POLICY, RESOURCES & GROWTH COMMITTEE	Agenda Item 29 Brighton & Hove City Council

Subject:		**Revenue & Capital Budget Planning and Resources Update 2019/20**		
Date of Meeting:		**12 July 2018**		
Report of:		**Executive Director for Finance & Resources**		
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Ward(s) affected:		**All**		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT:

1.1 This report provides a budget planning and resource update for the 2019/20 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 in 2019/20 will be £7.621million resulting in a grant of £6.523 million. At this time, it is not clear what will happen to the remaining grant in relation to the next Comprehensive Spending Review, including the government's proposals to enable councils to retain 75% of business rates.

1.3 The report also includes an assessment of the investment needed in priority services to meet identified increases in costs and growth in demands, particularly across social care services. Taking these investments into account alongside RSG and other grant reductions means that a further savings requirement of £11.559 million is anticipated in 2019/20. This has increased from £10.600 million projected in the budget report at February 2018. Meeting the savings requirement is therefore critical to providing the necessary re-investment for priority services.

1.4 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.

1.5 Last year, the 4-Year Integrated Service & Financial Plan (ISFP) approach continued for a third year in support of a longer term approach to planning and to assist in managing the scale of the financial challenge. Over £56 million savings have been identified and implemented through the 4-year ISFP planning process in the last 3 years. These plans also identified further savings of £9.591 million for 2019/20. The proposals for 2019/20 are currently being refreshed to ensure they are consistent with decisions made by Budget Council in February and remain 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, the longer term funding of social care and the Fair Funding Review which will dictate national funding distribution. The Medium Term Financial Strategy will however provide a high level resource projection up to 2022/23 and will be updated to include known assumptions, commitments and resources as far as practicable.

2. RECOMMENDATIONS:

That the Policy, Resources & Growth Committee:

2.1 Note the resource and net expenditure projections for 2019/20 and the Medium Term Financial Strategy (MTFS) projections set out in the body of the report and Appendices 1 and 2 based on a 2.99% Council Tax increase.

2.2 Note the latest revised savings requirement of £11.559 million for 2019/20 which will be adopted for budget setting purposes as detailed at paragraph 3.51.

2.3 Instruct the Executive Leadership Team (ELT) to refresh the current 4 Year Service & Financial Plans and develop further investment and savings proposals to address any outstanding budget gaps for 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 3.25 to 3.27.

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 Budget Council meeting in February 2018 included updated 4-Year Integrated Service & Financial Plans (ISFPs) that covered the third year of the plans setting out detailed savings proposals for 2018/19 together with outline proposals for 2019/20. The 4-year plans will not roll forward beyond 2019/20 as the level of uncertainty over local government finances from 2020/21 makes detailed planning into this period too unpredictable. However high level resource projections will be made up to 2022/23 for planning purposes in the Medium Term Financial Strategy (MTFS).

3.2 At the start of the current 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 re-investments to meet growth in service demands (for priority services including 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 final year of the 4-year planning period, over £56 million savings have been identified and implemented toward closing the budget gaps and providing for essential re-investment in services.

3.3 The 4-Year ISFPs also identified £9.591 million savings for 2019/20. However, as before, the final year of the 4-Year ISFPs will need to be refreshed and 'stress tested' to ensure that the proposals remain deliverable in the context of current service demands and statutory requirements. There will also be a requirement to develop proposals to meet an increased projected savings requirement of £11.559 million, an additional £0.959 million compared to the projected requirement in February 2018.

3.4 The 2018/19 budget 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 it is decided to retain council services, they will continue to be redesigned and benchmarked to ensure costs are appropriate and that management and administrative costs are continually challenged.
- Exploring innovative solutions including strategic business 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 including social care providers.
- Utilising capital flexibilities and where appropriate borrowing to provide investment in services, infrastructure and change to achieve sustainable long term revenue savings which will provide for substantial annual re-investment into critical services such as social care and housing.

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 3.11 below.

3.5 In terms of taxation strategy, resource projections for 2019/20 are based on a Council Tax increase of 2.99% and 1.99% for future years. More information on Council Tax is provided in paragraph 3.28 below.

3.6 The 4-Year ISFPs were developed to align with the priorities and approach set out in the 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.

3.7 This approach will continue to be developed and will be used to underpin the development of draft investment and savings proposals which will be brought forward for consideration at Policy, Resources & Growth Committee in December 2018.

Re-investment in Services

3.8 The budget projections for 2019/20 included in the MTFS agreed at budget council included £5.000 million for re-investments to meet predicted service pressures, £3.032 million investment in Adult Social Care to match the improved Better Care Fund (iBCF) resources announced as part of the 4 year deal, and £0.170 million to offset reductions in other unringfenced grants.

3.9 Projections of cost and demand pressures, taking into account the impact of emerging financial risks in 2018/19, have been re-assessed in respect of priority service areas where re-investment of savings identified in the 4-year plans will need to be applied to ensure that statutory responsibilities can continue to be met and that essential city services are maintained. The table below sets out the latest projections which will be used as the planning assumption for developing the 2019/20 budget proposals.

Table 1: Re-investments (Service Pressure Funding)

Service Area	**Latest Estimates £m**	**Comment**
Families Children & Learning	2.885	To support increasing demand and costs of Looked After Children and Adult Learning Disabilities.
Health & Adult Social Care	6.115	To support increased demand and costs across Community Care services, the impact of the reduction of Clinical Commissioning Group income and reduction of one-off iBCF, as well as continuing reductions to the Public Health grant.
Environment, Economy & Culture	0.800	To support additional costs within CityClean, Street Lighting, electricity costs and building security as well as identified shortfalls in income for commercial property rents, building control income and commercial waste.
Unringfenced Grants	0.170	Expected 10% reductions in these grant allocations
Total	**9.970**	

3.10 The allocations above have been proposed after review and challenge by the Executive Leadership Team (ELT) and represent a medium risk assumption in the context of emerging in-year budget pressures and underlying trends. The re-investment assumed in the MTFS for 2019/20 totalled £8.202 million and therefore these revised re-investment allocations increase the budget gap (savings requirement) by £1.768m. Re-investment to meet service pressures will continue to be evaluated and an update will be included in the December budget report. The final treatment of re-investments and managing financial risks will be included in the budget report in February 2019 when the overall resource position is known including the Month 9 2018/19 position.

General Fund Capital Programme

Investment in Change

3.11 The Budget Report agreed at Budget Council in February 2018 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. This investment is critical to enable services to realise savings for re-investment in priority service areas to meet demand and cost pressures, particularly social care and housing.

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

Table 2: Investment in Change	**2019/20 £m**
Modernisation programme	0.800
Managing changes in staffing levels	1.000
Spend to save proposals (ISFPs)	0.900
Total	**2.700**

3.13 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 Investment Programme

3.14 A 10 year capital programme has been developed and included in the MTFS. In 2019/20 the proposed programme will provide investment of nearly £132 million in priority regeneration, housing, schools, transport and infrastructure projects.

3.15 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 and the Royal Pavilion Estates Regeneration. Plans for investment into the seafront infrastructure at Madeira Terrace and invest to save for street lighting have also been included in the strategy.

3.16 Government funding through the City Deal has been received to support the development of Longley Industrial Estate including the refurbishment and expansion of New England House. Local Growth Funding grants have been approved from the Coast to Capital Local Enterprise Partnership to support the Circus Street development, Preston Barracks Central Research Laboratory, the Brighton Waterfront project and the Digital Catapult and Immersive Tech hubs at New England House. Local Growth Funding has also been received for transport initiatives including Valley Gardens phases 1, 2 and 3. Other completed transport schemes which have received LGF funding included the Intelligent

Transport System and the Brighton and Hove Bike Share scheme. Much needed investment from the Highways Infrastructure Fund has been invested into the development of Shelter Hall and has also been incorporated into the strategy.

3.17 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 has 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 2018/19. Allocations for the Local Transport Fund (LTP) and Incentive Funding for transport asset management have been announced at £5.169 million per annum up to 2020/21. The council also received funding to support Disabled Facilities Grants but has not received indicative figures to date for future years.

3.18 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 land at the Cliff, Woollards Field, Montague House and the settlement of Shoreham Airport balance plus some other non-core assets. A number of surplus to requirement rural properties have been identified for disposal and ringfenced to support the Stanmer Park redevelopment project including the Heritage Lottery Fund (HLF) regeneration site, the traditional agricultural buildings at Stanmer and the relocation of Stanmer depot. 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 with further disposals planned in 2018/19 to support this initiative. This ensures costs can be minimised and rental growth maximised to ensure best value is achieved.

Timetable

3.19 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**	**Reports/Decisions**
11 Oct 2018	Policy, Resources & Growth	TBM Month 5
6 Dec 2018	Policy, Resources & Growth	Budget Update including Draft Service & Financial Plans TBM Month 7 Council Tax Reduction Scheme 2019/20
13 Dec 2018	Council	Council Tax Reduction Scheme 2019/20
24 Jan 2019	Policy, Resources & Growth	Council tax base Business Rates tax base

14 Feb 2019	Policy, Resources & Growth	TBM Month 9 General Fund and HRA budget reports
28 Feb 2019	Budget Council	General Fund and HRA budget reports

Medium Term Financial Strategy Update 2018/19 to 2022/23

The Medium Term Financial Strategy (MTFS) has been updated since the Budget Report presented to Policy, Resources and Growth Committee in February 2018 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.

2017/18 Outturn

The 2017/18 provisional outturn was presented to Policy, Resources & Growth Committee on 14 June 2018 and showed an underspend of £1.392 million. This was an overall improvement of £0.008m from the estimated outturn at Month 9.

2018/19 Forecast Position

3.20 Details of the forecast risk based on current spending and demand patterns in the first 2 months of the year is provided in the Targeted Budget Management (TBM) report. It shows an overall forecast risk for the General Fund of £2.897 million including an overspend of £0.716 million in relation to Section 75 Health Partnerships. The forecast risk at Month 2 is therefore manageable in the context of historic performance and the available risk provisions of £1.500 million. In addition, as this is early in the financial year there is sufficient time to take corrective action should further financial pressures emerge. However it must be acknowledged that the ability to manage financial risk increases year on year, while the council continues to deliver all of its existing services.

In-year Budget Changes

3.21 In-year budget changes are reflected in TBM reports to this committee. The 2017/18 outturn report included a virement to reflect structural changes within Parking Services. In addition the TBM month 2 report for 2018/19 includes a virement to transfer the Concessionary Travel budget, currently held as a corporate budget, to the Environment, Economy & Culture directorate. This is to enable transport services to be aligned and ensure engagement with bus operators is co-ordinated in one service.

Government 4-Year Financial Settlement offer

3.22 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 to 2018/19 were in line with the four year deal and the financial projection for 2019/20 is based on the indicative allocation. There are no indicative allocations beyond 2019/20 which will be informed by the spending review 2019, the proposed move to councils retaining 75% of business rates, and the outcome of the Fair Funding Review.

Business Rates

Business Rates estimate for 2019/20

3.23 The projected business rates taxbase for 2019/20 has been increased to reflect potential further growth during the next financial year and lower assumptions for appeals and this provides potential additional resources of £0.658 million. The inflationary increase on Business Rates of 3.1% reflects the Office of Budget Responsibilities projections, however the actual increase will be based on the September Retail Price index which is published in October. Each 0.1% change in inflation changes the income by approx. £0.060 million.

3.24 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. In addition, the government has announced a range of small business rates reliefs and threshold changes where the council is compensated for loss of Business Rates income through Section 31 grants. The assumptions on overall income including monitoring the progress on developments within the city will continue to be reviewed and updates will be presented to this committee in December 2018 and January 2019.

Council Tax

Council Tax Reduction Scheme

3.25 The council's localised Council Tax Reduction Scheme (CTRS) for 2018/19 was agreed by Council in December 2017. The scheme remained unchanged from 2017/18.

3.26 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 December 2018 and then to full Council to agree the final scheme for 2019/20 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.

3.27 The council has experienced ongoing reductions in the number of CTRS claimants for both working age and pensionable age averaging over 5% in recent years. This reduction is assumed to continue into 2019/20 and the Council Tax taxbase projections will be adjusted accordingly. This adjustment replaces the £0.250 million saving on the scheme included in the Integrated Service & Financial Plans for 2019/20 The number of CTRS claimants will fluctuate with economic conditions and the assumption of reducing numbers will therefore be kept under close review.

Council Tax Estimate 2019/20

3.28 The council tax increase for 2019/20 is planned to be 2.99% which incorporates 1% additional flexibility allowed by central government by raising the excessive council tax increase threshold to 2.99%. There is no additional Adult Social Care Precept in 2019/20 for this council. The underlying taxbase was previously assumed to grow by a net 0.75% in relation to new properties and changes to discounts and exemptions. The impact of ongoing reductions in CTR claimants means that a further 0.17% to offset the CTR saving can be included giving a total taxbase increase of 0.92%.

Government Grants and Precepts

Revenue Support Grant (RSG)

3.29 The government included an indicative RSG allocation for 2019/20 alongside the 2018/19 settlement which remained unchanged from previous announcements at £6.523 million. This is a reduction of £7.621 million or 54% when compared with 2018/19. Since the start of the 4 year offer this grant has reduced by £39.6 million, or 86%.

Adult Social Care precepts and Better Care Funding

3.30 The local government settlement for 2016/17 included flexibility for authorities with social care responsibilities to raise council tax by up to 2% per annum above the referendum threshold. The local government settlement for 2017/18 included further flexibility of bringing forward the precept increase to a maximum of 3% but maintaining an overall precept of 6% over the remaining three year period to 2019/20. The council took up this flexibility and included a 3% adult social care precept for both 2017/18 and 2018/19. Therefore there is no ability to include a further adult social care precept for 2019/20.

3.31 Better Care funding provided through the Clinical Commissioning Group (CCG) will continue into 2019/20 at broadly the same level as 2018/19, except for the planned reduction in improved Better Care Funding. The Better Care Fund is estimated at £23.981m in 2018/19, including the Improved Better Care funding. Of the £23,981m, £6.994 million will be for ‘protecting adult social care’. The Better Care Plan for 2018/19 is due to be reported to the Health & Wellbeing Board in September 2018.

3.32 In addition, the government confirmed within its 4 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 the 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 allocation to this council is £6.220 million in 2019/20, an increase of £3.032 million compared with 2018/19. This iBCF funding is separate from the original Better Care Fund that is pooled with local health partners; however both will support integrated working in Brighton and Hove.

3.33 In March 2017, the government made a further Spring Budget announcement providing additional one-off 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 allocations of the Better Care Fund. The allocation to this council for 2019/20 is £1.733 million, a reduction of £1.750m compared with the amount for 2018/19. However using these additional one-off resources to support ongoing expenditure could clearly create a budget gap by 2020/21 if the funding is not replaced by alternative resources.

3.34 The final local government finance settlement for 2018/19 included an additional £150 million Adult Care Support Grant nationally. This council received £0.768m which is being applied to financial pressures within Adult Social Care services. The allocation was on a one-off basis and there is currently no indication that this funding will be repeated.

Table 3: ASC Resources	**2017/18**	**2018/19**	**2019/20**
ASC Precept	3% £3.650m	3% £3.901m	0% -
ASC Support Grant (one-off)	£1.234m	£0.768m	-
Improved BCF (ongoing)	-	£3.188m	£6.220m
Additional improved BCF (one-off)	£5.093m	£3.483m	£1.733m

New Homes Bonus (NHB)

3.35 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. Growth in housing stock includes a reduction in long term empty properties. In addition to this threshold the reward has been reduced from 5 years to 4 years from 2018/19. The council would need to secure a reward of at least £1.166 million to ensure there is no net loss in grant in 2019/20; a net increase in stock (including reduction in long term empty properties) of 1,160 band D equivalent properties is required to achieve this.

3.36 The latest projections are that the growth in housing stock should reach the 0.4% threshold during 2018/19 but the overall numbers will be insufficient to cover all the loss of grant and therefore a revised assumption of achieving a reward of £0.500 million has been included in projections. This assumption is subject to significant change and depends on property completions registered with the Valuation office by September 2018 as well as the number of properties designated as long term empty. Although Halls of Residence do not provide additional council tax to the council, these properties are counted towards the NHB award and therefore planned Halls of Residence completions for the 2018/19 academic year will contribute to the overall NHB grant.

Other grant changes

3.37 The Department of Health have provided indicative allocations for 2019/20 of £19.559 million for Public Health Services . This is a reduction of £0.530 million or 2.6% compared with 2018/19.

3.38 The Flexible Homelessness Support grant replaced the Temporary Accommodation Management Fee that was previously distributed by the Department for Work & Pensions (DWP) until March 2017. The allocation for 2019/20 is £5.481million, a reduction of 14% compared with 2018/19. However, the council received £1.35 million more in 2018/19 compared with 2016/17 and therefore despite the 14% drop, the resources are still higher than those received from the DWP.

3.39 Service Pressure funding of 10% has been allowed for reductions in the centrally held unringfenced grants budget for 2019/20, in line with previous government funding reductions.

Fees and Charges

3.40 Fees and charges budgets for 2019/20 are assumed to increase by a standard inflation rate of 2% .Exceptions to this include Penalty Charge Notices (parking fines) where the levels of fines are set by government and cannot be changed independently and Temporary Accommodation rental income which is constrained by Local Housing Allowance rates until at least 2019/20. The 2% general increase is to ensure that income keeps pace with increasing costs. Any increase above the standard rate can therefore contribute savings.

3.41 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 2019/20 will be presented to the relevant service committee prior to Budget Council.

3.42 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 higher increases based on appropriate market research and/or benchmarking may be supportable. Similarly, fees and charges for new or differential service offers may generate savings if they cover the cost of service and contribute to corporate overheads.

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 (One-off Resources)

3.43 The working balance is recommended to continue at a minimum of £9.000 million to meet general risks applicable to a unitary authority. In 2018/19 this was increased to £10.500 million to incorporate a £1.500 million financial risk safety net.

3.44 The following table identifies potential resources and liabilities that will need to be taken into account in setting the 2019/20 budget. This assumes that spending in 2018/19 is in line with the TBM Month 2 report projections included elsewhere on this agenda.

Table 4: One-off Resources and Liabilities	**£m**
2017/18 TBM outturn improvement	+0.008
2018/19 Forecast risk (overspend) reported for TBM month 2	-2.897
Estimated 2018/19 council tax collection fund deficit (TBM month 2)	-0.551
Estimated business rates retention collection fund 2018/19 surplus (TBM month 2)	+0.753
Projected one-off resource gap	**-2.687**

3.45 This position will be updated for the December draft budget report to this committee. A full review of reserves will also 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

3.46 The National Employers for local government (LGE) announced a 2-year pay offer covering 2018/19 and 2019/20 for those employees on National Joint Committee (NJC) pay & conditions; this excludes senior officers pay, teachers pay and those on Soulbury grades. For 2019/20, the core increase is 2% but with higher increases for those on lower pay grades and introduces a new range of scale points that affects the council current grades up to the 'Senior Officer 1/2' grade. The estimated impact of the pay award is 2.6% overall and provision has been included to meet any changes to the Living Wage Foundation rate for 2019/20. This increase will fall differently across service areas depending on the make-up of their staffing structures.

3.47 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 2019/20 is estimated at £0.575 million and this is included within the budget projections.

3.48 The provision for general price inflation ranges between 0% and 2% depending on the type of budgeted expenditure. Similarly, fees and charges are assumed to increase by a standard 2% with the exceptions identified in paragraph 3.40 However, the ongoing strategy for reviewing fees and charges set out in paragraph 3.42 could mean additional resources are generated. Inflation assumptions for certain types of expenditure such as supplies and services have been reduced compared with the assumptions contained in the Medium Term Financial Strategy (MTFS) for 2019/20. This has led to a net £0.440 million reduction in the inflation provision which has contributed to containing the savings requirement for 2019/20. 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 budget pressure.

Commitments & Risk Provisions

3.49 The budget projections for 2019/20 include a number of commitments; the most substantial include cost reductions in financing costs (mostly due to single status repayments coming to an end) and increased Improved Better Care Funding. Additional costs include employer pension contributions, estimated reductions in New Homes Bonus and waste disposal PFI cost increases.

3.50 In 2018/19, financial risks are being mitigated through a £1.5 million financial risk safety net which is held in the working balance. The forecast risk on the revenue budget at month 2 indicates that this may be needed to mitigate the current overspend forecast. This assumption will be reviewed when the overall budget package is finalised and the risks within the in-year position are clearer.

Budget Savings Requirement within 4-Year Service & Financial Plans

3.51 In February, the MTFS identified a projected £10.600 million budget gap for 2019/20 assuming a 2.99% council tax increase. With the changes identified within this report, the budget gap (savings requirement) has changed as follows:

Table 5: Revised Budget Gap (Savings Requirement)	**£,000**
Original Predicted Budget Gap 2019/20 (February 2018)	**10.600**
Reduced inflation assumptions	-0.440
Increase in commitments (including New Homes Bonus)	0.539
Increase in re-investment (Service Pressures funding)	1.768
Reduction in CTR reflected in taxbase rather than savings	-0.250
Predicted improvement to Business Rates Income	-0.658
Revised Budget Gap (Savings Requirement)	**11.559**

3.52 The savings included in the ISFP's presented to this committee in February 2018 for 2019/20 amounted to £9.591 million. Adjusting this for the transfer of the £0.250 million CTR saving to the taxbase revises this to £9.341 million which is a very challenging requirement on top of over £56 million savings over the previous 3 years. Further, a review of these savings by the Executive Leadership Team has highlighted that £1.066 million savings are at high risk of non-achievement due to changed circumstances or current trends. Also, a further £1.000 million originally planned to be achieved from measures to contain the costs of social care is already accounted for in the revised assessment of re-investment levels needed to meet estimated service pressures. Taking all of this into account has led to services initially being targeted with finding replacement savings of at least £1.300 million at this stage of the budget process.

3.53 This means that if these savings plans can be confirmed and the required levels of re-investment in services remain stable as the year progresses, there would remain a budget gap of £2.984 million to address. The potential funding and/or savings options to meet this are not likely to be straight forward but could include:

- Further revision of the taxbase estimates, particularly Council Tax, which may provide greater resources if growth in new properties is currently under-estimated; however, the current estimates are not considered to be overly prudent;
- A better than expected New Homes Bonus award. Every effort will be made to ensure properties are registered by the September deadline and long-term empty properties are minimised;
- Exploring further options for efficiency or cross-cutting savings that while challenging may be less damaging than direct service cuts or reductions, for example, further management and administrative staffing reductions;
- Potential government funding through the Local Government Financial Settlement which may provide additional resources, for example, a further Adult Care Support Grant for 2019/20; or alternatively options to increase local taxation along the lines of the Adult Social Care Precept.
- Release of reserves following the bi-annual review process, however, this only provides one-off funding for 2019/20 resulting in pressures potentially being stored up for 2020/21. It is also likely, as in previous budgets, that some one-off funding will be required to support members' priorities in the 2019/20 budget;
- Funding switches including short term use of capital flexibilities to cover appropriate revenue costs where these can be demonstrated to be contributing to savings and long term financial sustainability. However, again this is only a one-off funding solution that could result in pressures being stored up for 2020/21;
- Use of the General Fund balance (current level £9.000m) to provide transitional funding or 'financial smoothing'. This is not recommended and would not only draw concern and criticism from the external auditor but would also indicate that the authority is not able to develop a sustainable budget plan for 2019/20, which would put it in the same situation as a small number of much publicised local authorities currently in financial crisis. Ultimately changes in this respect require consideration by the s151 Chief Finance Officer within a statutory context.

3.54 The financial position beyond 2019/20 (which is beyond the current 4 year settlement) is highly uncertain however a projection of potential future budget gaps is included within Appendix 2. These projections are subject to change once the Local Government Finance Settlement is confirmed later in the year and when the government announces the next 4-year spending review.

Schools Funding and Financial Position

3.55 While it remains the government's intention that a school's budget should be set on the basis of a single national formula, in 2018/19 and 2019/20 local authorities will continue to determine final funding allocations for schools through a local formula. In 2018/19 and 2019/20, the national funding formula will set notional allocations for each school, which will be aggregated and used to calculate the total schools block received by each local authority.

3.56 The level of school balances as at 31/03/18 was £2.003m, an increase of £0.710m from the £1.293m as at 31/03/17. The £2.003m balance is split across phases as follows:-

Phase	**2017/18 £'000**	**Percentage of budget 2017/18**	**2016/17 £'000**	**Percentage of budget 2016/17**
Nursery	53	8.43%	7	1.89%
Primary	2,512	3.48%	1,584	2.19%
Secondary	(484)	(0.93%)	(134)	(0.25%)
Special and Alternative Provision (AP)	(78)	(0.71%)	(164)	(2.92%)
Total	2,003	1.47%	1,293	0.94%

Note – Special includes the Connected Hub and Pupil Referral Unit (PRU).

3.57 There are a total of 15 schools (out of 67) with deficit balances, a decrease from 18 as at the end of 2016/17. This is split across 7 Primary, 4 Secondary and 4 Special and AP schools. School budget plans for 2018/19 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. Under this scheme, the maximum proportion of collective Schools Balances to be used to underpin licensed deficits is 100%. It should be noted that if deficits exceed the total available Schools Balances, temporary funding from the General Fund may be required until balance is achieved.

Housing Revenue Account (HRA)

3.58 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.

3.59 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 key area of focus will be developing good value for money arrangements for the provision of repairs & maintenance and major works when the current contract (with Mears) comes to an end in 2020.

3.60 For 2019/20, 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). However, tenants will see rent increases again from 2020. On 4th October 2017, the Department for Communities and Local Government announced 'increases in social rents will be limited to Consumer Price Index (CPI) plus 1% for five years after 2020'.

3.61 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.

3.62 There still 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 phasing in of Universal Credit could have an 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

3.63 The capital investment plan for the HRA is mainly funded from direct revenue funding from tenants' rents (and associated rent rebates) as well as the use of . retained capital receipts from Right to Buy sales and borrowing 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 2019/20.

ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

3.64 The budget process allows all parties to engage in the examination of budget proposals and put forward viable alternative budget and council tax proposals, including through amendments, to Budget Council on 28 February 2019. Budget Council has the opportunity to debate the proposals put forward by the Committee at the same time as any viable alternative proposals.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

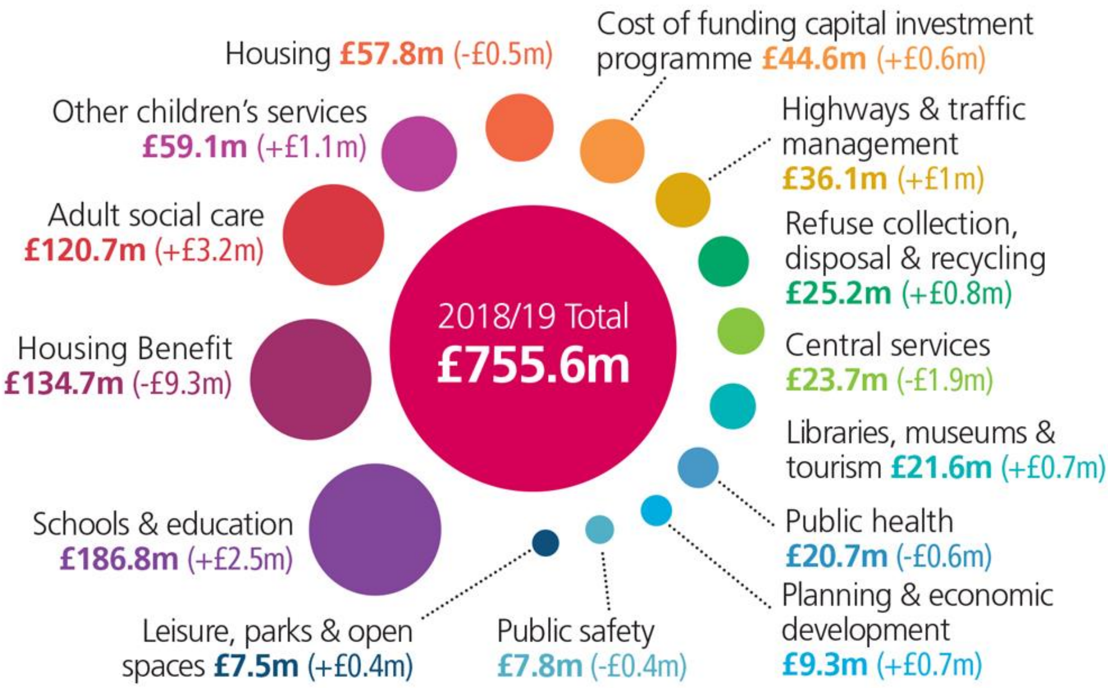
General Fund

4.1 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 in 2018/19, only around £140 million (18.5%) is funded by Council Tax and about £60 million by retained Business Rates (8.0%). Many services are funded by fees, charges or rents while others can be supported by government grants (e.g. Public Health, 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.

4.2 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.

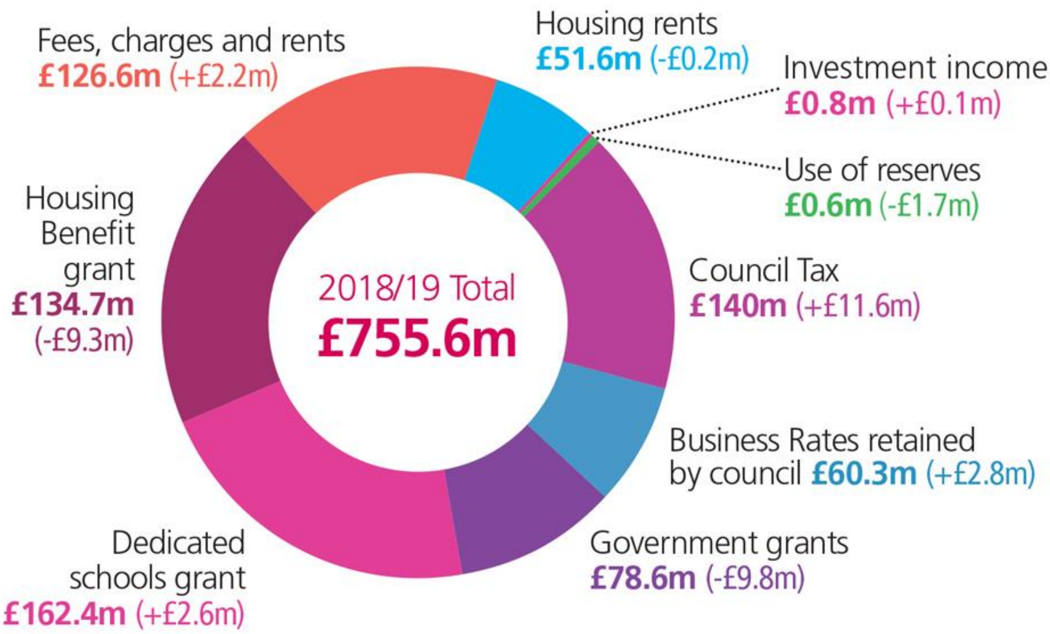
Services provided

(figures in brackets show the change from 2017-18)



Where the money comes from

(figures in brackets show the change from 2017-18)



4.3 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**.

4.4 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.

4.5 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, young people representatives, 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 financial situation;
- engagement with statutory partners in the city through the City Management Board, Health & Well-being Board and the B&H Clinical Commissioning Group.

4.6 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 of updating communications (e.g. charts and animation) and maintaining the web site are expected to be within the current budget provision (£5,000).

Schools Consultation

4.7 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.

4.8 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 and Skills and Finance colleagues to ensure involvement and engagement of schools representatives in considering the options as proposals are developed.

4.9 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.

5. CONCLUSION

5.1 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.

6. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Finance Officer Consulted: James Hengeveld *Date: 21/06/2018*

Legal Implications:

6.2 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.

6.3 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: 25th June 2018*

Equalities Implications:

6.4 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/or third sectors. We will ensure the process considers the economic impact of proposals.

Sustainability Implications

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

Risk and Opportunity Management Implications:

6.6 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 2019/20 budget.

6.7 Key factors (risks) for projecting the savings requirements for 2019/20 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 taxbase growth and other assumptions, particularly business rate appeals and the 2017 revaluation;
- The success and impact of the Better Care Fund programme and the 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 ongoing 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 e.g. commercial rents. This is now potentially more volatile as 'Brexit' progresses, 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 2019/20
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