

Resources Updates and Assumptions 2021/22

General Fund Budget

Local Government Financial Settlement (LGFS)

- 1.1 The government announced a one-year Spending Review in September 2019 for the financial year 2020/21 and a longer term Spending Review was anticipated during 2020 to inform the 2021/22 LGFS. However, with the advent and financial impact of the pandemic, it is now highly likely there will be a one year only Spending Review for the financial year 2021/22.
- 1.2 As part of the response to the pandemic the government has confirmed that the planned reforms to local government finance relating to the Fair Funding Review and 75% Business Rates Retention will no longer be implemented in 2021/22.
- 1.3 The provisional LGFS for 2021/22 would normally be expected in December 2020 including confirmation of the council tax 'excessive increase' threshold above which a referendum would be required. The financial impact of the Covid-19 pandemic has introduced considerable uncertainty in predicting the government's approach to financial resources for local government in the current year and future years, therefore the following resource assumptions should be treated with caution and will be updated as further government announcements are made.

Government Grants and Precepts

Revenue Support Grant (RSG)

- 1.4 For the 2020/21 LGFS the government rolled forward the 2019/20 RSG allocation. With the announcement that local government finance reforms are on hold it is assumed that this grant will again roll forward into 2021/22 at the previous year's level of £6.630m.

Adult Social Care precepts and Better Care Funding

- 1.5 The core assumption is that the additional grants announced as part of the 2020/21 settlement relating to Social Care will roll forward and continue in 2021/22 at the same level. In 2020/21 the council was able to levy a 2% Adult Social Care Precept to support the increased costs in this area however this flexibility has not been assumed for 2021/22.
- 1.6 Adult social care costs were continuing to increase significantly prior to the Covid-19 pandemic. The council has worked with the CCG to support the early discharge of patients from hospital to free up capacity as part of the pandemic response and as a result the council is incurring significant increases in costs which are likely to remain over the medium term.
- 1.7 Therefore, the medium level planning assumption is that the government will provide additional ongoing support, particularly for the increase in costs relating to the pandemic, and the Medium Term Financial Strategy includes £4m additional funding in 2021/22 in this respect.

Table : Social Care Resources	2019/20	2020/21	2021/22 Assumption
ASC Precepting	0%	2% £2.894m	0% -
Improved BCF	£9.181m	£9.181m	£9.181m
Adults and Children's Social Care grant	£2.100m	£2.100m	£2.100m
New Adult social Care Grant	-	£4.715m	£4.715m
Medium view – Adult Social Care funding	-	-	£4.000m

New Homes Bonus (NHB)

- 1.8 The government provided a one-year extension to the NHB scheme for 2020/21 and intended to explore how to incentivise housing growth effectively going forward from 2021/22. The planned consultation on the future of this incentive was due earlier this year but is now assumed to be put on hold. The government may extend the scheme for a further year however, due to the threshold of new homes required, this council is unlikely to receive additional funding through this route. The budget assumption is the continued tapering of the remaining years up until 2022/23 when the final year's grant falls away. The council's cumulative award in 2020/21 is £0.972 million which reduces by £0.627 million in 2021/22.

Other grant changes

- 1.9 There is no update on grant allocations beyond 2020/21 as they are assumed to be announced alongside the provisional local government finance settlement.
- 1.10 The budget estimates assume a continuation of the 10% reductions in the centrally held unringfenced grants budget for 2021/22 in line with previous government funding reductions. This includes grants such as Housing Benefit Admin grant.

Business Rates

Business Rates estimate for 2021/22

- 1.11 It is very difficult to predict the ongoing impact of Covid-19 on businesses within the city and the impact this may have on the level of business rates income. In 2020/21 the government announced significant retail reliefs to support business through the pandemic. These were in excess of £70m which is more than 50% of the total business rates bills within the city. For 2021/22, the assumption is that the retail reliefs revert to the pre-pandemic levels.
- 1.12 The projections for 2021/22 have been amended to remove any assumed tax base growth and the inflation assumption has been reduced to 1% to reflect reductions in CPI. However, the actual inflationary increase will be based on the September 2020 CPI figure. A further 1.4% allowance has been incorporated for reduced business rates income that could arise from business failures and bad debts.

- 1.13 Business Rates forecasts continue to be an area of financial risk which is heightened by the unknown ongoing impacts of the pandemic on businesses and these estimates could change significantly.

Council Tax

Council Tax Reduction Scheme

- 1.14 The council's localised Council Tax Reduction Scheme (CTRS) has remained unchanged for 2 financial years since it was agreed by full Council in December 2018.
- 1.15 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 2020 and then to full Council to agree the final scheme for 2021/22, including consideration of the minimum liability level. The council also intends to continue to operate a discretionary fund. Council Taxpayers 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.
- 1.16 The council had 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 results in an increase in the council tax base. However, the pandemic has caused increased financial hardship and as a result the number of working age claimants has risen significantly so far in 2020/21. It is difficult to predict whether, and how quickly, claimants' financial position will change as the city emerges from lockdown, but it is assumed there will continue to be higher levels in 2021/22 and a 15% increase has been included in projections at this stage. The ca

Council Tax Estimate 2021/22

- 1.17 The council tax increase for 2021/22 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. The ongoing impact of the pandemic on council tax income is difficult to predict at this early stage however there has been a marked increase in the number of CTR claimants, delays in development completions and reduced council tax collection, particularly for older debts. Prior to the pandemic, the assumption on the underlying tax base was an increase of 0.75% however, given the impacts of Covid-19 and the likelihood of these impacts continuing into future years, the tax base estimate has been revised resulting in a reduction of -1.27%. These estimates will be updated over the coming months when the impacts should become clearer.

Corporate Inflation Provisions

Pay

- 1.18 At present there is no agreed pay offer for 2020/21 or 2021/22. The latest employers' pay offer for 2020/21 is 2.75% while the budget assumption was 2.3% and therefore the minimum extra cost of the pay award for the general fund is £0.5m which is assumed to be funded from the recurrent risk provision in 2020/21.

For 2021/22 onwards budget estimates assume a general 2% increase in pay with an additional 0.2% 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.

- 1.19 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 2021/22 for increased costs beyond annual pay award costs.

Pensions

- 1.20 The last triennial review of the East Sussex Pension Scheme covered the period 2020/21 to 2022/23 and showed year on year reductions in the employer contribution rates. In 2020/21 the employer rate was 20.8% reducing to 20.3% in 2021/22. The financial health of the East Sussex Pension Fund has been affected by volatile world financial markets during the pandemic which could give rise to changes in the employer rates to ensure financial stability. However, the fund projections are based on a 20 year horizon and therefore the planning assumption is that the agreed employer contribution rates will not change.

Prices

- 1.21 The provision for general price inflation ranges between 0% and 2% depending on the type of expenditure. Non pay costs are assumed to increase by 1% with the exception of social care related third party payments where a 2% inflation assumption has been maintained. Increases in costs above the 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

- 1.22 Fees and charges budgets for 2021/22 are assumed to increase by a standard inflation rate of 1% to reflect the likely pressure on income from the pandemic. Penalty Charge Notices (parking fines) are excluded from this increase as the levels of fines are set by government and cannot be changed independently.

Commitments & Risk Provisions

- 1.23 The budget projections for 2021/22 include a number of commitments; the most substantial include increases in financing costs to reflect capital investment decisions and increases in insurance premiums.
- 1.24 In 2020/21, financial risks were planned to be mitigated through a financial risk provision of £0.75 million, however £0.50 million of this provision is being applied to support the higher pay award cost. In the absence of sufficient government support to offset the financial risks in 2020/21, the proposal is to use reserves to manage any remaining deficit (or all of it under the Financial Smoothing Option) with reserves being repaid in future years. The moderate view of expenditure and resource projections still leaves a substantial budget gap for 2021/22 before any

risk provisions are set aside. For planning purposes, any risk provision would need to be managed by redirecting reserves in the short term.

Schools Funding and Balances

School Balances

- 1.25 The level of school balances as at 31/03/20 was £4.347m, an increase of £0.122m from £4.225m as at 31/03/19. The £4.347m balance is split across phases as follows:

Table: School Balances				
Phase	2019/20 £'000	Percentage of budget 2019/20	2018/19 £'000	Percentage of budget 2018/19
Nursery	40	5.06%	64	8.25%
Primary	3,395	4.49%	3,812	5.15%
Secondary	784	1.51%	(11)	(0.02%)
Special and Alternative Provision (AP)	128	1.19%	360	4.24%
Total	4,347	3.12%	4,225	3.14%

- 1.26 There are a total of 10 schools (out of 63) with deficit balances, a decrease from 11 as at the end of 2018/19. The split of deficit balances across phases is 8 Primary and 2 Secondary. School budget plans for 2020/21 have incorporated these deficits and the Finance Team is working closely with schools to identify those who are likely to require licensed deficits in the coming year under the terms in the Scheme for Financing Schools. At this stage it is anticipated that 9 schools will require licensed deficits in 2020/21.

Schools Funding – National Funding Formula and Local Funding Arrangements 2020/21

- 1.27 Following the national Spending Review announcements in autumn 2019 the funding settlement for the Dedicated Schools Grant has led to increases in allocations to the Schools and High Needs funding blocks for the 2020/21 financial year. This equates to a 3.9% increase in the unit rates of funding for the Schools Block element of the Dedicated Schools Grant (DSG). This means an increase in the Schools Block of approximately £5.7m when compared to 2019/20. The provisional increase for the High Needs Block is £2.7m (10.7%). The additional allocation is recognition of the increasing costs of supporting children and young people with SEND. For some time head teachers and other partners have been raising with the LA concerns about the adequacy of funding for SEND. These include mainstream schools top-up, and the challenges facing special schools, both in terms of capacity and the growing complexity of pupils needs. Receiving this additional funding allows the local authority to address some of these concerns and the growing pressures for colleagues in schools.
- 1.28 While it remains the Government's intention that a school's budget should be set on the basis of a single national formula, local authorities continued to determine final funding allocations for schools in 2020/21. The National Funding Formula (NFF) will

set notional allocations for each school, which will be aggregated and used to calculate the total schools block received by each local authority.

- 1.29 The Schools NFF for 2020/21 continues to operate using the same factors as previously, and the government's aim is to implement a formula to address historic underfunding and move to a system where funding is based on need. The key aspects of the background NFF for 2020/21 are:
- the minimum per pupil funding levels will be set at £3,750 for primary schools and £5,000 for secondary schools;
 - the funding floor will be set at 1.84% per pupil;
 - an increase of 4% to the NFF's core factors; and
 - there will be no gains cap within the NFF, unlike the previous two years, so that all schools attract their full core allocations under the formula.
- 1.30 In 2020/21 local authorities will continue to have discretion over their schools' funding formulae and, in consultation with schools, will ultimately determine allocations in their area. However, as a first step towards hardening the formula, from 2020/21 the government will make the use of the national minimum per pupil funding levels, at the values set in the school NFF, compulsory for local authorities to use within their own funding formulae.
- 1.31 In Brighton and Hove, during autumn 2019 a number of proposals were made concerning the operation of the local funding formula for 2020/21. These proposals were subject to consideration by the Schools Forum and Schools Block Working Group. These changes are summarised below and follow the principle of moving towards the NFF on a gradual basis:
- increase the unit values of core formula factors by 3.9% with an additional increase being applied to the low attainment factor;
 - include a mandatory factor to ensure that minimum funding per pupil levels (excluding premises factors) are set at £3,750 for primary schools and £5,000 for secondary schools;
 - increase the basic entitlement (age weighted pupil unit) factor by the balance of funding available after applying increases to other factors;
 - retain a lump sum of £130,000 per school (a higher lump sum is applied locally than in the government's NFF and this affords greater protection to small schools);
 - incrementally extend the use of the ever-6 free school meals and the income deprivation affecting children index (IDACI) factors as previously agreed by Forum;
 - apply a minimum funding guarantee of +0.50% per pupil;
 - seek to maintain the current funding ratio between primary and secondary.

Additional government support to schools for Covid-19

- 1.32 The government has announced a £1bn support package to support pupils who may have fallen behind due to lost teaching time as a result of coronavirus (COVID-19). This package includes:
- £650 million for schools over the 2020 to 2021 academic year to help head teachers to provide extra support to children who have fallen behind while out of

school. Details of how this funding will be distributed are still to be announced however it is anticipated that this will equate to around £3m for schools in Brighton and Hove.

- £350 million for catch-up tutoring aimed specifically at the most disadvantaged children.

- 1.33 The £1 billion package is on top of the £14.4 billion three-year funding settlement announced last year, recognising the additional work schools will need to do to help students to catch up.

Future Schools Funding 2021/22 and 2022/23

- 1.34 On 3 September 2019, the Spending Review announced the government's commitment to increase the schools budget over each of the 3 financial years from 2020/21. To fulfil this commitment, the Spending Round exceptionally set budgets for schools until 2022/23. Within this was a commitment for the national schools budget to rise by £2.6 billion in 2020/21, £4.8 billion in 2021/22 and £7.1 billion in 2022/23, compared to 2019/20 funding levels.
- 1.35 The recent announcement regarding additional government support to schools for Covid-19 suggests that this funding settlement is still secure despite the wider impact on government finances caused by the Covid pandemic.

Housing Revenue Account (HRA)

- 1.36 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.
- 1.37 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.
- 1.38 The HRA Budget aims to balance the priorities of both the council and council housing residents within the context of the council's Housing Strategy, Housing Revenue Account Asset Management Strategy and the Corporate Plan priorities which set out the overall direction for Housing in the city over a 4 year period.
- 1.39 The pandemic will have an effect on the resources available to the HRA during 2020/21, mainly as a result of a loss in rental income collected during the first half of the year, as households face financial hardship. The Housing Income Management Team is working with residents to minimise this impact. However, indications are that this is a one-off reduction in revenue and it will not affect the long term plans and aspirations of the council in respect of the HRA.
- 1.40 A key area of focus for 2021/22 will be the bedding in of the new arrangements for the delivery of responsive repairs, empty property refurbishments, planned

maintenance and major capital works to council homes as a result of the end of the contract with Mears in March 2020. The pandemic has naturally seen a delay to the commencement of the new contracts required in 2020/21. It is anticipated that works can be accelerated in 2021/22 in order to catch up, at least in part. The HRA has already set up a capital reserve of £2.900m for this as part of the 2020/21 budget setting process.

- 1.41 The new service includes the in-house provision of responsive repairs and empty property refurbishment services which has seen the transfer of 132 staff from Mears. The budget for 2021/22 will continue to take account of any changes to costs associated with operating this service in-house and the newly procured costs of planned and major works including any changes to contract management arrangements.
- 1.42 The budget for 2021/22 will allow for rent increases of up to CPI (at September) plus 1% as allowed for in the Government guidance for five years from April 2020. However, the level of rent arrears for council tenants (excluding the effects of the pandemic) has increased during 2018/19, 2019/20 and 2020/21 which appears to be mainly due to the phasing in of Universal Credit. An action plan is now in place to try to mitigate this as much as possible as any reduction in rent collected will reduce the resources available to the HRA for the management and maintenance of tenants' homes.
- 1.43 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. The budget for 2021/22 will review any new areas for service charging as appropriate.

HRA Capital Programme

- 1.44 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.
- 1.45 The capital investment programme for 2021/22-2023/24 will be informed by the recent stock review and survey and the new HRA Asset Management Strategy 2021-2025. A key consideration will be the investment needed to fulfil the new health and safety requirements as a result of new Government safety guidelines in light of the Grenfell Tower fire.

- 1.46 The HRA continues to look at the range of initiatives it has to deliver additional housing and meet the Housing Committee Work Plan priority commitment to deliver 800 additional council homes by 2023. These initiatives include the New Homes for Neighbourhoods Programme, Home Purchase Scheme and Converting Spaces programmes.
- 1.47 Work will continue through 2021/22 on the construction of 42 homes at Victoria Road, Portslade and bringing forward the proposed housing development at Moulsecoomb that estimates to deliver approximately 230 homes as well as other schemes that are in the pipeline. The Home Purchase Scheme will continue to explore opportunities to buy back ex-right to buy properties to increase the supply of affordable housing within the HRA.
- 1.48 The budget for new homes 2021/22 will need to consider the resources required to support this level of delivery both in terms of capital resources available for building and purchasing of new homes and the revenue resources required to support this work.

