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

Subject:		**Revenue & Capital Budget Planning and Resource Update 2020/21 to 2023/24**		
Date of Meeting:		**18 July 2019**		
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 2020/21 annual budget process together with an updated Medium Term Financial Strategy (MTFS) covering the period 2020/21 to 2023/24, 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 £39.574 million over the 4-year period 2016/17 to 2019/20. This has resulted in the grant reducing to its current level of £6.523 million. At this time, it is not clear what will happen to the remaining RSG in relation to the next government Comprehensive Spending Review but for the purposes of financial planning for 2020/21 it is assumed to remain at this level.

1.3 The report also includes an assessment of the pressures facing priority services in terms of above-inflation increases in costs and growth in demands, particularly in relation to services for vulnerable people such as social care. Alongside government grant reductions, limitations on the level of council tax increases and normal inflationary pressures, these cost and demand pressures explain the cause of the 'budget gaps' that the council has been experiencing over the last 10 years. Unless local government funding increases significantly, this is expected to continue.

1.4 Predicting local government funding for the next 4 years is difficult in the absence of any firm information, resulting from the government's ongoing focus on EU withdrawal. Although not confirmed, it now appears unlikely that the government will be able to do anything other than 'roll-forward' the current Local Government Financial Settlement to 2020/21. It also seems that the sector will therefore have to wait until late 2020 to learn the outcome and impact of the Comprehensive Spending Review (CSR) for future years. This will include decisions on:

- The Fair Funding Review of the methodology used to derive the national distribution of local government funding and any damping or transitional arrangements to accommodate this;

- The proposed move to 75% Business Rate Retention which would increase retention of business rates locally from 50% to 75%. However, as this is intended to be fiscally neutral, it is not clear what existing funding this would replace; the Public Health grant and Revenue Support Grant are likely candidates. A critical element of this policy will be the treatment of any business rate growth in terms of whether or not councils will be able to retain any element of this;
- The Social Care Green Paper and the long term funding of social care where government are reviewing a number of options but it remains to be seen if any will be taken up;
- The New Homes Bonus and the determination of thresholds for new house building that must be reached in order to attract the bonus, assuming that the scheme will continue in some shape or form.

1.5 The local government finance settlement is not normally made available until December each year, which provides little time to alter financial planning assumptions. As a result, the budget setting process should allow flexibility to manage any adverse fluctuation in the level of announced resources. This necessarily requires a prudent approach in order to:

a) keep risks at an acceptable level and maintain financial resilience;

b) avoid last minute, arbitrary cuts to services to balance the budget; and

c) avoid using up the authority’s limited reserves (one-off resources).

1.6 The council is in the final year of its current 4-Year Integrated Service & Financial Plans (ISFPs) which have helped it to identify and address budget gaps by developing savings plans required to close the gaps over the period. This started in 2016/17 with predicted budget gaps of £68 million over the 4-year period. The final position in 2019/20 shows that the budget gaps actually totalled £69 million over the period indicating that the 4-year process has been broadly successful in identifying the financial challenges facing the authority, thereby ensuring it remains sustainable.

1.7 Looking forward, this report recommends that a 4-year planning approach is repeated to ensure that options for addressing future years’ financial challenges are considered and understood as early as possible.

2. RECOMMENDATIONS:

That the Policy, Resources & Growth Committee:

2.1 Note the resource and net expenditure projections for 2020/21 and the Medium Term Financial Strategy (MTFS) projections set out in the body of the report and Appendices 1, 2 and 3 based on a 1.99% Council Tax increase.

2.2 Note the predicted budget gaps for 2020/21 to 2023/24 to be adopted for budget setting purposes as detailed at paragraph 4.20.

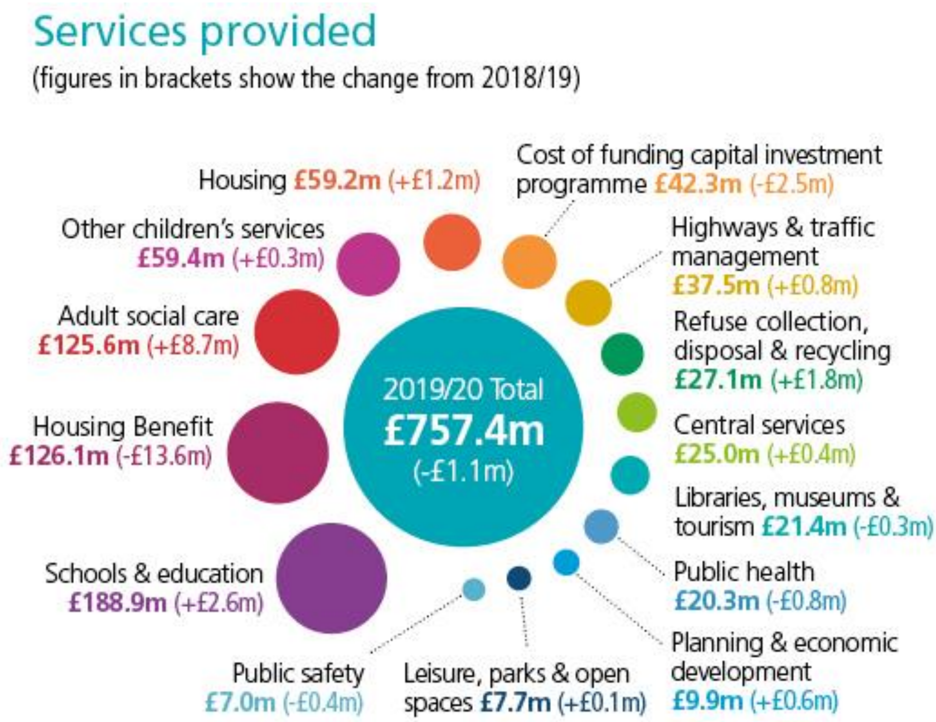
2.3 Instruct the Executive Leadership Team (ELT) to develop 4-Year Budget Plans including investment and savings proposals to address the predicted budget gaps for the period 2020/21 to 2023/24 based on the assumptions in this report, and for consideration by Policy, Resources & Growth Committee.

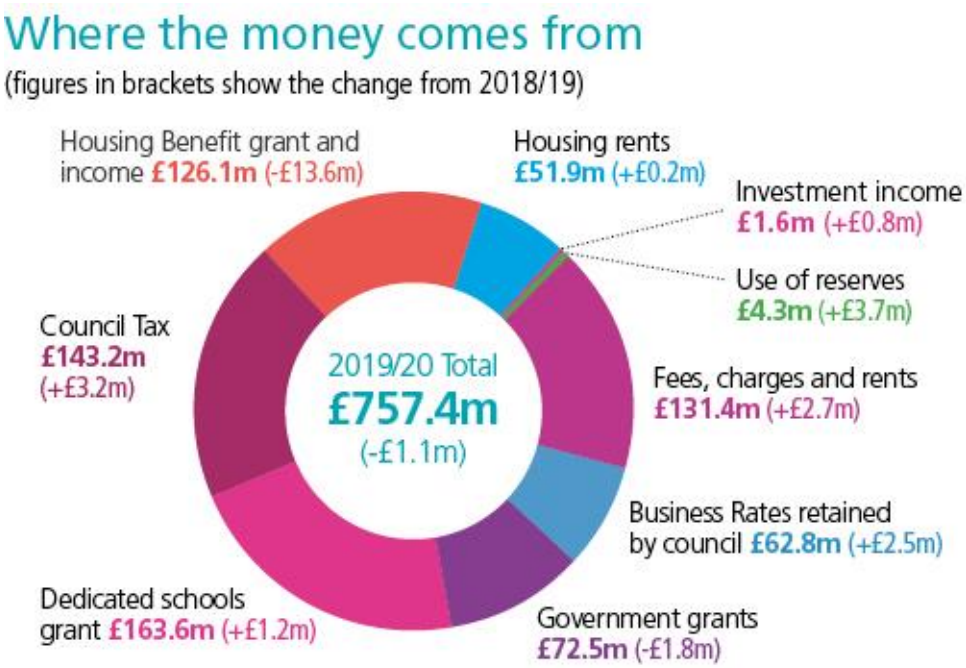
2.4 Agree the proposed approach to reviewing the Council Tax Reduction Scheme as set out in Appendix 2.

2.5 Note the resource projections for the 5-Year Capital Investment Programme as shown in Appendix 4.

3. CONTEXT/ BACKGROUND INFORMATION – UNDERSTANDING THE COUNCIL'S BUDGET

3.1 The council's budget is substantial and complex. To help members, residents and partners, the charts below provide a simplified presentation of how much money is planned to be spent on 'Services Provided' and 'Where the money comes from' (i.e. funding) for 2019/20.





3.2 There are many alternative ways to present this information. The following budgets are sub-sets of the above and are commonly referred to in budget reports:

General Fund Budget – covers the services over which the council, through its elected members, has full control. This budget covers all services except the Housing Revenue Account and the Dedicated Schools Grant. The council is statutorily required to set a balanced General Fund Budget each year and may not plan for a deficit or surplus. A key component of the funding of the General Fund Budget is local taxation income from the Council Tax and Business Rates. Business rates are set nationally by government while decisions about Council Tax increases are for local determination within parameters set by government. Currently, the council is allowed to retain 50% of business rates of which 1% is due to the East Sussex Fire Authority.

Housing Revenue Account (HRA) – this is a ring-fenced account within the General Fund which includes all the costs and income related to the management of the Council Housing Stock of approximately 11,500 homes. Members also determine the HRA Budget annually, including rent levels, but must ensure that it remains self-financing and must consult tenants' representatives. Local taxation does not apply to the HRA.

Schools Budget or Dedicated Schools Grant (DSG) – is a ring-fenced[1] grant within the General Fund that must be applied to the provision of schools. The allocation of the DSG is increasingly determined by a National Funding Formula and is considered by the Schools Forum including representatives from across all school phases. Local taxation does not apply to schools funding.

Housing Benefit Subsidy – is a grant within the General Fund that must be applied to meet assessed and agreed benefit claims. It is effectively a ring-fenced, transfer payment from central government administered by the local authority on behalf of government. It is therefore a net nil budget as grant income is received but then paid out in full as benefits. It is gradually being replaced by Universal Credit which is administered by the Department of Work & Pensions.

Generally, when referring to 'the council's budget', this is normally a reference to the 'General Fund Budget' which covers the vast majority of everyday services but excludes the HRA, DSG and Housing Benefit Subsidy.

3.3 **Gross or Net:** an added dimension is that all budget information can be presented as either 'Gross' or 'Net'. Gross simply means the total of all expenditure including, for example, staffing, premises, transport related costs or payments to third party suppliers or providers. To arrive at a Net budget, we simply take the Gross budget and net off any income from fees, charges, rents and service specific grants <u>but not</u> sources of funding such as unringfenced government grants or taxation incomes.

In the case of the General Fund Budget, the Gross spend/budget in 2019/20 is approximately £398 million, while the Net budget is £204 million. The Net General

[1] Ring-fencing simply means that the funding or income source must be used for a specified purpose or service. Unringfenced funding can therefore be used for any purpose or service but cannot normally be switched between revenue and capital.

Fund budget is also known as the 'Budget Requirement' and must be matched by the funding sources available to the council from taxation and unringfenced government grants. The General Fund Budget is the primary budget for consideration by Policy, Resources & Growth Committee and the full Council each year. However, the Housing Revenue Account budget is also considered separately by Housing & New Homes Committee, Policy, Resources & Growth Committee and the full Council each year while the schools budget (DSG) is a matter for the authority to determine in consultation with the Schools Forum.

3.4 **Revenue and Capital:** a further dimension is the distinction between revenue and capital. All of the above refers to different types of 'Revenue' budgets. However, the council can also have a wide range of capital programme budgets. These are budgets for investment in the construction or acquisition of long term assets such as land, new housing, or property, plant & equipment. They are funded differently to revenue budgets, usually from financing sources such as borrowing, capital receipts from the sale of capital assets, or from capital grants. However, there will be a link to revenue budgets in situations where borrowing is used as the annual loan repayments (known a financing costs) will be charged to the relevant revenue budget.

4. 4-YEAR BUDGET PLANNING

4.1 Effective financial planning has become increasingly important in the current financial climate. Losing grip of the council's finances and the consequent impact on services has serious reputational implications and in cases where this has happened, the members of the authority have generally had to cede control of the situation because the level of external scrutiny, challenge and/or government intervention has escalated accordingly. Recent examples include:

- Statutory Section 114 notices being issued by Chief Finance Officers (CFOs) to restrict all spending, bringing with it associated media and reputational impact;
- Related objections to the accounts which must be investigated by the external auditor;
- Legal challenges from residents in respect of council decisions, particularly where urgent cuts have had to be approved to balance the books;
- Intervention by government in respect of failing services where they have appointed commissioners to take over whole services;
- In the severest case, Northamptonshire, direct intervention by government will result in dissolution of the authority and creation of two new unitary authorities from April 2021.

In their annual reviews, external auditors are therefore increasingly concerned with local authorities' arrangements for securing value for money which includes demonstrating financial resilience and sustainability, and providing evidence of effective medium term planning.

4.2 Medium term financial planning is not only good practice but is therefore an increasingly important discipline in an environment of growing financial challenges. The advantages of effective medium term planning are that:

- it promotes a culture of looking forward and developing a strong understanding of future costs, including those driven by local demographic changes or priorities;

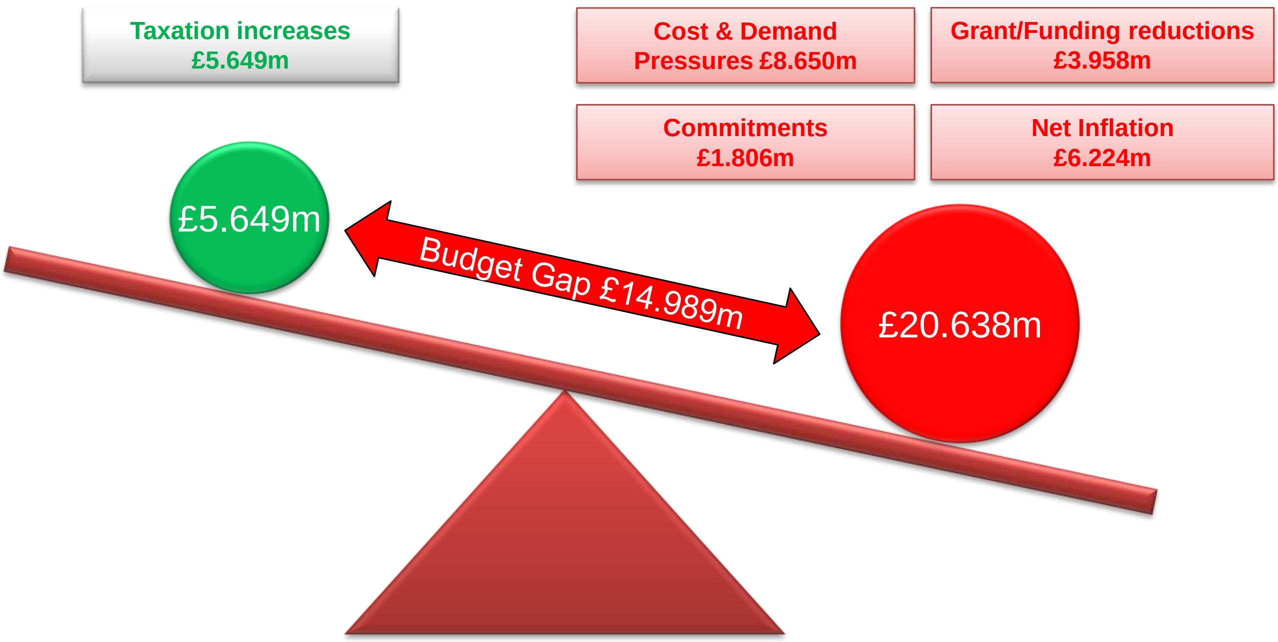
- it encourages longer term service planning to meet identified changes in demand and to deliver cost reductions and efficiencies through service redesign or technological investment, etc.;
- it enables early identification of any anticipated funding shortfalls (i.e. Budget Gaps) and therefore provides for advance planning for the delivery of savings, efficiencies and/or for the re-prioritisation of spending;
- it therefore helps the authority to minimise financial risks and volatility, maintain essential services and demonstrate financial resilience to key partners and to independent reviewers including inspectors or external auditors;
- it enables alignment of planning with a range of internal and external plans and timelines including the government's 4-year Comprehensive Spending Review or the NHS 5-year Plan for example.

A four year planning term is recommended because this aligns with the Administrative cycle of the council and the government's Comprehensive Spending Review period. The latter provides essential information for medium term financial planning in local government and therefore going beyond 4-years, although possible, becomes considerably less reliable.

Balancing the Budget

4.3 In respect of the General Fund Budget, the basic equation that the council has to address each year and over the medium term is demonstrated in the diagram below.

The Basic Equation (for 2020/21)



4.4 This shows that the council must have a good understanding of the component parts of the General Fund Budget if it is to avoid running into unplanned deficits and overspending. Each year the council experiences significant increases in costs as well as changes in grant funding support. The component parts are:

Cost & Demand Pressures – these are often referred to as 'Service Pressures' and relate to unavoidable increases in costs above normal inflationary rates or may relate to demographic changes in demand. For example, there is clear evidence that there is increasing complexity of need across adult social care services as people live longer but with an increasing number of limiting health conditions. Service Pressures may also refer to income pressures where an income target (i.e. income budget) can no longer be met in full due to a change in circumstances, for example, a fall in income from fees & charges in a service.

Grant / Funding Reductions – since 2009/10 central government has reduced government grant support to local authorities, principally through reductions to the Revenue Support Grant (RSG) but also through other administrative grants. There have also been some one-off grants awarded, which, while helpful, must also be catered for when these grants come to an end. An example of this is the one-off improved Better Care Fund for Health & Adult Social Care services which was allocated for 3 years and will end in 2019/20, reducing by a further £1.733 million in 2020/21. There have also been funding reductions from partners, particularly the Brighton & Hove Clinical Commissioning Group (the CCG) which jointly funds some social care & health related council services but which is also coming under increasing financial pressure, not least from patient demand at the Brighton & Sussex University Hospital (BSUH).

Net Inflation – the council experiences normal inflationary pressures from rising prices, nationally agreed pay awards for staff, and increasing employer contributions to its pension fund. These need to be provided for otherwise services would suffer 'real-terms' funding reductions which would be likely to impact adversely on service delivery.

Commitments – these include unavoidable commitments, for example increased insurance premiums, above-inflation contractual commitments (e.g. PFI contracts), and the impact of capital programme decisions on financing costs (i.e. the costs from borrowing).

Taking all of these together, it is currently estimated that the council will experience cost pressures totalling £20.638m in 2020/21. This estimate takes a low to medium view of potential cost pressures rather than a worst case scenario.

Taxation Increases: The above cost pressures can be partially offset by increases in taxation which can come from increases in the taxbase (e.g. more housing or more business premises) or direct increases in either Council Tax or Business Rates. Council Tax increases are determined by the members of the council but cannot exceed the government's 'excessive council tax increase' threshold without holding a local referendum. Business Rate increases are set nationally by government, usually based on the preceding September's Consumer Price Index (CPI) change.

Each 1% increase in Council Tax generates approximately £1.4m while each 1% increase in Business Rates generates approximately £0.6m (retained element). To match cost pressures of £20.638m would therefore require a very substantial increase in Council Tax given that Business Rates increases will usually follow the movement in the national Consumer Prices Index. Based on a threshold Council Tax increase of 1.99% and an assumed Business Rate increase of 2%, taxation incomes are estimated to provide £5.649m in 2020/21. This includes an assumption of a 1.0% increase in the Council Tax base (i.e. more housing coming on stream) based on current trends.

Addressing the Budget Gap

4.5 The difference between the estimated cost and funding pressures (£20.638m) and estimated increases in taxation incomes (£5.649m) is termed the Budget Gap (or savings requirement). For 2020/21 this is therefore estimated at £14.989m. The broad options or possibilities for closing the estimated budget gap are as follows:

i. Government may provide increased funding through the Local Government Financial Settlement. It may recognise the pressures on social care funding given the strength of lobbying from all quarters. It could do this by either providing additional specific grants, increasing the 'excessive council tax increase threshold', or by allowing additional Council Tax precepts. There are potentially competing lobbies for education funding;
ii. The council could elect to increase Council Tax above the current 'excessive council tax increase threshold' (i.e. above 1.99%). This would require a local referendum to be held with a successful outcome, and in itself creates a cost of approximately £0.370m to hold a referendum and requires identification of one-off resources to mitigate the delay in implementing proposals while the outcome is awaited;
iii. Partners provide increased funding for joint operations e.g. CCG funding toward social care costs. However, the CCG has reduced funding support over the last 3 years because it is also under increasing financial pressure. Other partners are small by comparison;
iv. There may be improvements in the tax bases (Council Tax and Business Rates) beyond the current projections which would provide additional resources. This has been the case in some years but is not certain and will not normally exceed £1m at best;
v. There may be improvements in the projected level of cost, income and/or demand pressures (i.e. Service Pressures) assumed in the current estimates. This is not supported by the experience of the previous four years, where Service Pressures have invariably been higher than early projections.
vi. The council identifies a programme of savings measures to either reduce costs, manage down demands (e.g. through prevention or other strategies), generate greater incomes or reduce investment in lower priority services.

4.6 Options i to v above carry a high level of uncertainty and therefore the authority must have a 'Plan B' should any of these fail or if it is not elected to pursue them. In the case of a Council Tax Referendum, it is a legal requirement to have a substitute budget should a referendum not be successful. The council is therefore recommended to develop proposals to address a predicted Budget Gap of £14.989m in 2020/21 to ensure that it has a well-developed Plan B that it has consulted on with relevant staff, unions, stakeholders and residents, has assessed in terms of potential equality impacts, and can implement in good time if necessary.

4-Year Planning Approach

4.7 As outlined above, planning over a medium term period is preferable in order to provide greater financial resilience and stability. Therefore, as well as planning for 2020/21 it is recommended that plans for the next 4 years to 2023/24 are developed to encourage early planning for addressing future years' predicted budget gaps. For many savings measures this is also important because, for example, service redesigns for very large service areas can take a number of years to fully embed and implement and therefore deliver the full benefits and savings. Some of these may also require one-off invest-to-save investments to support implementation.

4.8 Given the uncertainties over future local government funding and other funding or taxation options the council may elect to pursue, it is recommended that the 4-year planning approach includes savings measures that are built up from component parts, each of which can be assessed in terms of either priority and/or risk. If the funding situation did ultimately improve, this may help to inform which measures could be deferred to meet budget gaps in later years. The component parts are suggested as follows:

4-Year Budget Plan Components

4.9 **Priority Based Approach:** A primary component of the proposed approach will be to determine clear priorities. Higher priority areas are likely to attract greater investment through the allocation of Service Pressure funding but may also receive greater protection in terms of reduced savings targets. To some extent, this has been the approach of the council in recent years but there is an opportunity to provide added clarity and transparency to this process and further align the 4-year planning framework to the council's priorities and a new Corporate Strategy.

For example, analysis of the previous four years shows how funding (budgets) has changed across the council's 6 service directorates. The table shows that the council's net budget for services has increased by just 0.2% over 4 years clearly demonstrating the scale of challenge it has faced to balance the budget. However, it also shows that Families, Children & learning and Health & Adult Social Care services attracted additional resources while all other directorates' budgets were reduced. This was a deliberate strategy designed to protect services for vulnerable people and ensure the council was able to meet its statutory duties.

Service Directorate	**Service Budgets Approved by Council**					**4-Year**
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**Change**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**%**
Families, Children & Learning	82,374	81,877	83,196	86,736	88,918	7.9%
Health & Adult Social Care	51,365	49,988	49,590	51,398	57,804	12.5%
Economy, Environment & Culture	43,854	40,927	36,319	34,543	36,048	-17.8%
Neighbourhood, Communities & Housing	15,437	15,110	14,243	14,857	14,994	-2.9%
Finance & Resources	22,441	22,381	20,133	19,927	19,394	-13.6%
Strategy Governance & Law	6,087	5,308	4,694	4,924	4,898	-19.5%
Total	**221,558**	**215,591**	**208,175**	**212,385**	**222,056**	**0.2%**

Service Pressure Funding

4.10 A key component of a Priority Based Approach is to identify critical levels of reinvestment needed for priority services or demand-led services where there are unequivocal statutory duties. The Executive Leadership Team and Finance have examined current demand and expenditure trends for these priority areas which indicates that the following minimum Service Pressure funding will be required to safeguard the provision of services and enable the council to meet its duties. It should be noted that these are not 'worst case scenario' estimates and are set at a low to medium funding level. This necessarily requires these services to manage and mitigate pressures as far as practicably possible to ensure that the worst case scenario does not become reality. Service Pressure funding also provides replacement corporate funding where there is a known reduction in specific grant for an ongoing service or other reductions in unringfenced funding.

4.11 The table below indicates the proposed allocation of Service Pressure funding for 2020/21 by type and service. These assumptions will be monitored throughout the budget process and will be revisited and confirmed in the December and February Budget Reports to this committee, taking into account latest available 2019/20 financial performance and demand trends, the Local Government Finance Settlement and any impact of funding negotiations with key partners such as Health.

Table: Service Pressure Funding – Proposed Prioritisation

Service	Demo-graphic/ Demand Pressure	Costs above inflation	Income Pressure	Grant/ Funding Loss	Total 2020/21
Service Pressures:	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Community Care services for Mental health and Physical Support	3,400	500	100		4,000
Learning Disability Services	450	550			1,000
Reduction of B&H Clinical Commissioning Group funding			1,000		1,000
Children in Care and Care Leavers	600	150			750
Income Pressures			1,000		1,000
IT&D Contractual Commitments	500				500
Pressures – all other priority services		400			400
Sub-total Service Pressures	***4,950***	***1,600***	***2,100***	***0***	***8,650***
Grant/Funding Pressures:					
Reduction of one-off improved Better Care Fund grant				1,733	1,733
Reduction of Unringfenced grants				155	155
Loss of Business Rate Levy funding				893	893
New Homes Bonus Changes				1,177	1,177
Total Grant/Funding Pressures:	**0**	**0**	**0**	**3,958**	**3,958**
Total	**4,950**	**1,600**	**2,100**	**3,958**	**12,608**

Development and Allocation of the Savings Requirement

4.12 A priority based approach can also help to determine where the allocation of savings requirement is most effectively targeted in order to address the predicted Budget Gap, for which total savings of £14.989m will need to be developed. However, savings can be achieved in a number of different ways, some of which may be achievable across all services, while others may only be applicable to specific areas e.g. income generation. The suggested approach for the 4-Year Budget Plans is to define the component parts of the savings targets and to task services to develop savings against each of these components as follow:

Efficiency/VFM Programmes: The best type of saving and one that all organisations, large or small, should be looking for is to continually seek better value for money (VFM). This can be done by improving any combination of efficiency, economy (i.e. costs) and effectiveness (i.e. better service outcomes and/or improved social value). At the least, improved VFM means that services can do more with the same money, but ideally they will be able to do the same or more with less money, thereby generating a saving toward closing the budget gap.

Consideration needs to be given to supporting council-wide VFM programmes that could include a wide range of initiatives including:

- Supporting redesign of services to maximise efficiency and effectiveness through improved process design, technology, digital service development, and customer and client journey mapping;
- Driving economy and social value through Procurement and Contract Management processes and practice;
- Continually reviewing management and administration levels, administrative processes, costs and structures;
- Maximising the use of administrative buildings and office space (Workstyles);
- Considering the method of delivering services to test VFM and also consider opportunities for increasing social value & community wealth building, or environmental sustainability.

Savings targets relating to efficiency could be determined per initiative or alternatively all services could be set a minimum efficiency target of between 1% and 3% on the basis that all of the above measures will apply to a greater or lesser degree to all service directorates. This would have the advantage of incentivising services to contribute to these initiatives rather than leaving them as corporate targets.

Taxation & Taxbase Strategies: This heading covers the whole sphere of taxation and is more concerned with maximising the tax bases rather than taxation increases which are a matter for the full Council. However, with respect to the latter there are options for members including consideration of higher council tax increases through a local referendum. Maximising taxation by ensuring that people and businesses pay their correct liabilities is essential for protecting the provision of council services. There are many ways to maximise taxation incomes including:

- Ensuring people are receiving all of the welfare benefits they are entitled to, thereby potentially reducing the need to use Council Tax discounts, discretionary or hardship funds, or the Council Tax Reduction Scheme;
- Investing in effective fraud and corruption strategies to ensure that only people and businesses entitled to discounts and reliefs are awarded them;
- Ensuring that the Planning, Housing and Property & Design services are fully aligned with taxation strategies to minimise delays in bringing developments on stream for taxation purposes (as well as other obvious benefits);
- Ensuring that in-house inspection teams are set clear priorities for reviewing changes to business rate premises to ensure that valuations and/or zero-rate premises are continually reviewed and challenged.

Income Optimisation and Enterprise Strategy: Many services provided by the council do not carry statutory duties but play an important role in supporting the economic, cultural, neighbourhood and community well-being of the city. Fees and charges apply to many of these services to ensure that they recover costs and do not further impact on the limited resources available to provide critical services or meet statutory duties such as those for social care or homelessness. Similarly, fees and charges can be set to support policy objectives such as in the case of on-street parking tariffs which are designed to support sustainable transport strategies.

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. The Enterprise Strategy aims to take this approach further and provides services with tools, training, support and guidance with the objective of helping them "To be efficient and optimise income in order to support delivery of the council's priorities." All services should therefore be tasked with optimising incomes wherever possible by:

- Reviewing whether or not current charges recover full costs including corporate and service overheads;
- Benchmarking fees & charges to comparator and/or competitor services and other local authorities to ensure they are in keeping with market conditions;
- Considering the use of means testing or financial assessment to set differential charges for discretionary services;
- Considering the use of differential charging for different levels of service provision or standard for discretionary services;
- Considering charging for services that are not currently charged for or offering services that may be charged for but only where the income will contribute more to corporate overheads than the pure cost of service.
- Selling services to external partners or other organisations but, again, only where this contributes to corporate overheads and does not adversely impact on the provision of services to the council itself.

Changes to fees and charges will often need to be assessed in terms of equality impacts.

Collaborative Working:

Orbis and Other Collaborations: The Orbis Shared Service partnership between BHCC and Surrey and East Sussex County Councils is a public sector partnership aimed at delivering the savings that all three authorities require from Support Service Functions but doing so in a way that ensures services remain resilient and viable. The intention is to provide sufficient scale to enable Orbis to develop and implement improved processes and technologies to lever in efficiency savings and potentially market services to other public sector providers to generate income.

There are many other collaboration opportunities available to the council through either partnership working, joint procurement or commissioning exercises, linking with community & voluntary sector services, and working jointly with other service providers in the city. These opportunities will be increasingly explored to determine whether they provide value for money benefits as well as potential added social value and/or improved environmental sustainability.

Health & Social Care Collaboration: This is an important collaboration for the council and refers to the whole system of health and social care where the design of the care system and care pathways and the interaction between health services and council services can have fundamental impacts on the cost of the system and the effectiveness of managing the demands coming through it. The approach aims to meet those demands in the most efficient and effective way aimed at ensuring that assessed needs are met at the right time and in the right place before they escalate in the form of increasing need and complexity and therefore result in much greater costs. Public Health and preventative services also play a critical role in managing demands, particularly over a longer time frame, and the strategies of these services should be fully aligned with health and social care approaches.

Children's and Adult social care services will therefore keep under review their social work practice models and arrangements for commissioning care provision. This will include working closely with partner agencies, particularly the B&H Clinical Commissioning Group, to join up commissioning and/or provision where this can improve the care system. This will be supported by a number of identified initiatives under the Sustainable Social Care Programme which aims to improve the economy of procured services as well as improve the quality and analytical use of data to manage demands and care pathways.

Social Value & Community Wealth Building and Sustainability: these are important priorities for the council and therefore the 4-Year Budget Plan process will ensure that these are underpinning approaches that will be considered in the development of proposals. Guidelines will be developed for services to ensure that due consideration is given to these objectives and, where applicable, proposals will indicate the Social Value & Community Wealth Building and/or Sustainability implications to assist members' prioritisation and decision-making.

Modernisation & Enabling Investment

4.13 The previous 4-year planning approach was supported by a Modernisation Programme and Fund which utilised the government's capital receipt flexibilities enabling the council to use capital resources to support one-off revenue expenditure provided that this supported the achievement of ongoing revenue savings. Over the 4 years approximately £26m was invested in a range of programmes and support teams including:

- Funds to support spend-to-save investment proposals and business cases from a wide range of services;
- The Digital First programme to improve on-line services and enable more efficient processing and data management;
- Funds to manage changes in staffing levels by supporting voluntary severance arrangements;
- Investment in additional Procurement & Contract Management staffing to support achievement of savings across the council;
- Investment in staff development programmes and the 'People Promise' initiative to embed improved HR policies and support the health and well-being of staff as the council works through a wide programme of change;
- Investment in project and programme management support staffing to provide capacity to implement change and the achievement of savings across services.

4.14 Over the 4-year period total savings of £69m per annum were achieved with a cumulative cash saving of nearly £193m. The return on investment (ROI) for the Modernisation Fund is therefore over 7 to 1 which represents a reasonable return. It is unlikely that this level of saving could have been achieved without this investment.

4.15 Government have extended the use of capital receipt flexibilities to 2023 however the council does not currently have a significant pipeline of capital receipts in order to support a substantial Modernisation Fund over the next 4 years. A key challenge will therefore be to identify further potential capital receipts as part of an over-arching Property Strategy but it may also be necessary to consider the use of unsupported borrowing where the council is confident that this is necessary to support the achievement of savings. However, the use of borrowing will impact on the level of savings because there will be an annual financing cost to be accommodated over the period of repayment.

4.16 Early consideration of Modernisation Funding for the next 4 years has been given and is set out in the table below. The scale of funding reflects the previous investment as adjusted for the lower level of budget gaps, predicted to total £38m over the next 4 years compared to £69m over the previous 4 years. This would suggest a Modernisation fund of around £15m to provide a comparable level of investment and provide continued investment in Digital development and IT infrastructure to enable services to continue to achieve efficiencies and better value for money.

The indicative Modernisation Fund will be kept under review as budget plans develop and spend-to-save opportunities and investment needs to implement savings proposals emerge in more detail.

Indicative Modernisation Fund	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**Total**
	£'000	£'000	£'000	£'000	**£'000**
Customer Digital	1,000	1,000	750	750	**3,500**
Modernisation enablers	1,507	921	932	940	**4,300**
Invest to Save (4-Year Plans)	650	550	450	350	**2,000**
Managing staffing changes	700	500	400	400	**2,000**
IT Modernisation Investment	800	800	800	800	**3,200**
Total	**4,657**	**3,771**	**3,332**	**3,240**	**15,000**

4.17 The indicative Modernisation Fund currently includes the following anticipated investment requirements:

Customer Digital: Over the past four years the Digital First programme has concentrated on developing the digital infrastructure, web design and content management applications and tools necessary to provide digital services. There has also been development of a small number of digital services and ‘apps’ but the infrastructure is now in place to increase the pace of development. Digital forms, apps and services enable enhanced data management and a better customer experience, and should support service redesign efficiencies. The investment is set at a lower level than in the previous four years as the underpinning work to develop the necessary technology platforms has been completed.

Modernisation Enablers: This investment covers project teams and staff necessary to support service directorates in the delivery of large savings programmes. This includes Project & Programme Managers (PMO), Business

Improvement analysts and workstyles project staff, as well as investment in the People Promise, internal communications and change management. This investment will be scaled down to reflect the lower level of predicted budget gaps for the next 4 years.

Invest-to-Save (4-Year Plans): This is an estimate based on the experience of the previous 4 years. These investments cover direct investment by services to enable them to achieve planned savings. This can include commissioning expert advice or professional services, providing temporary additional capacity, or investing in equipment, training & development and systems developments to support service changes. Investments must be supported by Business Cases which are considered and scrutinised by the Corporate Modernisation Delivery Board chaired by the Chief Executive.

Managing Staffing Changes: Many savings measures will involve service redesign or modernisation (e.g. becoming more digital) that may have an impact on staffing requirements. This is normal within local authorities as they strive to improve value for money as part of their Best Value duty under the Local Government Act 1999 and as part of their budget strategies. Managing change often requires seeking voluntary redundancy or supporting redeployment as a way of managing the process and this requires funding to meet redundancy costs and potential pension strain costs. The assumed level of investment for Restructure & Redundancy has been scaled down to reflect the lower level of predicted budget gaps for the next 4 years.

IT Modernisation Investment: Investment in IT equipment, software, systems and services (e.g. voice and data) is important to enable the organisation to remain secure, resilient and efficient. Historically, the organisation has suffered from long periods of under-investment which has had to be addressed over the last 4 years through approval of large IT Capital Schemes including Windows 10 roll-out, replacement of the Housing and Social Care systems, General Data Protection Regulation upgrades, etc. The IT Modernisation Investment included here is an attempt to avoid a similar build-up of IT 'investment backlog' by supplementing existing budgets and enabling the council to keep up with necessary infrastructure changes.

4.18 The Modernisation Fund is currently provided with member oversight through the Member Oversight Group (MOG) and is also managed by the Corporate Modernisation Delivery Board (CMDB) chaired by the Chief Executive and including Executive Directors and the CFO. The overall Modernisation Fund is approved by members as part of the council's Capital Investment Programme, while decisions about the detailed use of the Modernisation Fund are governed according to Financial Regulations, and Committee and Officer delegations. Larger investment decisions above £0.500m will be reported to Policy, Resources & Growth Committee as these are outside of officer delegations. Decisions leading to investment in capital assets will also be reported to Policy, Resources & Growth Committee either as a separate report or through the capital appendices of Targeted Budget Management (TBM) reports.

Medium Term Financial Strategy Update 2020/21 to 2023/24

4.19 The key assumptions for the Medium Term Financial Strategy (MTFS) have been updated since the Budget Report presented to Policy, Resources & Growth

Committee in February 2019. These are included in Appendix 3 and, as noted earlier, assume a roll-forward Local Government Financial Settlement and that the Fair Funding Review and move to 75% locally retained business rates, if implemented, will be fiscally neutral for this council.

4.20 The table below summarises the MTFS estimates and predicted budget gaps for the next 4 years based on 1.99% Council Tax increases.

Summary MTFS and Budget Gaps	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**
Commitments	1.806	0.452	0.612	0.195
Net Inflation (on Pay, Prices, Income, Pensions)	6.224	6.237	6.390	6.557
Service Pressure Funding: for above-inflation costs and demographic demand increases	8.650	5.900	5.900	5.900
Provisions for Grant / Funding reductions to ongoing services	3.958	0.767	0.152	0.397
Net Taxation increases	-5.649	-5.339	-5.474	-5.630
Predicted Budget Gaps (Savings Requirement)	**14.989**	**8.017**	**7.580**	**7.419**

5. CAPITAL STRATEGY AND CAPITAL INVESTMENT PROGRAMME

General Fund

5 Year Capital Investment Programme

5.1 The Capital Strategy 2019/20 – 2023/24 was approved at Budget Council in February 2019 along with the capital programme estimates that were incorporated into the council's Budget Book. The aim of the strategy is to ensure that all members on the full Council can understand and determine the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite of the council. The capital expenditure estimates incorporate planned rolling investment programmes alongside major infrastructure projects.

Rolling programmes

5.2 The majority of the council's capital investment is within rolling programmes. The key programmes are as follows:

- Investment in Housing Stock (HRA). The Housing Capital Programme seeks to provide substantial investment in the council's housing stock and improve the quality of the homes. It aims to maximise investment in homes and support reductions in responsive repairs needs whilst providing safe, good quality housing and support services. Importantly, it also supports new housing supply. Planned expenditure of £48.0m is included for 2020/21 including approximately £17.9m for delivery of new council housing.

- The Education Capital programme provides investment from central government which includes Basic Need (New Pupil Places) funding of £2.879m in 2020/21, Education Capital Maintenance (estimated at £5.0m pa), Devolved Formula Capital (for community and Voluntary Aided schools) and Locally Coordinated Voluntary Aided (VA) Programme for maintenance in VA schools.

- The council also receives capital grant via the Better Care Fund which is expected to be split between Housing (circa £1.7m) and Adult Social Care (circa £0.300m) to support Disabled Facilities Grants and other eligible investment, subject to confirmation.

- The Local Transport Plan (LTP) maintains, manages and improves the city's transport and highway infrastructure. The LTP supports investment in street lighting, bus networks, schools safety, air quality, and pedestrian, cycle and motorcycle networks. The programme also provides for the necessary reactive repairs to the city's transport network. A total of £5.169m indicative funding is awarded from the LTP Integrated Transport and Maintenance Block Allocation in 2020/21, with a further £0.198m and £0.440m from the Pothole Action Fund and Highways Maintenance Incentive Fund respectively.

- The Information, Technology & Digital Investment Fund provides a minimum of £0.500m investment each year to continually maintain the council's IT structure, networks, security and equipment. This will be supplemented by investment from the proposed in Modernisation Fund set out in paragraph 4.16 and subject to appropriate business cases.

- The Asset Management Fund (AMF) of £1m provides expenditure on a range of corporate properties covering fire safety, health and safety, general improvements, Equalities Act 2010 responsibilities, as well as supporting Workstyles Phase 4 programmes.

- Corporate Planned Maintenance – this programme compliments the revenue provision for planned maintenance with £1 million investment into operational buildings aligned to the council's Asset Management Plan. It is funded through borrowing and includes operational social care buildings.

- The Strategic Investment Fund (SIF) of £0.250m supports the council's ongoing commitment to major projects that require financial support to enable their progression and to potentially lever in external funding and grants. This support takes the form of project management, legal and specialist advisors for finance, design, architectural, transport, engineering and other specialist advice.

- Vehicle and plant replacement is an ongoing annual programme funded from borrowing. The programme replaces Cityclean's waste collection, waste recycling, waste disposal vehicles and equipment and the Cityparks vehicles and equipment.

5.3 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, the Housing Joint Venture, Heritage Lottery Fund bids such as the Stanmer Park Master Plan and the Royal Pavilion Estates Regeneration, and plans for investment into the seafront infrastructure at Madeira Terrace.

5.4 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 Fund (LGF) grants have been approved from the Coast to Capital Local Enterprise Partnership (C2C LEP) to support the Brighton Waterfront and Valley Gardens Phase 3 projects. Other schemes which are underway include Preston Barracks Central Research Laboratory, Circus Street Redevelopment and Valley Gardens Phases 1 & 2. Much needed investment from the Highways Infrastructure Fund has been invested into the development of the Shelter Hall and has also been incorporated into the strategy. Longer term investment for coast protection is also incorporated into the 5 year strategy which includes potential government match-funding.

5.5 Capital receipts from the sale of surplus land and buildings support the capital programme and the projections are regularly reviewed. 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 optimised to ensure best value is achieved.

HRA Capital Programme

5.6 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 4. The programme will require further updating for 2020/21.

6. TIMETABLE

6.1 The Timetable for development and approval of the budget 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
10 Oct 2019	Policy, Resources & Growth	TBM Month 5
5 Dec 2019	Policy, Resources & Growth	Budget Update including Draft Service & Financial Plans TBM Month 7 Council Tax Reduction Scheme 2020/21
19 Dec 2019	Council	Council Tax Reduction Scheme 2020/21
23 Jan 2020	Policy, Resources & Growth	Council tax base Business Rates tax base
13 Feb 2020	Policy, Resources & Growth	TBM Month 9 General Fund and HRA budget reports

27 Feb 2020	Budget Council	General Fund and HRA budget reports

7. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

7.1 The budget process allows all parties to engage in the examination of budget proposals and put forward viable alternative budget and council tax proposals, including through amendments, to Budget Council on 27 February 2020. Budget Council has the opportunity to debate the proposals put forward by the Policy, Resources & Growth Committee at the same time as any viable alternative proposals.

8. COMMUNITY ENGAGEMENT AND CONSULTATION

General Fund

8.1 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 £757 million expenditure in 2019/20, only around £143 million (19%) is funded by Council Tax and about £63 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. Public Health, schools and Housing Benefits). There is also a distinction between capital and revenue spending that can be confusing. 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.

8.2 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, including through this report, but even this requires considerable time and effort to understand and digest fully.

8.3 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**.

8.4 Generally, engagement and consultation on specific proposals is more meaningful and this will always be undertaken separately for any significant proposal to change, redesign or recommission a service. The Council's decisions regarding budget (savings) proposals are therefore primarily a 'resource decision' in the first instance and are subject to all 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.

8.5 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;
- separate consultation with tenants' representative and other groups in relation to the Housing Revenue Account (Council Housing) services.

8.6 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 well within the current budget provision (£5,000).

Schools Consultation

8.7 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.

8.8 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.

8.9 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.

9. CONCLUSION

9.1 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, a suggested approach to the 2020/21 budget process and medium term planning, and a timetable to meet the statutory duty.

10. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

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

Finance Officer Consulted: James Hengeveld *Date: 28/06/19*

Legal Implications:

10.2 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.

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

Lawyer Consulted: *Date:*

Equalities Implications:

10.4 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 funding pressures across the public and/or third sectors. The process will ensure that consideration is given to the economic impact of proposals.

Sustainability Implications

10.5 The council's revenue and capital budgets will be developed with sustainability as a key consideration to ensure that, wherever possible, proposals can contribute to reducing environmental impacts and a low carbon economy.

Risk and Opportunity Management Implications:

10.6 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 2020/21 budget.

10.7 Key factors (risks) for projecting the savings requirements for 2020/21 and future years will be taken into consideration including:

- An assessment of how robust and deliverable the savings that come forward are in the context of current demands, economic conditions and changing needs;
- The accuracy of taxbase growth and other assumptions, particularly the level of business rate appeals;

- The continuing impact of Welfare Reform changes such as Universal Credit e.g. on Temporary Accommodation (homelessness), in particular, the ongoing impact of the reduction to the Benefit Cap;
- 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 may 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. treating dementia), increasing longevity with health conditions, etc.

SUPPORTING DOCUMENTATION

Appendices:

1. Budget estimates for 2020/21
2. Resource Updates and Estimates 2020/21
3. Medium Term Financial Strategy Assumptions and Projections
4. Projected Capital Investment Programme
5. Council Reserves
6. Glossary

Documents in Members' Rooms

1. None

Background Documents

1. Budget files held within Finance