Resources Updates and Assumptions 2020/21

General Fund Budget

Financial Settlement offer

1.1 The provisional Local Government Finance Settlement for 2020/21 is expected in December 2019 including confirmation of the council tax 'excessive increase' threshold above which a referendum would be required. Previously the government had announced a 4 year settlement in 2015 for 2016/17 through to 2019/20. The government has been planning for major changes to local government finance through the Fair Funding Review and increasing locally retained Business Rates from 50% to 75%, informed by the next Comprehensive Spending Review as well as providing multi-year settlements to aid financial planning.

1.2 As government is absorbed with Brexit and Leadership changes, the introduction of the planned changes appears unlikely and therefore financial planning assumptions are based on a roll forward of the 2019/20 settlement with short term (one-off) grants assumed to end. It is expected that greater clarity will be provided from government by the Autumn to improve financial planning assumptions including the response to the national funding issues for social care but detailed information is unlikely to be available until mid to late December. The budget report to this committee in early December 2019 will include updated assumptions as far as possible, albeit without the detail of the provisional settlement.

Government Grants and Precepts

Revenue Support Grant (RSG)

1.3 With the assumption of a roll forward of the 2019/20 local government settlement the RSG would remain unchanged at £6.523 million. RSG has been reducing significantly over the past 4 year planning period with a total reduction of £39.574 million over that period. RSG was one of the grants expected to be rolled in to the 75% locally retained business rates proposal and was effectively assumed to be protected from 2020/21. There is a risk the government rolls forward the 2019/20 settlement but with further reductions to this grant. Any reduction that isn't offset by new grant allocations will add to the council's predicted budget gap.

Adult Social Care precepts and Better Care Funding

1.4 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 was no ability to include a further adult social care precept in 2019/20. At this time there is no indication that further precepting for social care costs will be allowable in 2020/21.

1.5 Better Care funding provided via the NHS through the Brighton & Hove Clinical Commissioning Group (the CCG) is assumed to continue into 2020/21 at broadly the same level as 2019/20 at £21.5 million of which approximately £7 million will be for ‘protecting adult social care’. However, the short term (one-off) improved Better Care Fund resources provided directly to councils over the last 3 years will end and, at this time, cannot be assumed to continue or be replaced. The Better Care Plan is reported to the Health & Wellbeing Board each year for review and approval.

1.6 The government confirmed within its previous 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 unringfenced grant that takes into account each council’s ability to raise resources through council tax. The allocation to this council was £6.220 million in 2019/20. This iBCF funding is separate from the original Better Care Fund that is pooled with local health partners; however both will support collaborative working in Brighton and Hove.

1.7 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 was paid to local authorities and was required to be added to the Better Care Fund pool with its deployment being jointly agreed with the CCG. The final allocation to this council for 2019/20 was £1.733 million. This one-off funding has been used to meet pressures arising from hospital discharge and therefore its expiry will create a pressure in 2020/21 which has been taken account of and adds to the size of the council’s predicted budget gap in 2020/21.

1.8 In late 2019/20 the government confirmed additional funding for winter pressures and also provided an additional Adults and Children’s Social Care grant. No information is available regarding the continuation or otherwise of these grants beyond 2019/20, however, it is assumed that these will continue on a roll-forward basis given the national position on social care.

Table 3: Social Care Resources	**2017/18**	**2018/19**	**2019/20**	**2020/21 Assumption**
ASC Precepting	3% £3.650m	3% £3.901m	0% -	0% -
ASC Support Grant (one-off)	£1.234m	£0.768m	-	-
ASC Winter Pressures		£1.229m	£1.229m	£1.229m
Adults and Children’s Social Care grant*			£2.100m	£2.100m
Improved BCF (ongoing)	-	£3.188m	£6.220m	£6.220m
Improved BCF (one-off)	£5.093m	£3.483m	£1.733m	-

** All of this funding was allocated to Adult Social Care in 2019/20*

1.9 Another important aspect of Adult Social Care funding concerns funding from the CCG for joint initiatives or to cover NHS statutory responsibilities. For example, the CCG is required to reimburse the council for the nursing cost element of social care placements in Nursing Homes. There are also a wide range of other services that are jointly funded and commissioned, including through the pooled Better Care Fund, where this benefits the overall health and social care system and enables both the council and the NHS to more effectively manage demands, particularly those arising from hospital discharge or over winter periods. However, both the council and the CCG are under increasing funding constraints which is inevitably placing pressure on the level of joint funding. This may have counter-productive impacts and therefore the council expects to work closely with the CCG to manage the financial position and where possible align financial planning on a medium term basis to reflect the council's 4-year planning approach and the NHS 5 Year Plan.

New Homes Bonus (NHB)

1.10 The government has only committed to the current New Homes Bonus Scheme until 2019/20. It is the government's intention to explore how to incentivise housing growth most effectively going forward from 2020/21, such as using the Housing Delivery Test, and consult before introducing any new incentive. With the uncertainty of local government finance changes for next financial year, a replacement system is not expected to be in place and the existing scheme is assumed to end. The new grant awarded each year was for a 4 year period and as each year ends, one year's grant falls away. The budget assumptions include the tapering of the remaining years up until 2022/23 when the final year's grant falls away. The council's cumulative award in 2019/20 is £2.102 million which reduces by £1.177 million in 2020/21.

Other grant changes

1.11 There is no update on grant allocations beyond 2019/20 as they are assumed to be announced alongside the provisional local government finance settlement.

1.12 In 2019/20 there was an allocation of £0.893 million for Business Rates Levy funding which was expected to be built into the revised business rates retention scheme from 2020/21 and therefore treated as recurrent funding. However, no further information has been forthcoming in respect of this levy and therefore it is prudent to treat this as one-off, which therefore creates a funding pressure in 2020/21.

1.13 The budget estimates assume continuation of 10% reductions in the centrally held unringfenced grants budget for 2020/21 in line with previous government funding reductions. This includes grants such as Housing Benefit Admin grant. Normal practice has been to set aside equivalent Service Pressure Funding within the budget estimates to protect service provision. This creates a funding pressure, adding to the council's predicted budget gap.

Business Rates

Business Rates estimate for 2020/21

1.14 The government's intention was for locally retained business rates to increase from 50% to 75% from 2020/21 however this now appears unlikely and therefore the planning assumption is a roll forward of the 50% scheme.

1.15 The projected business rates taxbase for 2020/21 includes estimated growth during the next financial year reflecting developments across the city, offset in part by increased voids. Business rates income needs to be considered alongside the Section 31 compensation grants where the government provides funding in lieu of Business Rates policy changes that reduce income such as small business rates reliefs. This totalled £9.1 million in 2019/20. The assumed inflationary increase in Business Rates of 2.1% reflects the Office of Budget Responsibilities (OBR) projections, however the actual increase will be based on the September Consumer Price index (CPI) which is published in October. The original basis was for annual increases is the Retail Price Index (RPI) but the government amended this from April 2018 to CPI and provided Section 31 grant to local authorities to compensate for this reduction in resources. This compensation is assumed to end for 2020/21 onwards. RPI is projected to be 3.0% and therefore the impact of this change to this council is estimated to be £0.6 million reduction in resources.

1.16 Business Rates forecasts continue to be an area of financial risk. The 2017 revaluation introduced a new wave of business rates appeals, the outcome of which are difficult to predict. In addition, the government has announced it will bring forward the next revaluation by a year to 2021 which will impact from 2021/22 and bring further appeals. 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 2019 and January 2020.

Council Tax

Council Tax Reduction Scheme

1.17 The council's localised Council Tax Reduction Scheme (CTRS) for 2019/20 was agreed by full Council in December 2018. The scheme remained unchanged from 2018/19.

1.18 The annual review of the scheme requires consultation proportionate to 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 2019 and then to full Council to agree the final scheme for 2020/21 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 able to apply for the discretionary funds provided for in the budget and/or are referred to appropriate support and advisory services.

1.19 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. Reductions in claimants increases the council taxbase. This reduction is currently slowing down although this may be short term. At this stage the assumption is for a

3% reduction in 2020/21 and this is included in the assumed overall council tax base growth of 1%. The number of CTRS claimants will fluctuate with economic conditions and the assumption of reducing numbers will therefore be kept under review.

Council Tax Estimate 2020/21

1.20 The council tax increase for 2020/21 is currently assumed at 1.99% for planning purposes. This assumes the government does not provide additional council tax increase flexibilities including Adult Social Care precepting. In addition, the underlying taxbase is estimated to grow by a net 1.0% in relation to new properties and changes to discounts and exemptions. The risks associated with this are that housing developments are not completed as expected, that council tax collection rates are not maintained and that Severely Mentally Impaired (SMI) exemptions continue to increase above national averages.

Reserves (One-off Resources)

1.21 The working balance is recommended to continue at a minimum of £9.000 million to meet general risks applicable to a large unitary authority. In 2019/20 this was increased to £10.065 million to incorporate one-off financial risk provisions of £1.065 million.

1.22 The following table identifies potential resources and liabilities that will need to be taken into account in setting the 2020/21 budget. This assumes that spending in 2019/20 is in line with the TBM Month 2 report projections included elsewhere on this agenda.

Table 4: One-off Resources and Liabilities	**£m**
2019/20 Forecast risk (overspend) reported for TBM month 2	-3.427
Estimated 2018/19 council tax collection fund deficit (TBM month 2)	-0.501
Estimated business rates retention collection fund 2019/20 surplus (TBM month 2)	0.000
Contribution to local elections reserve for 2023	-0.100
Projected one-off resource gap	**-4.028**

1.23 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. Appendix 5 includes information on the reserves the council currently holds.

Corporate Inflation Provisions

Pay

1.24 At present there is no agreed pay offer for 2020/21 or subsequent years. The budget estimates assume a general 2% increase in pay with an additional 0.3% for any potential, targeted higher increase for lower pay scales including the Living Wage Foundation commitment .This assumption will be monitored closely as changes to pay represent a significant proportion of council expenditure and therefore financial risk.

1.25 The council's pay structure is primarily based on national negotiating body pay spines and nationally negotiated settlements. The council also pays in accordance with Living Wage Foundation rates. Pay structures are kept under review in the context of local conditions and recruitment and retention issues but there are no specific provisions assumed in the 2020/21 for increased costs beyond annual pay award costs.

Pensions

1.26 The last triennial review of the East Sussex Pension Scheme covered the period 2017/18 to 2019/20. The outcome of the next 3 year review is due to be published in December 2019 and will impact the 2020/21 budget. Increases to the employer's contribution to manage underlying shortfalls are limited to 0.5% a year and therefore this increase is assumed in budget projections and amounts to £0.570 million for the General Fund.

Prices

1.27 The provision for general price inflation ranges between 0% and 2% depending on the type of expenditure. Similarly, fees and charges are assumed to increase by a standard 2% with the exceptions identified in paragraph 1.28 below. However, the ongoing strategy for reviewing fees and charges set out in the main report could mean that additional resources are generated. 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.

Fees and Charges

1.28 Fees and charges budgets for 2020/21 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. The 2% general increase is to ensure that income keeps pace with increasing costs. Any increase above the standard rate can therefore contribute to savings.

1.29 In total, Corporate Inflation Provisions require net funding of £6.224m, including pension increases, in order to ensure that services do not incur real terms reductions.

Commitments & Risk Provisions

1.30 The budget projections for 2020/21 include a number of commitments; the most substantial include cost increases in financing costs (due to capital investment in IT&D and planned maintenance) and additional costs from employer pension contributions.

1.31 In 2019/20, financial risks are being mitigated through one-off financial risk provisions of £1.065 million which are held within the working balance as well as £0.500 million recurrent provision for reductions in funding from the CCG. 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 become clearer.

Schools Funding and Balances

School Balances

1.32 The level of school balances as at 31/03/19 was £4.225m, an increase of £2.222m from £2.003m as at 31/03/18. The £4.225m balance is split across phases as follows:-

School Balances				
Phase	**2018/19 £'000**	**Percentage of budget 2018/19**	**2017/18 £'000**	**Percentage of budget 2017/18**
Nursery	64	8.25%	53	8.43%
Primary	3,812	5.15%	2,512	3.48%
Secondary	(11)	(0.02%)	(484)	(0.93%)
Special and Alternative Provision (AP)	360	4.24%	(78)	(0.71%)
Total	4,225	3.14%	2,003	1.47%

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

1.33 There are a total of 11 schools (out of 64) with deficit balances, a decrease from 15 as at the end of 2017/18. The split of deficit balances across phases is 6 Primary, 4 Secondary and 1 Special. School budget plans for 2019/20 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.

National Funding Formula and Local Funding Arrangements 2019/20

1.34 While it remains the government's intention that a mainstream school's budget should be set on the basis of a single national formula, in 2019/20 and 2020/21 local authorities will continue to determine final funding allocations for schools through a local formula. The national funding formula will set notional allocations for each mainstream school, which will be aggregated and used to calculate the total schools block received by each local authority.

1.35 National data released by the Department for Education showed that in 2018/19 there was considerable movement in local formulae towards the proposed schools national funding formula. 73 local authorities moved 'factor values' in their local formulae closer to the national funding formula, with 41 mirroring the national funding formula values almost exactly.

1.36 The national data for 2019/20 has not yet been published but, in consultation with Schools Forum, Brighton & Hove made several adjustment to local funding formula arrangements. These changes are summarised below and follow the principle of moving towards the proposed national funding formula on a gradual basis:

- reduce the lump sum from £150,000 to £130,000 per school with the balance of funding being re-allocated through the deprivation and low attainment factors;
- change the factor being used to identify deprivation from solely free school meals to a combination of free school meals, ever-6 free school meals and the income deprivation affecting children index (IDACI). This will be applied on a gradual, stepped approach in line with earlier views of the Forum and Schools Block Working Group;
- remove the primary weighting for low attainment because all results have now been collated under the new assessment framework. This is a technical change and was not part of the consultation with all schools;
- ensure all secondary schools will attract minimum per-pupil core funding of £4,700, and all primary schools £3,400 (core funding excludes funding for premises and growth);
- apply a minimum funding guarantee (MFG) of minus 1.5% per pupil;
- seek to maintain the current funding ratio between primary and secondary schools as this is very close to the target ratio in the proposed national funding formula.

1.37 For 2019/20, the overall formula budget allocations to mainstream schools have increased by just under £2.5m and this is due to several factors:

- increase in overall Schools Block Dedicated Schools Grant (DSG) allocation (c. £1.2m);
- increase in delegation to schools as a result of the release of funding previously held centrally as exceptions:
  - Equal pay annual contribution £0.951m;
  - Brighton and Hove Inclusion Support Service £0.199m;
  - Broadband £0.134m.

1.38 In 2019/20 and beyond, schools are facing significant budget pressures as a consequence of teachers' pay awards and an increase in employers' pension contributions from September 2019. The Department for Education has implemented additional grant funding arrangements to mitigate the immediate cost of these pressures however it is not certain if these funding streams will continue beyond 2019/20.

High Needs Block

1.39 On 17 December 2018 the Government announced additional revenue funding allocations for high needs for 2018/19 and 2019/20. For Brighton & Hove, this announcement equates to an additional £0.540m in each financial year. The additional allocation is recognition of the increasing costs of supporting children and young people with SEN and will help the LA manage pressures in this area. It is not yet known whether this increase in funding will continue in 2020/21.

Housing Revenue Account (HRA)

1.40 The Housing Revenue Account (HRA) is a ring-fenced account within the General Fund 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.

1.41 Although the HRA is not subject to the same funding constraints as the rest of 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.

1.42 A key area of focus for 2020/21 is the commencement of the new arrangements for the delivery of responsive repairs, empty property refurbishments, planned maintenance and major capital works to council homes when the current contract (with Mears) comes to an end in March 2020. The new service will include the in-house provision of responsive repairs and empty property refurbishment services which will see the transfer of some 150 staff from Mears. The budget will need to take account of any changes to costs associated with operating this service in-house and the costs of planned and major works including any changes to contract management arrangements.

1.43 Increasing the supply of affordable housing for rent in the City will continue to be a priority and the budget for 2020/21 will review the resources required to support this growth both in terms of capital resources for building and purchasing new homes and revenue resources to support this work.

1.44 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 April 2020. For five years rents will be increased by CPI (at September) plus 1% in accordance with government guidance which will increase dwellings rent income for the council by approximately £1.5m. However, the level of rent arrears for council tenants has increased during 2018/19 mainly due to the phasing in of Universal Credit. This is being closely monitored to ensure that this does not become a continuing trend which will endanger the long term resources of the HRA.

1.45 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.

HRA Capital Programme

1.46 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.

1.47 The capital programme for 2020/21 and beyond will be informed by the stock review and survey which is currently being procured and will take place in the summer. There is also some uncertainty about the amounts to be set aside to provide for further health and safety measures to be considered in light of the Grenfell Tower fire. The HRA capital programme is incorporated within the overall capital programme projections at Appendix 4. The programme will require further updating for 2020/21.