MEDIUM TERM FINANCIAL STRATEGY 2012/13 TO 2014/15

Format of the Medium Term Financial Strategy (MTFS)

The MTFS covers all spending by the council and the different sources of funding it receives. Council spending is split between revenue expenditure, covering the day to day costs of running and providing services e.g. salaries and wages or the running costs of a building such as heating and lighting, and capital expenditure, covering expenditure on assets that have a life of more than one year e.g. the cost of building a school or buying a vehicle. Separate strategies are set out for revenue and capital investment.

The council has 4 main areas of revenue spending and each area is funded differently and therefore needs to be considered separately:

- Schools Budget – this budget covers the expenditure by schools on teachers and support staff, all teaching materials and the running costs and day-to-day maintenance of school buildings. The budget is almost entirely funded by the Government through the Dedicated Schools Grant and Pupil Premium.
- Housing Revenue Account (HRA) – this budget covers the costs of operating and maintaining the housing stock owned by the council and is largely funded by the rental income collected from council house tenants.
- Housing Benefit and Council Tax Benefit – currently the council administers the payments to those out of work or on low incomes on behalf of the Government. As long as the council efficiently administers these payments the Government meets them in full through grant.
- All other services form part of the General Fund Budget – this covers a very wide range of services including Adult and Children's Social Care, Local Education Authority, Highways, Waste Collection and Disposal, Museums, Libraries and Tourism, Leisure and Parks, Planning and Economic Development and Public Safety. These services are funded approximately by 40% Government Grants, 30% Fees & Charges and 30% Council Tax.

The MTFS describes the broad strategies for the Schools Budget and the HRA and the possible impact of Government proposals to make changes to Housing and Council Tax Benefit from 1st April 2013 onwards. On the basis of the best information currently available the MTFS sets out for the General Fund the following:

- Expenditure and resource projections for 2012/13 to 2014/15;
- The key assumptions behind the projections;
- Explanations of each of the component parts of the forecasts including the projected savings totals that are needed to deliver a balanced budget and the process that has been adopted to identify them;
- Changes that are known about but cannot be quantified at this time in particular Government proposals to provide incentives for local

authorities to improve their local economy by retaining a proportion of the future growth in business rate income from 1st April 2013.

The Capital Investment Strategy sets out in broad terms the priorities for future capital investment as set out in the Corporate Plan and the funding projections and options. Finally the MTFS contains a risk matrix which sets out the key financial risks and opportunities for the council.

Summary of MTFS

The Medium Term Financial Strategy (MTFS) sets out the resource projections for the forthcoming three years, the financial challenges and opportunities that the council faces and the approach planned to meet the priorities set out in the Corporate Plan.

The MTFS explores in more detail the opportunities and risks presented by some major proposed changes to the local government finance system from 2013/14 and provides further analysis of the potential consequences of reforms to the benefits system. It will be regularly updated to reflect the latest available information.

The MTFS includes some changes to our financial planning principles:

- An intention to raise council tax by 3.5% in order to protect as far as possible services for the most vulnerable.
- Regard for the new Government incentive from April 2013 to grow the local economy and keep part of any growth in local business rates which could be maximised by the council's own direct capital investment, its enabling development and its relevant overarching strategies.
- Will seek to protect as far as possible capital grant funding for transport and the public realm investment.
- All services will review their assets to determine any that are surplus to requirements which can be disposed of in order to meet the council's other corporate capital investment priorities and reduce its carbon footprint.
- Council carbon budgets will be developed to be reported alongside the financial budget of the council.
- A sharing of the use of any future new homes bonus income to further protect those services and to reinvest in enabling new housing development.

The council will integrate its service and financial planning on the basis of need ensuring cost effective outcomes and will continue working with partners to ensure the provision of joined up services and share costs wherever possible. Where appropriate Equality Impact Assessments will be developed for all proposals to change services and implement savings. Analysis will also be undertaken to assess the cumulative impact of different proposals particularly on the most vulnerable and deprived sections of our community. A more extensive and inclusive programme of consultation on the budget will take place as part of the annual budget process.

Many of the commitments for 2011/12 will be funded through a change in priority or focus for the use of existing resources, including staff time and capital programmes such as the Local Transport Plan.

Some commitments have additional costs which have been factored into existing budget plans, for example:

- funding to facilitate the redesign of youth services;
- support to the advice sector's work on financial inclusion;
- the commitment to a £7.19 Living Wage for Council staff;
- fitting solar photo-voltaic panels on council homes and corporate buildings (self-financing);
- bidding for UN Biosphere Reserve status.

There are some proposals that are likely to require additional revenue investment but which cannot be fully costed at this early stage. This is because there are a range of options about how they could be implemented and further consideration and consultation will be required before reaching a view about the best way forward. The two most significant ones in revenue terms are probably:

- reducing domestic waste and increase recycling including the launch of a food waste pilot; and
- new approaches to neighbourhood governance.

The council will explore all options for external funding and innovative cost effective solutions to help support the delivery of these proposals.

The council will continue to use a range of tools to lever investment into the city to deliver priorities in relation to affordable housing, redevelopment of major sites and the public realm including the seafront. These include:

- planning policies and securing enabling development;
- the use of existing council land and buildings for example in relation to the housing local delivery vehicle;
- facilitating private sector investment into the city;
- accessing grant funding, for example to support plans for The Level;
- using prudential borrowing where there is a robust and affordable business case.

Budget & Resource Projections

Tables 1 and 2 below set out both the main assumptions that underpin the projections and a summary of the General Fund projections. The projections show the movements in the budget requirement for the council which is the anticipated budget after the deduction of specific grants and fees and charges and is funded by Formula Grant and council tax. The reasons for the movements are described in the paragraphs after table 2 and follow the order shown in the table.

It should be noted that virtually all the specific grants are unringfenced i.e. the council can decide how this money is spent in order to achieve the best service outcomes and therefore does not have to necessarily spend the money in the service area for which it was allocated.

Table 1: Summary of MTFS assumptions			
	2012/13	**2013/14**	**2014/15**
Pay inflation	0.5%	2.0%	2.0%
General inflation	2.0%	2.0%	2.0%
Formula grant floor change	-9.4%	-5.0%	-10.0%
Dedicated Schools grant per pupil	0.0%	0.0%	0.0%
Other specific grants	0.0%*	0.0%	0.0%
Council Tax change	3.5%	3.5%	3.5%

* Except where the Government has already announced 2012/13 allocations.

Table 2: Summary of General Fund budget projections			
	2012/13	2013/14	2014/15
	£'000	£'000	£'000
Budget requirement brought forward	232,221	225,377	227,093
Function & Funding changes	-519	-	-
Revised Budget requirement brought forward	231,702	225,377	227,093
Inflation	2,988	4,933	4,920
General Risk Provision	500	500	500
Commitments - impact of previous decisions	-1,925	-832	-111
Service pressures – General	7,500	7,500	7,500
Service pressures – Specific Grants	249	3,051	451
Service Pressures – Function & funding changes	519	-	-
Service pressures – Carbon Reduction Commitment	160	100	100
Full year effect of 2011/12 savings	-3,931	-	-
Savings	-16,386	-14,598	-18,502
Sub-Total	221,376	226,031	221,951
Change in contribution to / from reserves *	4,001	1,062	-
Budget Requirement	**225,377**	**227,093**	**221,951**
Funding			
Formula Grant	101,377	96,308	86,677
Council Tax	124,000	130,785	135,274
Total	**225,377**	**227,093**	**221,951**

***** Reserves have been used to support the 2011/12 budget to cover only one-off expenditure items and agreed savings that will be implemented during the year. The removal of this one-off funding is completely offset in future years by the full year effect of savings and the removal of one-off expenditure items shown under commitments. By 2014/15 the budget forecast does not rely on the use of any reserves.

Function & Funding Changes

In 2012/13 more funding is being removed from the council for new academies and a loss of responsibility for certain private sewers. The academies adjustment is being made to reflect the position that councils do not have to provide a range of educational support services to academies as they are designed to be self-sufficient. The value and distribution method for the academies transfer in 2011/12 and 2012/13 is currently being revisited by Ministers following a government consultation this summer, however there remains a lot of uncertainty about whether any changes will be made to the transfers already announced. The current adjustment is based on a pro-rata split across the country and does not reflect the actual number of academies within a local area which is a fairer but potentially more complex way of making the adjustment. Further funding transfers for academies are expected from 2013/14 however the value of this is unknown at this time.

In 2013/14 the council will gain additional responsibility for Public Health and the Government has stated that they are committed to ensuring that local authorities are adequately funded. The intention is for the Government to provide shadow allocations for 2012/13 by the end of this year.

Inflation

The level of inflation experienced by the council is different from the national measures of inflation such as the Consumer Price Index (CPI) because the sorts of goods it buys are very different from an average household and the council is exempt from VAT. An assumption of 2% is included for general inflation in the projections. Compared to current levels of inflation this is low but inflation is generally expected to decrease later this year and provision for higher levels of inflation in spending areas such as fuel and energy costs are covered within service pressures.

The Government have announced a 2 year public sector pay freeze for 2011/12 and 2012/13. The budget estimates for 2012/13 include a risk provision for pay related matters equivalent to a 0.5% increase. It is anticipated that public sector pay will be tightly controlled over the planning period therefore the planning assumption will be for a 2% annual increase in pay for 2013/14 and 2014/15.

The Administration has announced that there will be a rise of 59p per hour in the pay for the lowest paid council staff bringing them to £7.19 per hour as part of the commitment to introduce a Living Wage in Brighton & Hove. This is estimated to cost £109,000 in a full year plus and can be funded from the resources set aside in the 2011/12 budget for pay. The costs for school based staff are estimated at £70,000 and it is assumed that this will be paid for from school delegated funds. A living wage commission is due to commence in October 2011 reporting in March 2012. Any further increases in pay for council staff will need to be funded from within the overall planned pay assumptions.

General Risk Provision

A general risk provision of £0.5m per annum is incorporated into the budget projections to cover uncertainties within the budget each year. The 2011/12 budget includes recurrent risk provisions of £2m and one off risk provisions of £1.2m. Any of these resources that are not required to support the 2011/12 budget will become available to support future budgets.

Commitments – impact of previous decisions

A number of commitments have been included to cover the planned changes in budget from previous decisions. In 2012/13 these include the planned 0.4% increase to employer pension contributions following the triennial pension fund review last year and reinvestment of NHS social care funding. These increases are more than off-set by anticipated reductions in the financing costs budget and reversal of one off allocations within the 2011/12 budget.

Service Pressures

Service pressures are defined as the additional costs needed to maintain all existing services at their current level. Different types of service pressure are described in the paragraphs below.

Service Pressures - General

The budget estimates for 2012/13 contain demographic growth and other service pressures of £7.5m that are based on the following assumptions at this stage:

- Demographic and demand pressures (£5.4m): of which £2.5m for growth in numbers of clients in Adult Social care, in particular those with learning disabilities and physical disabilities and accessing mental health services. A further £2.5m pressure has been assumed for Children's services, which includes growth in independent foster and residential agency placements, in house placements and associated legal costs.
- There is also assumed to be a continuation of the demand on travellers' services seen over recent years and on support provided by the Community Safety partnership (£0.4m).
- Income shortfalls (£0.8m): there is assumed to be continued pressure on income from Penalty Charge Notices (PCN) due to the successful enforcement strategy, and continued risks on commercial property and service areas dependent on advertising revenue.
- Legislative and compliance risk (£0.55m): some additional costs associated with the Localism Bill are anticipated and there are ongoing issues around ICT licensing and rising insurance costs.
- A provision for increased energy costs has also been included in the £7.5m. While there are other cost pressures being faced by services it is assumed that these will be identified and managed within their overall resource base. £0.35m has also been retained centrally for distribution at a later stage when there is greater certainty of these figures.

Demographic and other service pressure funding of £7.5m has been included in the budget estimates for 2013/14 and 2014/15, however indicative allocations have not been made at this stage as it is too early to predict where pressures would arise with certainty.

Service Pressure – Specific Grants

There are potential specific grant reductions of £0.3m in 2012/13 based on the latest announcements of allocations of grants. Further pressures arise from specific grants in 2013/14 and 2014/15 where the specific grant allocations are assumed to be frozen at the 2012/13 levels rather than rise with inflation.

Service Pressures – Council Tax Benefit Grant

A major change in council tax benefits is due in 2013/14 when the national regulations will be replaced by a local scheme that will need to be devised to cope with a funding reduction of 10%. The forecast for 2013/14 shows the likely loss in grant funding of £2.6m based on current levels of benefit payments and assumes that the council will implement a reduced scheme. Once a local scheme is in place changes in the total amount of benefit awarded by the council brought about by changes in the population and economic conditions will become a new financial risk for the council.

However the financial implications will not be fully known until the autumn/winter 2011 once the results of the current government consultation are published thereby enabling the council to begin working on options for different local model schemes. It could be more difficult to collect the additional £2.6m council tax due to the council from tax payers on low incomes who currently have part or all of their bill met by council tax benefit. Whilst all reasonable efforts will be made to collect the full amount of the council tax due an initial provision of about 6% or £0.150m for possible non-collection.

Service Pressures – Function and Funding Changes

The reduction in costs generated by function and funding changes described earlier are unlikely to be achieved by the council and therefore have been treated as a service pressure in the budget. Any savings that can be achieved will form part of the savings proposals put forward by these service areas.

Service Pressure - Carbon Reduction Commitment (CRC)

The spending review has made major changes to the CRC scheme. The cost of purchasing allocations to cover the carbon output of the council will now have to be met in full. Previously the payments to the Treasury were going to be recycled back to organisations as income depending on how successful each was in reducing its carbon footprint. There is some uncertainty in the guidance but initially the council will need to buy allowances to cover only the largest energy consuming sites. The cost of allowances is estimated to be £12 per tonne in 2011/12 requiring a budget of £0.16m for this year and next based on the detailed data collected this summer. Separate provision of just over £0.1m has been made in the schools budget to cover the cost of their allowances. In 2013/14 and beyond the council will need to buy allowances to cover more of its carbon footprint and the cost of allowances over time is expected to rise. Additional provision of £0.1m each year has been initially allowed in the forecasts to cover the increasing cost of purchasing allowances.

Full Year effect of 2011/12 savings

A number of savings particularly reductions in staff costs have been agreed for implementation during the current financial year and therefore the savings achieved next year in 2012/13 will be significantly greater. Reserves were planned for use in 2011/12 to cover those savings which could not be implemented from 1st April 2011.

Savings

The level of savings required represents the reductions needed in the budget in order to set a balanced budget for that year given the other assumed budget and resource projections. As set out in the budget update report to Cabinet in July 2011 all service areas are being asked to produce options for working within a budget allocation over the next 2 years of -5%, -10% and -15% based on their 2011/12 adjusted budget. It is expected that these plans cover both 2012/13 and 2013/14 in order to ensure that decision making is for the medium term, not just the short term. The intention is for Full Council to agree a budget for 2012/13 in the light of indicative plans for 2013/14.

This will also enable consideration to be given to allowing longer lead in times for delivery of savings in some areas if this would result in better long term outcomes and to assess the cumulative impact of potential savings proposals.

These options would take into account not just options for reducing expenditure, but also for managing growth in service demand and exploring opportunities for generating additional income. Integration of service and financial planning on the basis of need to ensure cost effective outcomes will be a core part of the process, ensuring that needs are properly understood and resources prioritised, to deliver the intended outcomes. This will help drive improved financial planning across service and organisational boundaries. There will also be a continued focus on improving value for money, both through the existing VFM programme and also identifying potential further opportunities.

The budget principles on which those options will be developed are:

* To prioritise services for the young, elderly and vulnerable

* To promote efficient use of public money

* To support partnership working with public, private and third sector organisations

This process will produce a wide range of options, allowing greater public debate and scrutiny about what the challenges and choices are. The process is deliberately designed not to pre-judge the outcomes. Opportunities will arise to consider how the funding available for service pressures and the risk provisions in the budget will be best deployed to achieve a robust and deliverable budget. Where appropriate Equality Impact Assessments will be developed to support the decision making process.

Devolving aspects of budget decision making to local neighbourhoods will be a key consideration of any further decisions made. Both national legislative changes and local priorities offer new ways of ensuring local communities and communities of interest can play a significant role in making decisions that affect them.

Value for Money (VFM)

Value for money (VFM) is a well established and continuing mechanism underpinning the budget process. Some VFM savings from 2012/13 programme have been fast-tracked into 2011/12. Further VFM have not been separately identified in the forecasts for future years but will be proposed as part of the -5%, -10% and -15% savings options.

Resources

These sections cover both Formula Grant and council tax which fund the net General Fund budget but also fees and charges, the New Homes Bonus and reserves.

Formula grant

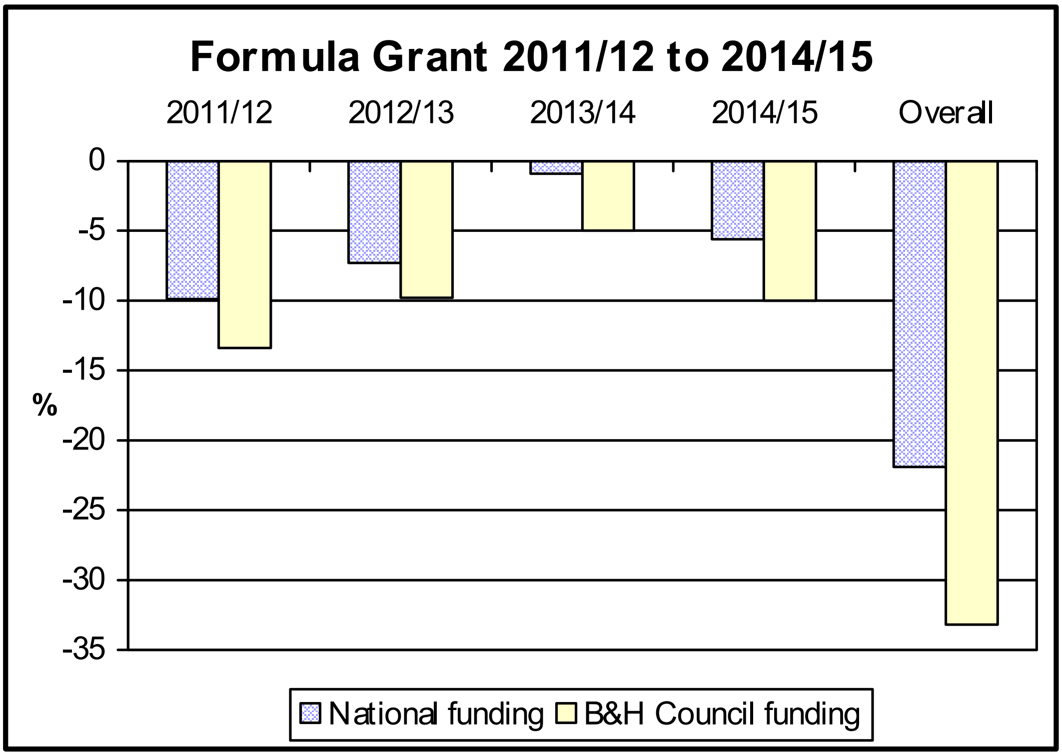
Whilst the Spending Review last year set out Government spending plan totals for 4 years the Government only announced a 2 year Local Government Finance Settlement covering 2011/12 and 2012/13. Although the 2012/13 figures are provisional further changes that may be made when the 2012/13 settlement is announced at the end of November or beginning of December 2011 have not been included in the forecasts. However, the way the Government reduced the 2011/12 settlement and proposes to reduce the 2012/13 settlement to reflect the growing number of academies has been revisited through a consultation process and these adjustments could change.

Another 2 year settlement is likely to be announced in November or December 2012 for 2013/14 and 2014/15 taking into account any changes resulting from the Local Government Resource Review. A summary of the changes is given in a section on the review later in this strategy. These changes could have a significant impact on resource distribution so grant forecasts for these years are very provisional at this stage.

The forecasts for 2013/14 and 2014/15 are based on the national figures for formula grant given in the spending review adjusted to reflect the fact that:

- The national totals will need to be top-sliced to provide ongoing funding for the New Homes Bonus, and
- The council in 2012/13 is still in receipt of £11m floor protection grant which is likely to continue to be lost over time.

The following chart compares the average national Formula Grant changes set out in the Spending Review with the actual Formula Grant for 2011/12, the provisional settlement for 2012/13 and the forecasts for 2013/14 and 2014/15 for the council.



Formula Grant is expected to be £101million for the council in 2012/13 a reduction of £11million over the current year. Over the Spending Review period Formula Grant for Brighton & Hove is forecast to fall in cash terms by approximately one third or £43million.

Council Tax Strategy & Taxbase

The resource projections within the MTFS are based upon an increase in council tax of 3.5% in 2012/13 followed by a planned increase in council tax for the period 2013/14 to 2014/15 of 3.5% per annum.

It has been assumed that the amount of money raised by a £1 band D council tax levy known as the council taxbase will remain constant throughout the MTFS. The growth in properties as a result of new property developments is assumed to be offset by a continuing growth in the number of properties occupied solely by students and therefore exempt from paying council tax. Further work is being undertaken to establish whether recent unexpected increases in exemptions and discounts in the current year is a temporary or permanent phenomenon. At this stage the forecast tax base has not been reduced but the budget strategy will need to be flexible enough to cope with possible resource reductions should they be identified later in the year.

As explained earlier in the section on proposed changes to council tax benefit from April 2013 reductions in the scheme will mean that the council will need to collect more council tax from residents on low incomes and this is likely to be harder to collect. The forecasts of council tax income for 2013/14 and beyond include the additional council tax collectible.

The overall level of council tax is also dependent upon the council taxes set by the Sussex Police Authority and East Sussex Fire Authority. There may be some probably minor changes to the Fire Authority council tax if proposals to merge with West Sussex are agreed in the future. Overall the comparable band D council tax for Brighton & Hove residents is slightly above the national and unitary average but well below the average in Sussex.

Fees and Charges

The fees and charges are assumed to increase by 2% inflation over the period. An overarching review of fees and charges for 2012/13 will be undertaken prior to Budget Council to assess the cumulative impact of proposed changes to fees and charges on vulnerable groups.

New Homes Bonus

The amount of additional new homes bonus income each year will not be known until the time of setting the following year's budget and therefore individual allocations will form part of each financial year's budget report. The future new homes bonus income will be used to further protect services for the vulnerable and to reinvest in enabling new housing development. Based on information to the end of August it is estimated that the council could receive an additional c.£0.3m per annum from 2012/13 for the next 6 years in respect of growth since October 2010 but this has not been built into the resource forecasts at this stage.

General Reserves and Working Balance

The working balance is currently £9m and is planned to remain at this level over the next 3 years. The council holds a wide range of reserves for specific purposes and details of the amount of each reserve, what it is being held for and any planned usage of the reserve are included in the detailed budget report each year. The projected general reserves position to 31st March 2012 was set out in the budget update report to Cabinet in July 2011 and the level of reserves available for use in future years will depend on spending levels in the current year. Reserves cannot be used to fund ongoing expenditure commitments as they can only be spent once. They can be used to support the revenue budget whilst agreed savings are being implemented, to meet any one-off upfront costs associated with savings or to fund one-off new expenditure items.

Other future Government policy changes that will impact on future year projections for the General Fund:

Local Government Resource Review

The Government published terms of reference for the review in March 2011 with the primary objectives being to give local authorities greater financial autonomy and strengthen incentives to support local economic growth. Currently there is no link between the business rates collected locally and the business rates funded proportion of Formula Grant. A consultation by the Department for Communities & Local Government is underway which will allow councils to keep some or all of their business rate income collected locally. Councils will also get to keep some of the increases in local business rates over and above inflation but see reductions in their resources if business rates fall. Local authority areas with a very high level of business rateable value, a growing economy and increasing number of business premises have potentially most to gain from these proposals. The Government appears to be extremely keen to make changes and has an ambitious target of 1 April 2013 for the introduction of a new system.

Local government finance is extremely complicated and making changes of this fundamental nature is not easy and can create many unintended consequences. Officers are closely monitoring progress on the proposals and keeping the cross-party Members Budget Review Group informed of the latest developments. The work undertaken so far has thrown up many unanswered questions which makes assessing the impact on the future resource position of the council difficult to ascertain. However, any localisation of business rates will give the council significant new risks to manage as the income from business rates is quite volatile and provide some different financial incentives to take into account when the council is making decisions on business developments within the city. The council will need to explore which authorities might be willing to enter into business rates pooling arrangements with the council and the advantages and disadvantages of spreading the risks by pooling with different local authorities.

Housing Benefit

The Welfare Reform Bill contains the legislative provisions for the introduction of a universal credit that will replace existing in and out work benefits and credits. The aim is to improve work incentives, simplify the benefits system and make it less costly to administer.

The council currently administers housing benefits and council tax benefits and receives around £180m subsidy (2011-12) and £3.258m housing and council tax administration grant. The move to universal credit is planned to commence for new applicants from 1 April 2013 and have a four year transition period. The transition to universal credit will have profound implications for many council employees and councils systems alongside the re-localisation of council tax benefits from 2013/14.

The LGA is lobbying government to ensure that the costs associated with the benefit reform, including staff, systems, contractual and transition costs, should be fully met by government under the new burdens doctrine. There is clearly a significant financial risk to the council if that is not the case.

In addition the way universal credit is paid could have important implications for the housing market. For example, if universal credit increases the risk that tenants default on rent, and rental income streams suffer, this could de-stabilise the credit arrangements the social housing sector has with financial institutions. This in turn could impact on the costs associated with the council's statutory homeless responsibilities.

Schools Funding

Schools funding can only be spent on schools related expenditure. In the Spending Review schools funding was protected with DSG and funding for the new Pupil Premium rising by 0.1% per annum in real terms (i.e. after allowing for inflation) over the period of the Spending Review at a national level. The Department for Education are continuing to consult on the changes to the way the national funding pot is distributed including the introduction of a national funding formula to replace locally agreed formulae. The next stage of the consultation is currently taking place with a response deadline of 11 October 2011. Changes to the distribution mechanisms will create winners and losers both at the local authority and individual school levels but it is too early to tell how schools within Brighton & Hove might be affected.

Capital Investment Programme

The capital investment programme covers all services including the HRA and schools.

Current Capital Investment Programme

The 2011/12 capital programme is £114.1m. The programme contains a number of critical schemes which have the potential to have significant revenue budget implications if they are not delivered, these include the council's phase one of the accommodation strategy £2.8m, solar panel Implementation £2.6m, vehicle replacement £1.2m and new primary school places £11.3m. The programme also includes corporate investment of £0.5m for the Strategic Investment Fund, £0.5m for the ICT Strategy Fund and £1.0m for the Asset Management Fund. The corporate funds support investment in core strategic investment for major projects, civic and operational buildings and ICT investment.

Council borrowing accounts for 24% of the capital programme funding. Capital grants account for 44% of the capital programme some of which are ringfenced for specific purposes. Revenue contributions include the Major Repairs Allowance for housing stock as well as contributions through direct revenue funding. Receipts from asset sales accounted for 4% of the funding and other sources of funding include use of capital reserves and external contributions.

Capital prospects for the next 3 years

The Government does provide some indicative forward estimates of future capital allocations but the detail varies significantly between government departments. The resources available nationally are outlined in the spending review and this information coupled with the indicative allocations allows for estimates of future year's resources to be established. Forward estimates of the capital investment programme have been produced for the period up to 2014/15 and these are included at Table 3.

The response to the '2010-11 review of the education capital commitment' is expected to be published in the autumn of 2011. The review aims to achieve better value for money and improve efficiency in education capital investment that is relevant to both schools and children and young people's services. The review aims to better target funding to where it is needed most and give more flexibility on how funding is used in the context of clear overarching national priorities.

The council has ambitious capital investment aspirations including the redevelopment of the Brighton Centre, the Black Rock site, Brighton Station Gateway and the Historical Records Centre.

Table 3: Summary of Capital Investment Programme			
	2012/13	2013/14	2014/15
	£'000	£'000	£'000
Approved Schemes			
People	537	0	0
Place	1,578	760	0
Communities	0	0	0
Finance & Resources	0	0	0
New Schemes Awaiting Approval			
People	8,080	7,442	6,899
Place	30,121	24,853	24,807
Communities	0	0	0
Finance & Resources	4,000	4,000	4,000
Total	**44.316**	**37,055**	**35,706**
Fund by:			
Government grants	15,596	14,256	14,058
Capital receipts	2,000	2,000	2,000
Capital receipts to support the LDV	4,517	4,722	3,328
Capital reserves	84	0	0
HRA reserves	2,782	3,271	3,400
External contributions	146	0	0
Major Repairs Allowance	7,638	7,839	8,000
Direct revenue funding	3,487	3,467	3,420
Council borrowing	8,066	1,500	1,500
Total	**44,316**	**37,055**	**35,706**

Capital Strategy

The Council's Capital Strategy outlines the process for the prioritisation and evaluation of capital investment projects. A summary of these priorities is detailed as follows:

- Will seek to protect as far as possible capital grant funding for transport and the public realm investment;
- The pooling of all remaining non ringfenced capital resources and allocating to priority areas of investment;

- Allocate approximately £0.5m per annum to address the key capital strategic priorities and provide support to the major projects investment through the Strategic Investment Fund;
- Allocate £0.5m per annum towards the Information and Communication Technology Fund to address the funding of central network support and improvements to the ICT infrastructure;
- Allocate £1.0m per annum to the Asset Management Fund to support property improvements, property related Health & Safety requirements and access improvements under the Disability Discrimination Act 1995;
- Allocate £0.5m per annum through borrowing to support investment in Social Care buildings;
- Generate capital receipts from the disposal of surplus or under-used assets for reinvestment through the Asset Management Plan and into other corporate funds;
- Proceeds from the sale of capital receipts will be used for reinvestment in the capital programme or used for debt repayment or investment, for example, to offset any loss of rental income in the revenue budget;
- The net receipts from 'right to buy' sales are split between funding for corporate strategic priorities delivering regeneration including affordable housing opportunities and investment directly in housing. The first £0.5m of this income is used to finance support for major regeneration and housing projects through the Strategic Investment Fund with the remainder set aside for investment in housing;
- The use of council borrowing for service improvements where a business case has been developed and that the investment demonstrates value for money and the additional finance costs are reflected in the revenue budget;
- Explore all funding options including partnerships and bidding processes.

This strategy allows the council to maximise current and future capital resource allocations. It also allows for the allocation of resources to address the key priorities and strategic issues of the council.

Housing Revenue Account

The Housing Revenue Account (HRA) Budget is a ring fenced account which covers the management and maintenance of council owned housing stock. A local authority's HRA 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.

Revenue budget

The HRA expenditure and income budgets in 2011/12 are both £50.4 million creating a balanced budget. The HRA revenue reserves are currently at £4.7m which is above the recommended level and this will be reviewed during 2011/12.

The HRA budget will focus on reducing management and maintenance costs over the next three years.

Management costs for 2010/11 were £17.67 per dwelling per week which are average in comparison with other councils. The 2011/12 budget includes management savings in office costs of £0.090 million, and savings of £0.263 million from the implementation of the Customer Access Review Phase 2.

The new repairs and improvement partnership has achieved savings in the responsive repairs and voids budgets (and also capital project unit costs) and the 2011/12 budget includes further savings of £0.300 million.

Future savings will be delivered by improving the use of HRA buildings including more efficient working at the housing centre, streamlining processes and implementation of phase 3 of the Customer Access Review. The move towards open book accounting for the partnership in the future will continue to support the delivery of future savings, thereby reducing the overall maintenance costs.

Savings will be used to fund any service and inflation pressures not met by additional rental income from annual rent increases. A proportion of savings will be reinvested to tackle inequality, anti social behaviour, improving financial inclusion and to fund capital investment.

Capital Programme

The current 3 year capital programme has a budget of £71 m over the period 2011/12 to 2013/14 and the forecast spend for 2011/12 is £36.8 million.

By April 2011, 74% of homes met the Decent Homes Standard, and the target is to bring this up to 88% by April 2012. The capital programme will provide funding, through leasing properties to Brighton and Hove Seaside Homes, to ensure all council housing meets the standard by the end of 2013.

The capital strategy for the next 3 years will also focus on supporting the development of healthy lifestyles, support the reduction of inequalities, including overcrowding, and creating homes that meet the changing needs of the City. The programme will for example proactively tackle the causes of mould in homes, combining heating, insulation and ventilation programmes, along with cyclical works, which will help improve health and reduce the inequalities caused by fuel poverty.

Projects include solar panel installations to 1,600 homes and over cladding, building significantly on the carbon reductions already achieved and playing a key part in making Brighton & Hove a benchmark for high environmental sustainability delivery.

Self Financing

The HRA operates within the national housing subsidy system, the system through which the Government determines the amounts local authorities need to spend on their council housing and whether subsidy is required to support this expenditure. 'HRA subsidy' is the sum paid by Government to make up any shortfall between HRA income and expenditure.

HRA subsidy may be a negative amount where the government determines that the local authorities have more money than they need to finance their expenditure. Local authorities therefore pay this sum across to the Government. In 2011/12 the negative subsidy payment for the HRA is £4.75 million.

Under plans in the Localism Bill the current housing subsidy system will be abolished from April 2012 and replaced with a new system of self financing. Under this system the council will no longer be required to transfer it's resources to central government, but in return will be required to take on additional housing debt (currently estimated at £9.3 million) at a level which is sustainable in the long term.

This system will enable the HRA to develop a balanced 30 year Business Plan aiming for effective long term management of the housing stock.

Risk assessment

The degree of risk and uncertainty contained within the MTFS cannot be understated. The finance system within which the city council works is complex and highly sensitive to a range of variables. Factors that can have a material effect on the financial position of an authority include:

- The lack of certainty in future resource levels
- Changes in function & funding
- Changes in how services are funded
- Changes in the economy
- Climate change
- Unmanaged service pressures
- Decisions on council tax

Risks to the MTFS arise from both external and internal factors. External risks include, for example, Government policy decisions that have an adverse impact on the council. External risks are generally the most difficult to manage and plan for.

Internal risks can also arise for a number of reasons, such as cost overruns or changing priorities. They may also be influenced by external factors. It is vital to have adequate mechanisms to manage internal risks if financial stability is to be achieved. There are a number of ways in which the effects of risks can be managed and these are set out in the following risk table. Furthermore, the city council's MTFS aims to minimise the impact of some of the major financial risks and impact on the delivery of the city's key priorities.

However, the forecasts within the MTFS are based on assumptions that reflect the most likely position based on current knowledge and therefore there are also opportunities if any of the forecasts overstate actual expenditure or under-estimate actual income.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Potential Risks affecting 2012/13 to 2014/15					
Collection of council tax falls due to the difficult financial climate and failure to achieve higher target collection rates resulting in a deficit on the collection fund	2	3 0.1% reduction in council tax collection = £0.1m	6	Immediate impact on reserves Would require reductions in the budget for the following year to repay reserves	Close monitoring of the collection fund Implement appropriate collection strategies to minimise impact and review effectiveness of the new Debt Prevention Team
Council tax base is lower than anticipated e.g. lower number of new properties / more student exempt properties / more discounts, resulting in a deficit on the collection fund	3	3 1% reduction in council tax base = £1.1m	9	Immediate impact on reserves Would require reductions in the budgets for the following year to repay reserves	Close monitoring of the collection fund and checking validity of exemptions and discounts particularly new property developments, student numbers and discounts Working with further education establishments to develop more dedicated student accommodation
Provisions for Equal pay	4	4	16	Successful equal pay claims	Maintain and update the risk

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
and future pay insufficient to meet liabilities		1% variation in total pay = £1.3m p.a.		above the provision would reduce the level of reserves	register Monitor progress on a frequent basis and update financial forecasts regularly particularly in the light of any new legal rulings
General inflation higher than the 2% forecast	3	3 0.5% change in inflation = £0.6m	9	Would reduce resources within budgets creating the need to find additional savings	Monitor inflation rates and impact on contract costs closely Risk provisions and service pressures provide some cover for higher inflation
Energy and fuel prices increase above 2%	4	3	12	Would reduce resources within budgets creating the need to find additional savings	Reduce consumption and implement measures to generate energy Monitor energy/fuel market for contracts closely Risk provisions and service pressures provide some cover for higher inflation
The council fails to reduce its carbon footprint resulting in higher than anticipated energy costs and need to	3	3	9	Would reduce resources within budgets creating the need to find additional savings	Develop council carbon budgets for services and report / monitor alongside financial budget.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
purchase more allowances than anticipated under the CRC scheme					Programme of investment to reduce carbon footprint across the council
Investment interest rates lower than anticipated	4	3 0.5% lower = £0.25m	12	Would need more reserves to cover any shortfall in the investment interest budget	Keep investment strategy under constant review Review impact in light of changes proposed to housing finance from April 2012
Long term borrowing rates higher than anticipated	2	3 0.5% higher = £0.05m for each £10m borrowed	6	Would increase borrowing costs budget over the long-term Would hinder business cases involving borrowing and make invest to save schemes less financially attractive	Closely monitor long term borrowing rates and future borrowing requirements to help identify the best time to borrow
Services fail to operate within set budgets due to: • Increased service demand • Price variations • Unachieved income levels	4	3 1% overspend on net GF budget = £2.3m in 2011/12	12	Departmental service pressures that can only be met through additional resources, such as the risk provision, or savings elsewhere in the budget. Reduction in reserves	Monitor corporate critical budgets and overall budget through TBM. Identify action plans to mitigate cost pressures. Apply cash limits but at least repay any use of reserves over no more than 3 years

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
• Unachieved savings					should risk materialise that cannot be accommodated by management or policy action.
Waste tonnages higher than projected resulting in additional disposal costs particularly landfill	2	4 1% increase in tonnage in 2011/12 = £0.1m p.a. over life of contract	8	Would increase the waste disposal budget and compensating savings would need to be identified elsewhere in the budget	Provision for higher tonnages made in assessment of waste PFI reserve Monitor and identify specific areas of growth and undertake waste minimisation and further recycling measures
Continuing difficult financial climate has a greater than anticipated impact on collection of income and commercial rents	3	3 1% reduction in income = £1.2m 1% reduction in commercial rents = £0.1m	9	Services would need to identify compensating savings and in particular look at whether expenditure could be reduced in those income generation areas	Identify action plans to mitigate income and rent shortfalls
The uncertainties within housing market and changes in housing benefit	3	3 10% increase in	9	Would create additional pressures in the Housing Strategy budget which would	Assess the potential impact of proposed changes to the housing benefit system and

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
create spending pressures within the homelessness budget		homelessness budget = £0.2m		need to find compensating savings	the introduction of universal credit and lobby accordingly
The number of children taken into care is higher than anticipated particularly following recent national high profile cases	3	3 1% increase in looked after children budget = £0.2m	9	Would create additional pressures in the children's services budget to find compensating savings	Monitor corporate critical budget through TBM and develop financial recovery plans
Increasing demand for adult social care services above projections	3	3 1% increase in adult social care budget = £0.8m	9	Would create additional pressures in the Adult Social Care & Housing, Learning Disabilities and Health led services budgets to find compensating savings	Monitor corporate critical budget through TBM and develop financial recovery plans
Major civil incident occurs e.g. storm, flooding, riot	2	3 Estimated "Bellwin" threshold = £0.8m	6	Budget overspend/reduction in reserves Pressures on other budgets	Ensure adequate levels of reserves to cover threshold expenditure Ensure appropriate insurance cover is in place.

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
Severe winter weather places additional spending pressures on winter maintenance and other budgets across the council	3	3 Depends on severity of weather event and length of cold snap	9	Need to use reserves in one-off risk provisions	Advance planning to minimise possible disruption
Pupil numbers lower than projected	2	3 1% of Dedicated Schools Grant = £1.5m	6	Schools funding through dedicated schools grant lower than anticipated.	Review & improve pupil number projections. Consultation with schools forum.
Cost overruns occur on schemes in the agreed capital programme	2	3 1% cost overrun on total programme = £0.4m	6	Reserves or other capital resources redirected to fund overspend Unable to meet capital investment needs	Effective cost control and expenditure monitoring. Flexibility within programme to re-profile expenditure if necessary.
Capital receipts lower than anticipated	4	3 10% reduction in receipts = £0.6m	12	Fewer resources available for transport programme and other strategic funds	Flexible capital programme that allows plans to be reduced or re-profiled.

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
Further risks affecting 2013/14 onwards					
Re-localisation of business rates produces a loss of funding for the city council in 2013/14 and thereafter	3	4 2011/12 grant floor funding = £11m	12	Reductions in budgets or upward pressure on council tax	Model impact of possible options for change Lobbying Government on adverse impact of proposed changes
Council loses funding when the new system of business rate retention is periodically reset	3	4 1% of possible baseline = £0.9m	12	Reductions in budget or upward pressure on council tax	Lobbying Government on reset options and measures to avoid excessive volatility
Income form business rates is lower than expected	3	4 1% of business rates = £1m	12	Immediate impact on reserves Would require reduction in the budget for following year to repay reserves and meet ongoing resource shortfalls	Close monitoring of business rates yield and collection Consider measures to encourage growth in local businesses
Cash reductions in remaining specific grants in 2013/14 and beyond	3	4 5% reduction in	12	Reductions in budgets or upward pressure on council tax	Provisions for reductions made in resource forecasts Develop strategies to identify

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
causing additional budget pressures		specific grants = £1.5m			priorities and mitigate impact of reductions
Council fails to deliver a council tax benefit (CTB) scheme with a 10% cost reduction from 1 April 2013	2	3 1% of CTB = £0.26m	6	Reductions in budgets or upward pressure on council tax	Define as corporate critical budget, closely monitor and allow for periodic review of adopted scheme.
Number of council tax benefit claimants higher and / or CTB scheme costs more than anticipated	3	3 1% of CTB = £0.26m	9	Immediate impact on reserves Ability to review scheme to meet new financial pressures	Closely monitor claimant numbers Make appropriate changes to the scheme to reduce financial cost
Transfer of funding for Public Health responsibility from 1 April 2013 insufficient to meet existing service requirements and future demand	2	4	8	Reductions in budgets or upward pressure on council tax	Work closely with NHS to ensure appropriate budget transfer and full knowledge of current and future spending pressures. Monitor budget and spending closely and identify strategies to meet any additional resource requirements.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Reduction in Dedicated Schools Grant following review of existing formula and possible introduction of a national model for distribution between schools	3	4 1% reduction in DSG = £1.5m	12	Additional pressure on schools budgets	Respond to consultation papers and lobby Government on impact
New reimbursement arrangements after current concessionary fares fixed deals result in higher than anticipated costs	3	3 1% change = £0.1m	9	Reductions in budgets or upward pressure on council tax	Monitor national reimbursement arrangement and lobby DfT for changes Closely monitor local data including new smart-card data to inform reimbursement calculations Early negotiations with bus companies about options for new fixed arrangements
Pay assumptions for 2013/14 onwards are lower than agreed pay awards	3	4 0.25% change in pay award = £0.4m	12	Immediate impact on reserves if risk provisions prove insufficient Would require reductions in the budgets for the following	Monitor progress on pay award negotiations and wider national settlements

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
				year to repay reserves	
Pension costs increase at next actuarial review in 2014/15 to cover any deficit greater than anticipated	3	3 Each 0.1% additional employer contribution = £0.12m	9	Reductions in budgets or upward pressure on council tax	Implement actuarial advice on contribution rate. All employment decisions include allowance for full pension costs. Maximise contributions to pension fund where affordable

Likelihood: 1 – Almost impossible, 2 – Unlikely, 3 – Possible, 4 – Likely, 5 – Almost certain.

Impact: 1 – Insignificant, 2 – Minor, 3 – Moderate, 4 – Major, 5 – Catastrophic or fantastic.

Risk (L x I): 1-3 Low, 4-7 Moderate, 8-14 Significant, 15-25 High.