APPENDIX 6

Medium Term Financial Strategy (MTFS) 2012/13 to 2014/15 – Updates of resources and budget forecasts

A MTFS fully aligned to the priorities within the Corporate Plan was agreed by Cabinet in September 2011 and full council in October 2011. It will be updated when the Corporate Plan is refreshed later this year. This appendix contains revised resource and expenditure forecasts for the General Fund budget reflecting the latest information available on future resource levels and the budget proposals contained within the Budget report. Updated information on the resource and budget forecasts for both the HRA and the capital investment programme are included in their respective reports elsewhere on the agenda. An update on schools funding is included in the body of the Budget report.

Revised Budget & Resource Projections

Table 1 sets out the latest main assumptions that underpin the projections and table 2 sets out 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 in 2012/13 and by resources allocated under the business rates retention model and council tax in 2013/14 and beyond. Changes to the budget are described in the body of the report but further information on the changes to the resource forecasts as a result of the introduction of localised business rates is given after table 2.

It should be noted that nearly 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 and pay related matters	0.6%	2.0%	2.0%
General inflation	2.0%	2.0%	2.0%
Formula grant floor change	-9.4%	N/A	N/A
Business Rate changes		-0.5%	0.0%
Provision for successful business rating appeals		2.5%	2.5%
One-off provision for volatility in business rate income		2.5%	0.0%
Dedicated Schools grant per pupil	0.0%	0.0%	0.0%

Table 1: Summary of MTFS assumptions			
	2012/13	**2013/14**	**2014/15**
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	227,132	227,808
Function & Funding changes	2,476	-	-
Revised Budget requirement brought forward	234,697	227,132	227,808
Pay and Inflation	2,988	4,990	4,945
General Risk Provision	2,000	500	500
Commitments - impact of previous decisions	-2,037	-1,544	-214
Service pressures – General	6,715	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 previous year savings	-3,700	-715	-750
Savings	-15,652	-15,748	-17,834
Sub-Total	225,939	225,266	222,506
Change in contribution to / from reserves *	1,193	2,542	851
Budget Requirement	**227,132**	**227,808**	**223,357**
Funding			
Formula Grant / Business Rate Retention	104,372	100,027	91,104
Council Tax	122,760	127,781	132,253
Total	**227,132**	**227,808**	**223,357**

***** Reserves have been used to support the 2012/13, 2013/14 and 2014/15 budgets to cover only one-off expenditure items and the part year effect of savings that will be implemented during the financial year rather than on the 1 April.

Formula grant and provisional resource projections under business rate retention model

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. The 2012/13 figures were confirmed in early December 2011. The Government has reduced both settlements to reflect the impact on education services of the growing number of academies. In December in a response to an earlier consultation the Government changed the way these reductions will be calculated whilst ensuring the no local authority will be worse off. These changes may be beneficial to the council but this will not be known until January 2013 after pupil counts are completed.

Another 2 year settlement is likely to be announced in November or December 2012 for 2013/14 and 2014/15 taking into account changes resulting from proposals to localise business rates. Further proposals were announced by the Government just before Christmas 2011 and although there are still many uncertainties some initial resource modelling has now been completed. A brief summary of the proposals is given on the review later in this appendix.

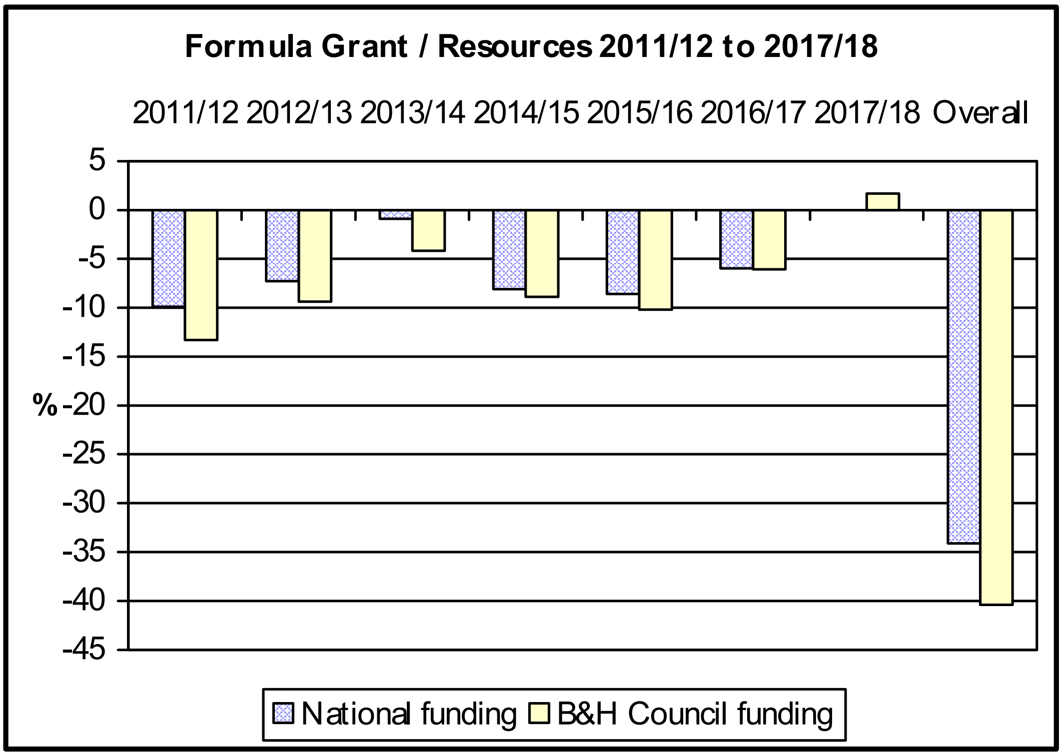
The forecasts for 2013/14 and 2014/15 are based on the national figures for local authority funding in the spending review adjusted to reflect the further restraint on pay of 1% announced by the Chancellor in the 2011 Autumn Statement. The Chancellor also announced that public spending would continue to be reduced in 2015/16 and 2016/17 at the same rate as 2010 Spending Review. The resource projections make the following assumptions:

- Funding for local authorities reduces by 0.9% in 2013/14, 8.1% in 2014/15, 6% in both 2015/16 and 2016/17.
- The national totals have been top-sliced to provide ongoing funding for the New Homes Bonus.
- Funding for 2011/12 council tax freeze grant will end after this spending round in 2015/16.
- Business rate income will decline by 0.5% per annum in year 1, will be neutral in year 2 and will gradually increase after that.
- New risk provisions for successful business rates appeals and for the volatility in business rates income have been created.
- A baseline safety net has been assumed within the business rates retention model currently shows that safety net support would not be triggered.

The following chart compares the average national local authority funding changes set out in the Spending Review and further statements with the actual Formula Grant for 2011/12, the provisional settlement for 2012/13 and the resource forecasts between 2013/14 and 2017/18 for the council.

Compared to earlier forecasts there is an improvement in resources for 2013/14 and 2014/15 of approximately £0.7m and £1.4m respectively. This increase is due to confirmation from the Government before Christmas that the starting point for the new system will include floor grant of £11m that the council would have lost over time under the formula grant. The benefits of retaining this income are partly offset by the additional risk provisions relating to business rate income that need to be set up under the new system.

Formula grant is expected to be £104.4 million for the council in 2012/13 a reduction of £10.5 million over the current year. Over the period funding for Brighton & Hove is forecast to fall in cash terms by approximately 40% or £52million.



Local Government Resource Review – Latest proposals for business rate retention

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 finished in October 2011 which will allow councils to keep some or all of their business rate income collected locally. The Government response to the consultation was published just before Christmas 2011 clarifying some of the potential options to implement the scheme. 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 is committed to making this change 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. Whilst there remain many unanswered questions a forecasting model has been developed to make an initial assessment of the impact on the future resource position of the council as described earlier under the resources section. 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.