Wage. Now in the third year of the 4-year planning period, over £40 million savings have been identified and implemented toward closing the budget gap. The 4-Year ISFPs also identified £11.536 million savings for 2018/19 and £7.241 million savings in 2019/20, which together with updated resource projections, including improved Council Tax yield, may enable the budget gap to be closed. However, as before, the 4-Year ISFPs will need to be refreshed and 'stress tested' to ensure that the proposals that remain are deliverable in the context of current service demands and statutory requirements.

3.3 The 2018/19 budget and savings package will continue to be supported by the approach outlined in the council's Efficiency Plan developed in 2016/17 and submitted as part of the application process for the government's 4-year deal. In summary, this includes the following approaches:

- Modernisation of services including exploring different models of service delivery to improve efficiency, value for money, and outcomes for residents, including developing accessible digital services where appropriate. Where it is decided to retain council services, they will be redesigned and benchmarked to ensure costs are appropriate, and that management and administrative costs are continually challenged.

- Exploring innovative solutions including commercial opportunities for self-financing through income generation, while continuing to ensure non-statutory fees and charges fully recover costs, and that procurement and contract management activity continues to drive value across the £300 million spent on services provided by third parties.

Supporting modernisation, savings programmes and other innovation will therefore continue to require significant one-off investment which has previously been identified and agreed and will be funded by utilising the capital receipt flexibilities allowed by the government as part of the 4-year deal as detailed in paragraph 3.62 below.

3.4 In terms of taxation strategy, current resource projections are based on annual Council Tax increases of 1.99%, together with an additional 3% increase for the Adult Social Care precept allowable in 2018/19 only. More information on Council Tax is provided in paragraph 3.21 below.

3.5 The 4-Year ISFPs were developed to align with the priorities and approach set out in the 2017/18 budget strategy which focused on:

- Getting basic services right and making the city an enjoyable place to live and work;

- Protecting provision for vulnerable people as the city's population grows and the cost of care rises;

- Supporting economic growth and regeneration that benefits everyone.

3.6 This approach will be developed and may be used to underpin the development of draft proposals which will be brought forward for consideration at Policy, Resources & Growth Committee in November 2017.

Timetable

3.7 The Timetable for budget papers is given below. This timetable does not include detailed plans for ongoing consultation with stakeholders as this will be determined in conjunction with the services involved.

Date	Meeting	Papers / Activities
12 Oct 2017	Policy, Resources & Growth	TBM Month 5
30 Nov 2017	Policy, Resources & Growth	Budget Update including Service and Financial Plans TBM Month 7 Council Tax Reduction Scheme 2018/19
14 Dec 2017	Council	Council Tax Reduction Scheme 2018/19
25 Jan 2018	Policy, Resources & Growth	Council tax base Business Rates tax base
8 Feb 2018	Policy, Resources & Growth	TBM Month 9 Revenue, Capital and HRA budget reports
22 Feb 2018	Budget Council	Revenue, Capital and HRA budget reports

Medium Term Financial Strategy Update 2017/18 to 2021/22

The Medium Term Financial Strategy (MTFS) has been updated since the Budget Report presented to Policy, Resources and Growth Committee in February 2017 taking into account revised assumptions. Summary MTFS tables are included in appendix 2. More detailed information and context about the council's General Fund financial position is provided in the following paragraphs.2016/17 Outturn

3.8 The 2016/17 provisional outturn was presented to Policy, Resources & Growth Committee on 4th May 2017 and showed an underspend of £1.350 million. This was an improvement of £0.812m from the estimated outturn at Month 9. Of the £0.812 million, £0.170m was needed to fund the part year effect of budget amendments agreed at budget council. Proposals for the remaining £0.642 million are detailed in Targeted Budget Management (TBM) Month 2 report elsewhere on this agenda.

2017/18 Budget Position

3.9 Details of the forecast risk based on current spending and demand patterns in the first 2 months of the year is provided in the TBM report. It shows an overall forecast risk for the General Fund of £1.375 million including a break-even position in relation to Section 75 Health Partnerships. The forecast risk at Month 2 is therefore manageable in the context of available risk provisions, and as this is early in the financial year, there would be sufficient time to take corrective action should further problems emerge.

In year Budget Changes

3.10 The TBM outturn report 2016/17 tabled in May, and the TBM Month 2 report refer to the release of £0.250 million recurrent resources as a result of agreeing fixed deals for concessionary bus travel. The retender of supported bus routes has highlighted the need for additional resources to protect bus routes and it proposed to allocate £0.150 million of the released resources to fund these additional costs on a recurrent basis. Allocation of the remaining £0.100m has proposed on a one off-basis.

3.11 The TBM Month 2 report references a number of other one-off funding proposals including ward member budgets, support for members, parks and playgrounds, homelessness and domestic violence. These allocations will also be considered for recurrent funding as part of the 2018/19 budget setting process alongside the remaining £0.100 million released from the concessionary bus travel budget.

Queens Speech – 100% retention of business rates

3.12 The Queens Speech on the 21st June 2017 set out the government's agenda for the next 2 years of Parliament. The speech did not include the reintroduction of the Local Government Finance Bill which would have included a move to 100% retention of business rates that was previously planned for introduction in 2019/20. During parliamentary debate, the government stated it is 'committed to allowing local government to keep more of the money it raises locally and will work with local government to achieve that'. At the time of writing this report there is no detail available on any proposals which adds a greater level of uncertainty for local government funding beyond the current 4 year deal period to 2019/20.

3.13 This development does not impact on the Fair Funding Review of the needs assessment formula which does not require legislation. The Review will consider how the relative needs and resources of local authorities should be assessed in an environment where local government spending is increasingly driven by local resources, not central grant, and will re-examine the factors that drive costs. The original timetable for consultation was summer 2018 and there have been no announcements to indicate any change to this.

Government 4 Year Financial Settlement offer

3.14 As part of the provisional local government settlement announced on the 17 December 2015, the Secretary of State for Communities and Local Government announced a 4-year funding offer for local authorities for the period 2016/17 to 2019/20. The settlement provided indicative resources over the period and the offer is to provide these resources as minimum funding levels, however, the government has stated it could amend the offer depending on the national financial position as well as changes to responsibilities of local authorities. The allocations of funding for 2016/17 and 2017/18 were in line with the four year deal and financial projections will be based on the indicative allocations for the remaining two years.

Business Rates

Revaluation

3.15 Business Rates were revalued from 2017 for the first time since 2010 and the new rating list applies from 1 April 2017. The revaluation is fiscally neutral nationally but caused significant distributional change among local authorities which was dealt with by changes to the top-up and tariffs mechanism. This adjustment was based on the draft 2017 list and therefore will need to be updated to account for the final compiled list as at 1 April 2017. A number of high value rateable values reduced significantly between the draft and final list and the council expects to be compensated for this loss of revenue by adjusting its tariff. The government is yet to confirm this adjustment.

Business Rates estimate for 2018/19

3.16 The projected business rates taxbase for 2018/19 remains unchanged from the assumptions reported to Budget Council in February 2017 other than adjusting for the Office of Budget Responsibility's inflation forecasts. This has resulted in an increase in the share of projected business rates of £0.385 million, however this increase impacts on the council as a business rate payer and an element of the service pressure funding is earmarked to cover this additional cost for the General Fund. This will also impact on schools and Housing Revenue Account business rates.

3.17 Business Rates forecasts continue to be an area of financial risk. The 2017 revaluation introduced a new wave of business rates appeals which are difficult to predict and therefore the assumptions used for the February 2017 budget report remain unchanged. In addition, the government announced a range of small business rates reliefs and threshold changes, and there remains some uncertainty over how the government will compensate councils for these changes.

Council Tax

Council Tax Reduction Scheme

3.18 The council's localised Council Tax Reduction Scheme (CTRS) for 2017/18 was agreed by Council in December 2016 and included a number of changes while maintaining a discount of up to 80% on Council Tax for working age claimants, meaning a 20% minimum liability level.

3.19 The annual review of the scheme requires consultation commensurate with the significance of any changes proposed. Potential options are currently being developed and the statutory annual review of the scheme will be presented to this committee in November 2017 and then to full Council to agree the final scheme for 2018/19 including consideration of the minimum liability level. The council also intends to continue to operate a discretionary fund. Council Tax payers in particularly difficult financial circumstances are invited to apply for the discretionary funds provided for in the budget and/or are referred to appropriate support and advice.

3.20 The council has experienced ongoing reductions in the number of CTRS claimants for both working age and pensionable age averaging about 5% in recent years. This reduction is assumed to continue into 2018/19 and the Council Tax taxbase projections will be adjusted accordingly. The number of CTRS claimants will fluctuate with economic conditions and the assumption of reducing numbers will be kept under close review.

Council Tax Estimate 2018/19

3.21 The council tax increase for 2018/19 is 4.99% which incorporates 3% for the Adult Social Care precept. The underlying taxbase was previously assumed to grow by a net 0.5% in relation to new properties and changes to discounts and exemptions. Following a number of years of the Council Tax Collection Fund being in surplus it has been identified that the collection rate percentage can be increased from 98.33% to 99.00%. This change increases the projected Council Tax income in 2018/19 by £0.850 million of which £0.063 millon relates to the Adult Social Care Precept and £0.057 million is already built into the savings proposals for 2018/19.

Government Grants

Revenue Support Grant (RSG)

3.22 The government included indicative RSG allocations for 2018/19 and 2019/20 alongside the 2017/18 settlement. These allocations have been included in the MTFS. The indicative allocation for 2018/19 is £14.144 million, a reduction of £7.474m million or 35% compared with 2017/18.

Better Care Funding

3.23 Better Care funding provided through the Clinical Commissioning Group (CCG) will continue into 2018/19 at broadly the same level as 2017/18. The Better Care Fund is estimated at £20.233 million of which £6.141 million will be for ‘protecting adult social care’. The Better Care Plan for 2017/18 is due to be reported to the Health & Wellbeing Board in September 2017.

3.24 In addition, the government confirmed within its four year settlement offer, £1.5 billion additional funding for authorities to meet pressures on Adult Social Care through to 2019/20, to be included in an Improved Better Care Fund (iBCF). This additional recurrent funding is passed directly to authorities through a separate grant that takes into account each council's ability to raise resources through council tax. The allocations to this council are £3.188 million in 2018/19 and £6.220 million in 2019/20. This Improved Better Care Funding is separate from the original Better Care Fund that is pooled with local health partners, however both will support integrated working through the Caring Together initiative for Brighton and Hove.

3.25 A one-off Adult Social Care grant of £1.234 million was also announced for 2017/18. This was treated as a recurrent resource in setting the 2017/18 budget as new iBCF resources would replace this in 2018/19. Therefore the iBCF in 2018/19 of £3.188 million will result in a net increase of £1.954 million resources.

3.26 After the 2017/18 budget was approved by Council in February, government also made a further Spring Budget announcement providing additional Improved Better Care Fund resources from 2017/18 to 2019/20. The funding will be paid to local authorities but must be added to the Better Care Fund pool and its deployment must be jointly agreed with the Clinical Commissioning Group. The government have issued guidance regarding its use which is consistent with previous guidance for allocation of the Better Care Fund. The amounts to be received by this authority are £5.093 million in 2017/18, £3.483 million in 2018/19 and £1.733 million in 2019/20. Clearly, using these additional resources to support ongoing expenditure could create a budget gap by 2020/21 if the funding were not replaced by alternative resources.

New Homes Bonus (NHB)

3.27 The government introduced a threshold whereby 0.4% growth in housing stock per annum must be achieved before any NHB grant is awarded for any year. In addition to this, the reward has been reduced from 5 years to 4 years from 2018/19. The latest projections are that the growth in housing stock will fall just short of the 0.4% threshold during 2017/18 and therefore an award of NHB in 2018/19 cannot be relied on. The total NHB grant forecast for 2018/19 has therefore been decreased to £2.991million, a reduction in resources of £0.541million from the amount previously included in the MTFS. The actual housing stock figures will be known in time for the November committee report on the budget and an update will be given then. Each year the government also distributes unallocated NHB funding; in 2017/18 the council received £0.133 million but no assumption has been made for 2018/19 at this stage. Any resources from this grant will be treated as one-off.

Other grant changes

3.28 The Department of Health have provided indicative allocations at a national level for the Public Health grant in 2018/19 which is a reduction of 2.6%. This would result in in a grant of £20.090 million for the council.

3.29 The Flexible Homelessness Support grant replaced the Temporary Accommodation Management Fee that was previously distributed by the Department for Work and Pensions (DWP) until March 2017. The allocation for 2018/19 is £6.378 million which is an increase of 4.5% from 2017/18. There is no certainty over the level of resources in future years.

3.30 The residual Education Services Grant (ESG) allocation for the city of £0.863 million ends in August 2017 and therefore no ESG will be received in 2018/19.

3.31 Pressure funding of 10% has been allowed for reductions in the centrally held unringfenced grants budget where 2018/19 allocations have not been announced yet, in line with previous government funding reductions.

Function & Funding changes

3.32 There are no new function and funding changes announced for 2018/19. The new Flexible Homelessness Support Grant referred to in paragraph 3.29 resulted in an increase in resources of £1.25 million in 2017/18, increasing to £1.35 million in 2018/19. These additional resources are ringfenced to support homelessness and are planned to be invested in the service to help manage future demands and remove the need for corporate service pressure funding in 2018/19. No announcements have been made for this funding beyond 2018/19.

Fees and Charges

3.33 Fees and charges budgets for 2018/19 are assumed to increase by a standard inflation rate of 2% with the exception of penalty charge notices (parking fines) where the levels of fines are set by government and cannot be changed independently. This is to ensure that income keeps pace with increasing costs. Any increase above the standard rate can therefore contribute savings.

3.34 The Council's Corporate Fees & Charges Policy requires that all fees and charges are reviewed at least annually and should normally be increased by either the standard rate of inflation, statutory increases, or actual increases in the costs of providing the service as applicable. Non-statutory increases above the standard rate of inflation and/or changes to concessions or subsidies are reported to and considered at the relevant service committee. Where appropriate, details of fees and charges changes for 2018/19 will be presented to the relevant service committee prior to Budget Council.

3.35 As in previous years, there is potential to set a higher target for the overall level of income generated from services recognising that the reduction of central government funding over recent years effectively requires fee-earning services to move toward self-financing to ensure that other resources can be applied to meeting the growth in costs and demands on demand-led service areas such as social care. A blanket increase to all fees & charges is unlikely to be appropriate or effective but, for example, setting an overall 1% target increase on fees and charges, i.e. above the standard inflation rate, would generate approximately £1.0 million. Proposals in the current 4-year Integrated Service & Financial Plans for 2018/19 amount to £0.400 million and therefore it is proposed to aim for a minimum of an additional 0.5% overall to provide a further £0.500 million savings. Any additional savings will be factored into the ISFP refresh presented to this committee in November.

3.36 In order to increase fees and charges in line this objective, they should be reviewed and increased wherever reasonable and in accordance with any regulations governing the service area. All services should therefore review fees and charges for committee consideration following the approach below:

- Using benchmarking and/or other comparative information to assess where current fees and charges are set in relation to comparable services and, where lower, move (increase) toward the benchmark as far as practicable and reasonable;

- Understand ‘demand elasticity’ by undertaking soft market research on what the market will bear before problems arise (e.g. reduction of service take-up);

- Assess the potential impact of financial exclusion of people from services. For example, in order to achieve an increase without excluding groups of people, thresholds, means tests and/or concession policies need to be considered;

- Assess the potential for differential service offers, again, to avoid financially excluding groups of people from services. This might be similar to the current approach in Life Events where basic Welfare Funerals are offered at an affordable price whilst more comprehensive funeral services are offered at higher prices.

All fees and charges proposals will ultimately come forward to the relevant service committee for consideration. Where not agreed, the decision may be referred to Budget Council if the loss of the saving associated with the proposals would have a significant impact on the overall budget package.

Reserves Position

3.37 The working balance is recommended to continue at a minimum of £9 million to meet general risks applicable to a unitary authority. However, the proposed change to managing financial risk set out in paragraph 3.44 provides a financial risk safety net of £1.5 million to replace recurrent risk provisions and therefore the planning assumption for 2018/19 is a working balance of £10.5 million. There are no unallocated general reserves as these were either included as part of the budget set for 2017/18, or allocated in the TBM Month 2 report.

3.38 The following table identifies potential resources and liabilities that will need to be taken into account in setting the 2018/19 budget. This assumes that spending in 2017/18 is in line with the TBM Month 2 report projections included elsewhere on this agenda.

Table 1 – One off resources and liabilities	
	£m
Overspend reported for TBM 2	-1.375
2017/18 risk provisions	+1.500
Projected Net TBM position 2017/18	**+0.125**
Estimated additional 2016/17 council tax collection fund surplus	+0.882
Estimated additional 2016/17 business rate collection fund deficit	-0.052
Estimated 2017/18 council tax collection fund surplus (TBM2)	+1.180
Estimated business rates retention collection fund 2017/18 deficit (TBM2)	0
NHB Returned funding 2018/19	TBC
Projected one off resources	**+2.135**
Potential allocations	

Year 2 Poverty Proofing the school day	-0.075
Earmark resources for 2019 local elections	-0.270
Financial risk safety net	-1.500
Projected total one off resources available	**+290**

3.39 This position will be updated for the November budget update report to this committee. A full review of reserves will be completed and the outcome of the review will be reflected in the February budget report along with any changes to the TBM position at Month 9.

General Fund Revenue Budget Estimates

Pay and Inflation assumptions

3.40 At present there is no agreed pay settlement for local government beyond 2017/18. The Local Government Association's (LGA) strategic aim is to agree a 2 year pay settlement to 2019/20 (the LGA negotiates pay settlements on behalf of local authorities). This will include reviewing all pay points to comply with the anticipated rate for the National Living Wage and to extend the range of pay points to enable realignment of current pay scales in local government. The planning assumption had been to allow for a 1% pay award however, given the negotiations and the ongoing debate around public sector pay (which excludes local government pay), it is proposed to earmark £1.25 million of the service pressure funding as a recurrent pay risk provision to cover this risk and to cover any local decisions in relation to living wage commitments and any concomitant changes to the council's overall pay framework.

3.41 The triennial review of the East Sussex Pension Scheme for the period 2017/18 to 2019/20 was completed in December 2016. The contribution rates changed to be a blend of a fixed contribution percentage and an increasing lump sum payment. The additional cost to the general fund in 2018/19 is £0.500 million and this is included within the budget projections.

3.42 The provision for general inflation ranges between 0% and 2% depending on the type of budgeted expenditure; fees and charges are assumed to increase by a standard 2% with the exception of Penalty Charge Notices. However, the strategy for reviewing fees and charges set out in paragraph 3.35 could mean additional resources are generated. Inflation assumptions for certain types of expenditure such as supplies and services have been reduced compared with the previous MTFS assumption. This has led to a £0.500 million reduction in the inflation assumption overall which will reduce the budget gap for 2018/19. Increases in costs above assumed inflation levels will be managed through services' budget strategies unless the increase is significant and is identified as a corporate service pressure.

Commitments & Risk Provisions

3.43 The budget projections for 2018/19 include commitments relating to increased employer's pension contributions, planned adjustments to the concessionary fares and financing costs budgets, reductions in central recharges to schools and the HRA as a result of reducing costs of services, and the impact of the expected changes to unringfenced grants.

3.44 In 2017/18 there is a recurrent risk provision of £1.500 million. The Medium Term Financial Strategy (MTFS) for 2018/19 previously included an additional £0.800 million recurrent risk provision as, at the time of drawing up the MTFS, it was believed that potential risks would be greater in future years due to the continued reduction of government grant funding and following on the heels of large savings programmes of over £20 million in each of the two preceding years. However, in recent times, the funding landscape has changed significantly including an improved Council Tax taxbase and additional Better Care Funding announcements by the government. The additional £0.800 million risk provision is therefore not recommended and it is also proposed to change the approach regarding the recurrent £1.500 million risk provision. It is recommended that the recurrent risk provision is released to address remaining budget gaps (i.e. reducing the savings requirement) and that an increase of £1.500 million is made to the Working Balance (from £9.000 million to £10.500 million) to provide a safety net against identified risks. In addition, there is a potential temporary funding requirement to support schools as set out in paragraph 3.55 and should this be needed, it will be factored into the 2018/19 budget. This one-off increase in the Working Balance can be funded separately from available one-off tax base surpluses set out in table 1.

Cost, Income and Demand Pressures

3.45 The budget projections for 2018/19 include £5.000 million for service pressures, £1.050 million for unringfenced grants pressures, £3.875 million specifically for cost pressures in Adult Social Care funded from the resources raised through the Adult Social Care Precept, and £1.954 million improved Better Care Fund (iBCF) resources announced as part of the 4 year deal.

3.46 In addition to these 2018/19 corporate resources to fund cost and demographic pressures, the further iBCF funding in 2018/19 announced in the spring budget provides an additional £3.5 million ring-fenced for the service area; the new ringfenced Flexible Homeless Support Grant that replaced DWP grant to support homelessness provides an additional £1.35 million resources that will be used to manage pressures in this service area.

3.47 The table below sets out the high level assumptions for managing cost and demand pressures in 2018/19:

Table 2

Service Area	**£m**	**Comment**
Childrens Social Care	3.000	To support increasing demand and costs of Looked After Children - kept under review
Pay settlement provision above 1%	1.250	Subject to national pay negotiations
Increased Business Rates in general fund services	0.600	Impact of revaluation for council properties
Provision for lower level cost and service pressures	0.150	Kept under Review
Subtotal	**5.000**	
Reductions in unringfenced grants	1.050	Includes the loss of the remaining Education Services Grant (£0.863m)

Adult Social Care Precept	3.875	Funding passported directly to Adult Social Care (ASC) services (including Learning Disability services now within Families, Children & Learning)
iBCF (4 year Deal)	1.954	Funding passported directly to ASC services
Total Recurrent Resources	**11.879**	
iBCF from Spring Budget 2017	3.483	Ringfenced funding received directly by service area; reduces to £1.7m in 2019/20
Net increase in Flexible Homeless Support Grant	1.350	Ringfenced funding received directly by service area. No allocations announced for 2019/20 but expect this additional funding to end
Total resources	**16.712**	**To support cost and demand pressures in 2018/19**

3.48 Service pressures will continue to be evaluated and an update will be included in the November budget report. The final treatment of pressure funding and risk provisions will be included in the budget report in February 2018 when the overall resource position is known including the TBM Month 9 2017/18 position.

Budget Savings Requirement within 4 Year Service & Financial Plans

3.49 The MTFS identifies a projected £21.464 million budget gap over the next 2 years assuming a 1.99% council tax increase, and the 3% Adult Social Care Precept in 2018/19. The financial position beyond the 2019/20 (which is beyond the 4 year settlement) is highly uncertain, however potential budget gaps are included within appendix 2. These projections are subject to change once the local government finance settlement is confirmed later in the year. The table below sets out the budget gap and the savings included in the ISFPs as at February Budget report.

Table 3	**2018/19**	**2019/20**	**Total**
Budget Gap	£11.615m	9.849m	£21.464m
Savings proposals included in February 2017 Budget report	-£11.536m*	-£7.241m*	-£18.777m*
Remaining Gaps	£0.079m	£2.608m	£2.687m

*Subject to refresh and stress testing.

Schools Funding

3.50 In December 2016, the DfE launched a consultation on its detailed proposals for a National Funding Formula (NFF) for Schools, High Needs and Local Authorities to take effect from April 2018 (2018/19 financial year). The consultation period concluded on 22 March 2017 and the Government is yet to issue its response to the consultation.

3.51 In the interim, the DfE has confirmed that there will be a move to a 'soft' national funding formula in 2018/19. This means that although the DfE will use the national funding formula (once it has been finalised following the consultation) to calculate local authorities' funding allocations, local authorities will still determine individual schools' funding allocations through their local formula.

3.52 The high level information published by the DfE for the first year of any NFF transition would indicate a virtual standstill position for overall school and academy funding in Brighton & Hove, but with individual schools gaining or losing depending upon individual circumstances.

3.53 Over recent years the local authority has adopted the principle of applying stability to the calculation of school budgets and trying to avoid creating 'turbulence' in the school funding system. With this in mind, and given that the outcome of the consultation is unknown and could contain many variables, the local authority intends to maintain existing unit values, as far as possible, in the application of the funding formula for 2018/19.

Schools Financial Position

3.54 There is evidence that current financial challenges are having an impact on the financial health of schools' budgets. 2016/17 saw an overall decrease in Schools Balances of over £3m, from £4.367m to £1.293m, split across phases as follows:

Nursery	+£0.033m
Primary	-£1.317m
Secondary	-£1.417m
Special & Alternative Provision	-£0.373m

3.55 In addition, there are a total of 18 schools (out of 67) with deficit balances, an increase from 11 as at the end of 2015/16. This is split 12 Primary, 3 Secondary and 3 Special & AP schools. School budget plans for 2017/18 will incorporate these deficits and the Finance Team will work closely with schools to identify those who are likely to require 'licensed deficits' in the coming year under the terms of the Scheme for Financing Schools. The scheme requires deficits to be cleared in two financial years. Under this scheme, the guideline maximum proportion of collective Schools Balances to be used to underpin licensed deficits is 40%. This is likely to be exceeded and it should be noted that should deficits exceed the total available Schools Balances, temporary funding from the General Fund may be required until balance is achieved.

Housing Revenue Account (HRA)

3.56 The Housing Revenue Account (HRA) is a ring-fenced account which covers the management and maintenance of council owned housing stock. This must be in balance meaning that the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable.

3.57 Although the HRA is not subject to the same funding constraints as the General Fund it still follows the principles of value for money and equally seeks to drive out inefficiencies and achieve cost economies wherever possible. Benchmarking of both service quality and cost with comparator organisations is used extensively to identify opportunities for better efficiency and service delivery. A programme of service reviews across the housing service has commenced to ensure that services are being delivered in the most cost effective way, that customers feel they are receiving good value from the service and to deliver savings on current budgets. These service reviews are incorporated within the HRA financial service plans included in the 4 year ISFP's.

3.58 For 2018/19, rents will be reduced by 1% in accordance with government legislation. The Welfare Reform and Work Act 2016, included legislation from April 2016 that social housing rents should be reduced by 1% per annum for 4 years (2016/17 to 2019/20).

3.59 Rents are not calculated to take into account any service charges and only include all charges associated with the occupation of a dwelling, such as maintenance of the building and general housing management services. Service charges are therefore calculated to reflect additional services which may not be provided to every tenant or which may be connected with communal facilities rather than to a particular occupation of a house or flat. Different tenants may receive different types of service reflecting their housing circumstances. All current service charges are reviewed annually to ensure full cost recovery and also to identify any service efficiencies which can be offset against inflationary increases, to keep increases to a minimum.

3.60 At this stage there remain a number of uncertainties from recent government legislation (Housing and Planning Act 2016 and Welfare Reform and Work Act 2016), which may significantly impact on the long term financial health of the HRA. In particular, the introduction of Universal Credit this autumn could have a significant impact on the level of rent arrears in the short term. Recent government legislation also includes the potential requirement to sell off high value homes when they become vacant. No detailed proposals have been provided by the government to date although HRA reserves are being maintained to offset this risk in part as the potential cost is unknown. Once detailed proposals are known they will be included in the HRA Medium term and 30 year financial forecast.

HRA Capital Programme

3.61 The capital investment plan for the HRA is mainly funded from direct revenue funding from tenants' rents. The 2018/19 programme includes the use of retained capital receipts from Right to Buy sales for investment in new affordable homes. The HRA capital programme is incorporated within the overall capital programme projections at Appendix 3. The programme will require further updating for 2018/19, particularly as priorities for investment will change in light of fire risk reviews to high rise buildings and other council housing stock.

Capital Programme

Investment in Change

3.62 The Budget Report agreed at Budget Council in February 2017 included using the capitalisation direction for the flexible use of capital receipts to support the investment in change (the direction allows certain revenue expenditure to be funded from capital receipts as long as it is forecast to generate ongoing savings to an authority's net service expenditure). Surplus capital receipts from the Workstyles programme have been utilised to fund this investment.

3.63 The planned investment in change to support the ISFP's is as follows:

Table 4	2018/19 £m	2019/20 £m
Digital First	1.300*	0
Modernisation programme	1.300	0.800
Change in staffing levels	1.000	1.000
ISFP spend to save proposals	1.600	0.900
Total	**5.200**	**2.700**

**This investment was reduced from £2.0m to fund additional investment in procurement/contract Management and to support the use of empty council building by rough sleepers.*

3.64 The investment requirements shown above are incorporated into the capital investment programme and will be reviewed as part of the ISFP refresh and stress testing.

10 Year Capital Programme

3.65 A 10 year capital programme has been developed and included in the MTFS. The strategy identifies longer term capital investment plans as well as a funding strategy and the potential outcomes for each investment plan. This strategy includes major investment requirements such as investment in the seafront infrastructure and partnership investment through major projects such as Brighton Waterfront and the Housing Joint Venture. The strategy also includes Heritage Lottery Fund bids such as the Stanmer Park Master Plan, Royal Pavilion Estates Regeneration and the Volks Railway. Plans for investment into the seafront infrastructure at Madeira Terrace and invest to save for street lighting have also been included in the strategy.

3.66 Government funding through the City Deal has been received to support the development of New England House into a Growth Hub. Local Growth Funding grants have been approved from Coast to Capital to support the Circus Street development, Preston Barracks Central Research Laboratory and the Digital Catapult hub at New England House. Local Growth Funding has also been received for transport initiatives including Valley Gardens, the Intelligent Transport System and the Brighton and Hove Bike Share scheme. Much needed investment from the Highways Infrastructure Fund has been made into the development of Shelter Hall has also been incorporated into the strategy.

3.67 Capital grant funding is provided to the council as a Single Capital Pot and with the exception of Devolved Schools Capital Grant can be prioritised as the council sees fit. The council has received Basic Need capital grant to meet new pupil places of £36.124 million for the three year period 2015/16 to 2017/18 although the recent announcement from the Education Funding Agency have indicated that there will be no further new pupil places funding in 2018/19 and 2019/20 for Brighton and Hove. At present no announcements of funding through the Education Capital Maintenance grant have been made beyond 2017/18. Allocations for the Local Transport Fund (LTP) and Incentive Funding for transport asset management have been announced for 2018/19 of £5.365 million. Further indicative LTP announcements of £5.169 million per annum have been announced up to 2020/21.

3.68 Capital receipts from the sale of surplus land and buildings support the capital programme and the projections have been reviewed and include receipts from the disposal of Kings House, Patcham Court Farm, land at the Cliff, Circus Street development, the settlement of Shoreham Airport balance plus a number of non-core rural assets to support the Stanmer Park redevelopment project. The council will continue with its strategy of re-balancing the property portfolio by disposing of low or non-performing commercial properties and reinvesting in more viable property investments. This ensures costs can be minimised and rental growth maximised to ensure best value is achieved.

3.69 The estimated net surplus capital receipts up to 2019/20 is £7.500 million and these resources are available for reinvestment subject to the refresh of the ISFP investment requirements. Proposals for use of these surplus resources will be included in the budget proposals for 2018/19.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 The budget process allows all parties to engage in the examination of budget proposals and put forward viable alternative budget and council tax proposals, through amendments, to Budget Council on 22 February 2018. Budget Council has the opportunity to debate the proposals put forward by the Committee at the same time as any viable alternative proposals.

5. COMMUNITY ENGAGEMENT AND CONSULTATION

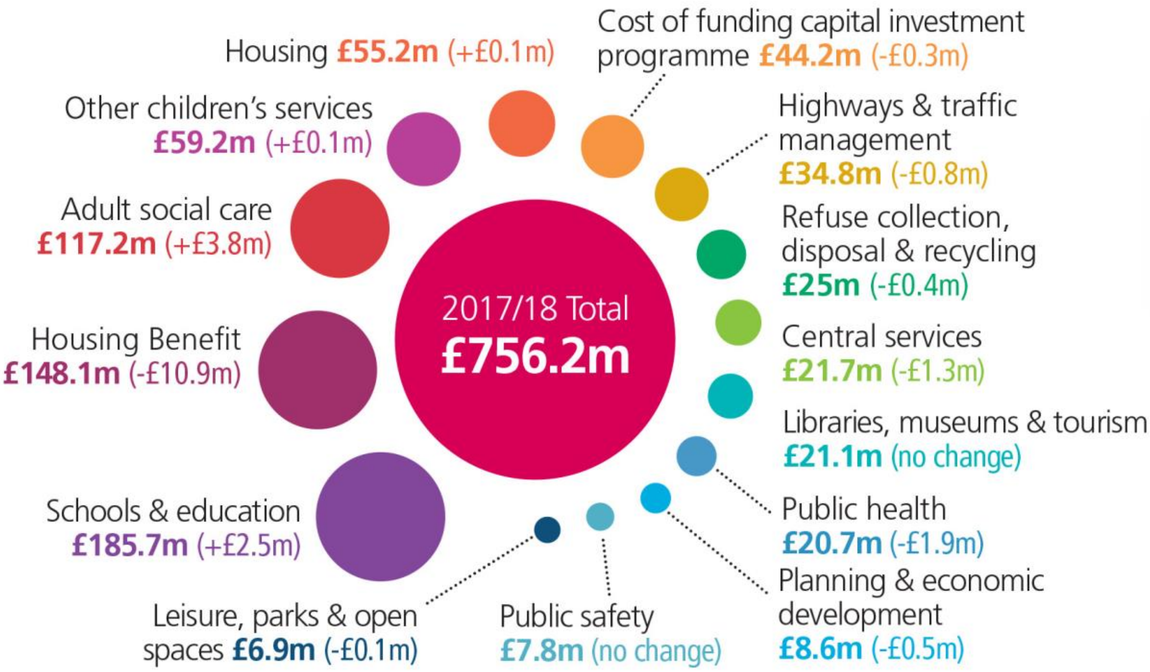
General Fund

5.1 Local government finance is not only very complex but there are also a very wide range of services (over 700 individual services). Many residents will be unaware that of the council's £756 million expenditure, only around £128 million (17%) is funded by Council Tax and about £58 million by retained Business Rates (8%). Many services are funded by fees, charges or rents while others can be supported by government grants (e.g. schools and housing benefits). There is also a distinction between capital and revenue spending that can be confusing, and the council is also involved (often through its land holdings) in many schemes that are primarily funded through private finance. The sheer scale of business and the wide array of funding and financing arrangements make it very difficult for residents to understand who or what is directly paying for or funding services or developments.

5.2 This makes meaningful consultation and engagement very challenging and therefore the council continues to provide information on its web site to attempt to convey information in a digestible format but inevitably even this may only be understood by those who have the time or inclination to study the information. The two graphics below are the main communication tools used for conveying where council money is spent on services and where the money comes from.

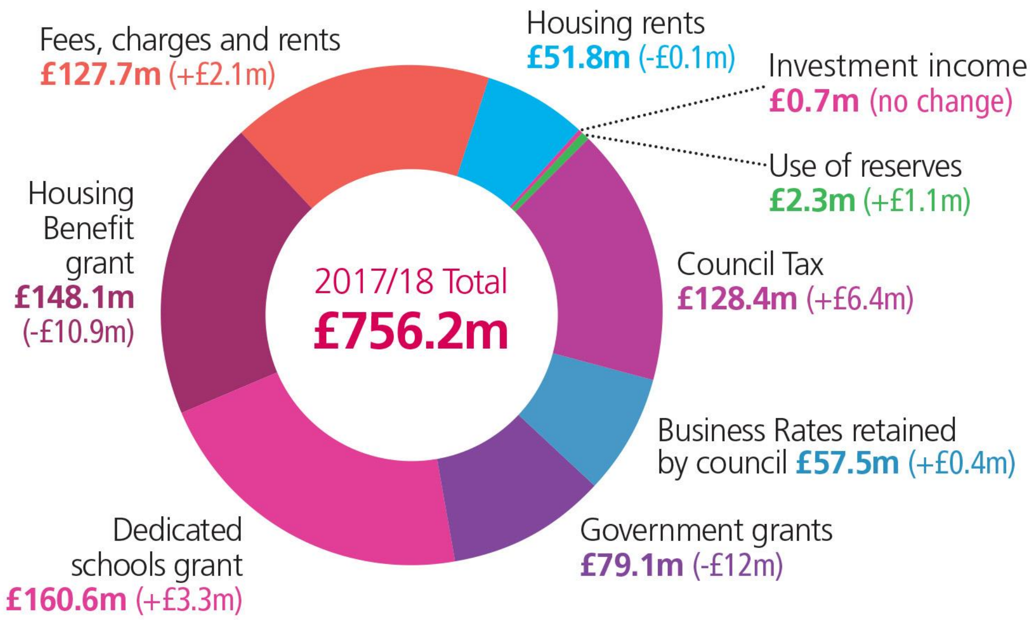
Services provided

(figures in brackets show the change from 2016-17)



Where the money comes from

(figures in brackets show the change from 2016-17)



5.3 The council has also provided simple ‘budget animations’ to help explain why our costs are growing and therefore why our budget gap (savings requirement) has been growing in the context of reducing government grant funding. The council will also widely publicise the budget process through its online social media inviting residents and stakeholders to give us their views and ideas via the web site (email) and on Twitter via #BHBudget.

5.4 Generally, engagement and consultation on specific proposals is more straightforward and meaningful and this will always be undertaken separately for any significant proposal to change a service, for example, last year's consultations on changes to Learning Disability Services. The Council's decisions regarding budget (savings) proposals are therefore primarily a 'resource decision' in the first instance and are subject to appropriate consultation processes before they can be implemented. Detailed consultation will normally be undertaken alongside, or following, decisions of the Council and, where appropriate, reported back to a committee before any final decision is taken.

5.5 In previous years, various consultation and engagement processes have been put in place and these are proposed to continue, including:

- development of a communication campaign to encourage participation in the budget setting process through the media, social media and with staff;
- engagement at all stages with key stakeholders such as Community Works, Older People's Council, Youth Council, representatives from the Economic Partnership and business sector on matters or themes that are of specific interest to them;
- ongoing engagement with staff and Trades Unions, including through the Staff Consultation Forum, Departmental Consultative Groups, team briefings and specific meetings;
- cross party involvement in reviewing key financial and performance information to help inform discussions about prioritising expenditure and options for savings;
- refreshing the short 'budget animation' which many people find to be a useful and simple aid to understanding the council's services and budget situation;
- engagement with statutory partners in the city through the City Management Board and Health & Well-being Board.

5.6 The cross-party member Budget Review Group will keep under review the consultation and engagement process and receive updates from the various strands of engagement. Costs are expected to be within the current budget provision (£5,000).

Schools Consultation

5.7 There is a statutory requirement on the local authority to consult with the Schools Forum on certain financial aspects of the schools budget including formula changes and the associated impact on budget distribution. The Schools Forum is a public meeting whose membership is made up of schools representation from across all phases and on which the Education Funding Agency has optional observer status.

5.8 Information is provided throughout the year to meetings of the Schools Forum concerning the development and/or changes to elements of the schools budget and the schools formula, now principally based on a national formula. There is a Formula Working sub-group that works with Education & Skills and Finance colleagues to ensure involvement and engagement of schools representatives in looking at considerations and options as proposals are developed.

5.9 Annual budget shares are usually presented to the January meeting of the Schools Forum for consultation and in recent years the Council's Executive Director of Finance & Resources has also attended this meeting and presented a report on the potential direct or indirect impacts of the Council's General Fund budget proposals on schools.

6. CONCLUSION

6.1 The council is under a statutory duty to set its budget and council tax before 11 March each year. This report sets out the latest budget assumptions, process and timetable to meet the statutory duty.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

7.1 These are contained in the body and appendices of the report.

Finance Officer Consulted: James Hengeveld *Date: 04/07/2017*

Legal Implications:

7.2 The process of formulating a plan or strategy for the council's revenue and capital budgets is part of the remit of the Policy, Resources & Growth Committee. The recommendations at paragraph 2 above are therefore proper to be considered and, if appropriate, approved by it.

7.3 This report complies with the council's process for developing the budget framework, in accordance with part 7.2 of the Constitution.

Lawyer Consulted: Elizabeth Culbert *Date: 04/07/2017*

Equalities Implications:

7.4 It is proposed to continue the screening process undertaken in previous years and continue to improve the quality and consistency of Equality Impact Assessments (EIAs). Key stakeholders and groups will be engaged in developing EIAs but we will also need to consider how Members and Partners can be kept informed of EIA development and the screening process. In addition, where possible and proportionate to the decision being taken, there may be a need to assess the cumulative impact of the council's decision-making on individuals and groups affected in the light of reductions in expenditure across the public and third sectors. We will ensure the process considers the economic impact of proposals.

Sustainability Implications

7.5 Carbon budgets will continue to be produced alongside the overall financial budget for the council.

Any Other Significant Implications:

Risk and Opportunity Management Implications:

7.6 There are a range of risks relating to the council's short and medium term budget strategy including the impact of the economic conditions and changes in the national budget, spending exceeding budgets, pressures on existing budgets, further reductions in grant, legislative change or demands for new spending. The budget process will include recognition of these risks (and options for their mitigation) in determining the 2018/19 budget.

7.7 Key factors (risks) for projecting the savings requirements for 2018/19 and future years will be taken into consideration including:

- An assessment of how robust and deliverable the savings currently contained in the 4-Year Integrated Service & Financial Plans are in the context of current demands, economic conditions and changing needs;
- The accuracy of tax base growth and other assumptions, particularly business rate appeals and the 2017 revaluation;
- The success and impact of the Better Care Fund programme and the new model of Children's Social Services on social care demand and costs in the short to medium term;
- The impact of Welfare Reform changes e.g. on temporary accommodation (homelessness). In particular, the impact of the reduction to the Benefit Cap in autumn 2016;
- The impact of economic conditions e.g. property price rises impact on temporary accommodation costs and care home provision and availability. Also, the buoyancy of many income streams can be affected by economic conditions. This is now potentially more volatile following the 'Brexit' decision, although the full impact of this will not be known for some time;
- The impact of demographic and other changes e.g. immigration, public health issues (e.g. obesity), drug improvements (e.g. dementia), increasing longevity with health conditions, etc.

SUPPORTING DOCUMENTATION

Appendices:

1. Budget estimates for 2018/19
2. Medium Term Financial Strategy Assumptions and Projections
3. Projected Capital Investment Programme

Documents in Members' Rooms

1. None

Background Documents

1. Budget files held within Finance