APPENDIX 3

MEDIUM TERM FINANCIAL STRATEGY 2014/15 to 2019/20 – GENERAL FUND FINANCIAL FORECASTS

The tables below show the forecasts for net expenditure and future funding streams based on the latest information available. The key assumptions relating to inflation and future funding are shown in the first table. The most notable relate to future funding. The Chancellor has already announced that funding for local government will be reduced by the same amount in the next Spending Review as in the current one i.e. approximately 10% per annum on average and this reduction has been built into the forecasts for 2016/17 to 2019/20. A revaluation of business rates is due to be implemented from 1 April 2017. Whilst any increases or decreases in business rates as a result of the revaluation will be adjusted for in the business rates retention system, it is unclear how appeals will be treated so new provisions for potential successful appeals on the 2017 list have been made in the forecast. A reduction due to the anticipated demolition of the original AMEX offices along with preliminary estimates of the impact of other major developments including Preston Barracks and Circus Street have been built into future forecasts of rateable value. Further analysis needs to be undertaken regarding the major redevelopment of the Royal Sussex County Hospital where there will be temporary reductions in business rates income as the phased works are carried out but an overall increase once all the work is completed. After the table are a number of charts showing the forecast trends in key indicators over the period

On the basis of these forecasts it is estimated that the council will need to identify budget reductions of nearly £90m over the 5 year period 2015/16 to 2019/20. This represents a reduction of almost 25% in the gross budget.

A sensitivity analysis has also been carried out for some other possible scenarios. The results are as follows:

- If the number of new homes in the city rises by the average shown in the City Plan rather than the figure used in the tax base forecast then approximately an additional £0.1m New Homes Bonus and £0.075m additional council tax income would be generated each year.
- For each 0.5% increase in the rateable value over and above the forecast for business rates generates about £0.3m per annum.
- If 10% of the local authority maintained schools transfer to become either academies or free schools then the loss of business rates income would be about £0.1m per annum and the loss of Education Services Grant would be about £0.3m per annum. However, the loss of Education Services Grant could be at least partly offset if the council was successful in selling these services to the new academies and free schools.
- A council tax freeze would reduce the funding available to the council each year by £0.8m assuming further freeze grant is forthcoming from the government.

Core planning assumptions

The table below sets out the core planning assumptions included in the MTFS projections.

MEDIUM TERM FINANCIAL STRATEGY 2014/15 TO 2019/20 *(Tables may not add due to rounding)*

Summary of MTFS assumptions	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Pay inflation and pay related matters						
- Provision for pay award	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
- Provision for pension contributions	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
- Provision for changes in national insurance	0.0%	0.0%	(*)	0.0%	0.0%	0.0%
General inflation						
- Inflation on income	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
- Inflation on parking income	0.0%	1.0%	2.0%	2.0%	2.0%	2.0%
- Inflation on penalty charge notices	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Resources:						
Change in Settlement Funding Assessment		-14.2%	-12.0%	-10.6%	-10.7%	-10.8%
Change to Revenue Support Grant (RSG)		-28.3%	-29.5%	-33.7%	-46.8%	-81.3%
Business Rates						
- Business rates poundage inflation uplift	2.0%	2.8%	2.8%	2.8%	2.8%	2.8%
Change to other specific grants	-5.1%	-24.4%	-13.7%	-17.5%	-10.0%	-10.0%
Public Health grant	2.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Assumed council tax threshold increase	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Council Tax Base	2.0%	0.25%	0.25%	0.25%	0.25%	0.25%

(*) National insurance changes planned for 2016/17 are expected to add over £2m to the expenditure estimates but the Government has said that national expenditure control totals for local government will be adjusted and the council therefore should receive additional grant to offset the cost.

Summary of MTFS projections

The table below sets out the savings /budget gap taking into account the anticipated expenditure over the MTFS period and the funding resources available.

Summary of General Fund budget projections	2014/15 £ million	2015/16 £ million	2016/17 £ million	2017/18 £ million	2018/19 £ million	2019/20 £ million
Budget Requirement brought forward	228.139	225.317	212.271	202.450	194.204	188.916
Pay and Inflation	3.557	4.273	3.542	3.291	3.140	3.050
General Risk Provision	2.500	0.500	0.500	0.500	0.500	0.500
Commitments - impact of previous decisions	0.067	1.555	0.619	-0.089	0.000	0.000
Change in Section 31 Business Rates compensation grants	-1.902	2.618	-0.018	-0.018	-0.018	-0.018
Change in New Homes Bonus	-0.680	-0.800	-0.600	0.000	-0.200	0.350
Service pressures - demographic and inflation	6.085	5.000	5.000	5.000	5.000	5.000
Service pressures - specific grants	0.423	1.150	0.650	0.600	0.500	0.500
Full year effect of savings in previous year	-1.152	-1.149	0.000	0.000	0.000	0.000
Savings / Budget gap	-15.591	-24.632	-19.261	-17.530	-14.210	-13.700
Sub-Total	**221.446**	**213.832**	**202.703**	**194.204**	**188.916**	**184.598**
Change in contribution to /from reserves	3.871	-1.561	-0.253	0.000	0.000	0.000
Budget Requirement	**225.317**	**212.271**	**202.450**	**194.204**	**188.916**	**184.598**
Funding						
Revenue Support Grant	63.442	45.453	32.050	21.252	11.307	2.118
Top Up Grant	1.611	1.656	1.702	1.749	1.797	1.846
Locally retained Business Rates	51.581	55.989	57.099	57.122	59.193	61.420
Council Tax (including collection fund surplus)	108.683	109.172	111.599	114.081	116.619	119.214
Total Funding	**225.317**	**212.271**	**202.450**	**194.204**	**188.916**	**184.598**

Capital Investment Programme

The council is facing some major long term capital investment challenges. The tables below identify these challenges and the funding that has yet to be confirmed or identified in the longer term.

CAPITAL INVESTMENT SUMMARY	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	19/20- 23/24 £000
Children's Services						
- Child Health Safeguard & Care	362					
- Education & inclusion incl. education maintenance	5,217	4,400	4,400	4,400	4,400	22,000
- New Pupil Places (to 2020/21)	11,292	8,507	12,641	15,000	19,000	20,000
Adult Services	824	750	750	750	750	3,750
Environment, Development & Housing (GF)						
- City Infrastructure	1,150					
- Housing General Fund	3,470	1,370	1,215			
- City Regeneration	3,644					
- Transport and Local Transport Plan (LTP)*	7,925	7,000	7,000	7,000	7,000	35,000
- Seafront Investment				10,000	10,000	50,000
Environment, Development & Housing (HRA)						
- Housing Stock Programme	28,964	24,886	23,822	23,600	23,600	114,000
- New Homes (500 new homes by 2020)	5,000	10,500	1,000	12,000	20,000	21,000
Assistant Chief Executive						
- Sports & Leisure	888	299				
- Tourism & Leisure, Communities	258					
- Royal Pavilion Regeneration & Museums	190			2,000		
Finance, Resources & Law						
- City Services and HR Organisational Development	573					
- Property & Design incl. Workstyles Phase 3	3,198	9,717	1,750			
- Corporate Investment	7,020	4,250	2,750	3,450	3,450	17,250
Total	**79,975**	**71,679**	**55,328**	**78,200**	**88,200**	**283,000**

*LTP is expected to include match funding to support the Valley Gardens project.

Note – No provision has been included for extra care housing

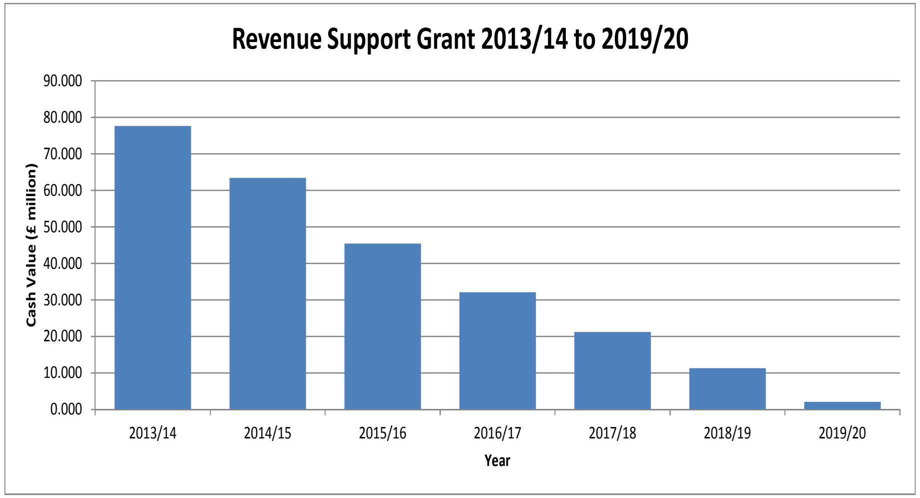
There is a fully funded capital programme for the next three years which is dependent upon the realisation of a number of capital receipts shown in the table below. Beyond the next three years there is greater uncertainty over the announcement of future government grant settlements and there is significant funding requirements that the council will need to address to provide a fully funded capital programme.

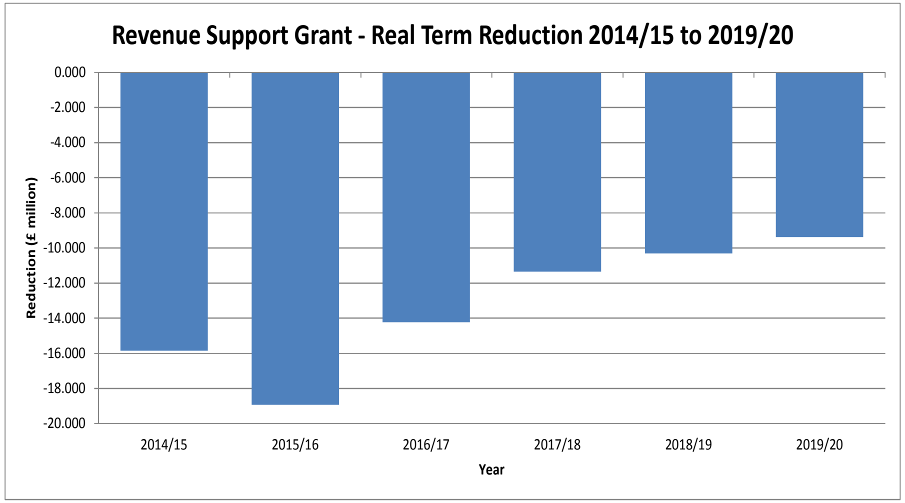
CAPITAL RESOURCES	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	19/20- 23/24 £000
Government Grants other	9,613	1,762	500	tbc*	tbc	tbc
- New Pupil Places Grant (confirmed to 2016/17)	6,759	12,038	12,641	tbc	tbc	tbc
- Education Capital Maintenance (no assumptions beyond 2016/17)	3,272	3,000	3,000	tbc	tbc	tbc
- LTP Grant (no assumptions beyond 2016/17)	7,479	7,000	7,000	tbc	tbc	tbc
- Adult Social Care Grant (no assumptions beyond 2016/17)	674	600	600	tbc	tbc	tbc
Capital Receipts including Right To Buys	8,291	10,539	10,585	3,300	4,300	9,000
Capital Reserves	1,974	500	500			
Specific Reserves	1,476	1,370	1,215			
External Contributions	75					
Direct Revenue Funding	1,947	1,550	1,550	1,550	1,550	7,750
Revenue Contribution to capital HRA	24,593	22,600	23,500	24,500	26,000	130,000
Council Borrowing	9,805	7,627	1,347	9,800	15,300	6,000
Temporary funding Workstyles / Education	4,017	3,093	-7,110			
Royal Pavilion Regeneration funding (to be identified)				tbi**		
Seafront Investment funding (to be not identified)				tbi	tbi	tbi
Corporate Funds (to be identified)				tbi	tbi	tbi
Total	**79,975**	**71,679**	**55,328**	**39,150**	**47,150**	**152,750**

* tbc = To be confirmed
** tbi= To be identified

Revenue Support Grant Projections

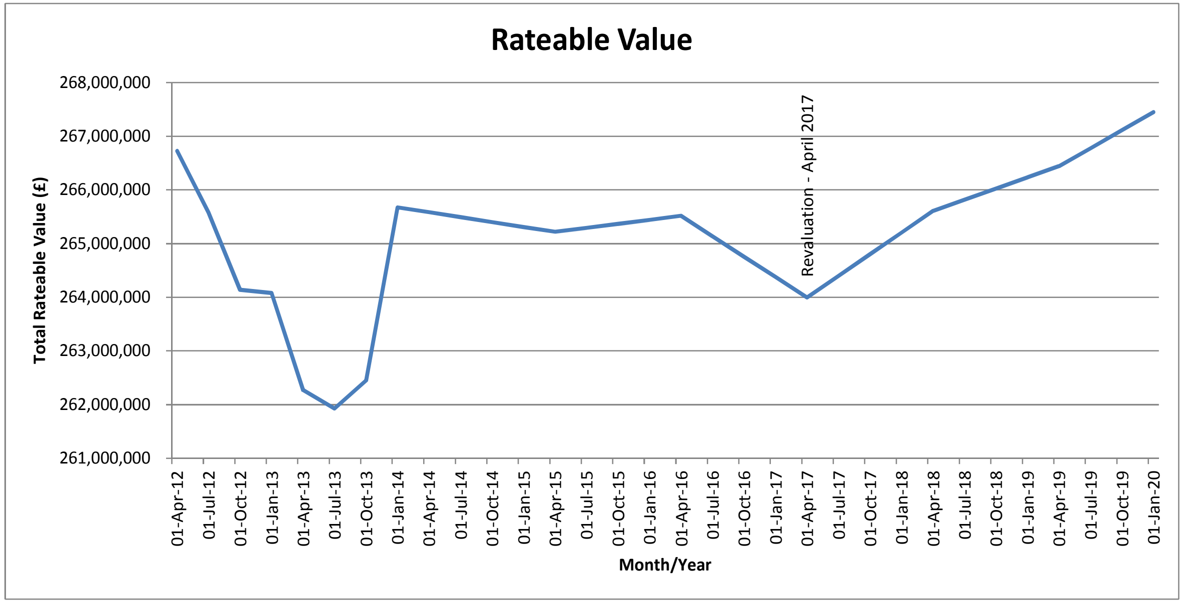
The first chart shows how the cash value of Revenue Support Grant from the government is falling from 2013/14 to 2019/20 when it has all but disappeared. The second chart shows the real term reduction in resources being experienced by the council as a result of the loss of Revenue Support Grant. It is not expected that any change in government after the next General Election would have a significant impact on the national spending on local government. However it is possible that there could be distributional changes that would affect resources at an individual authority level.





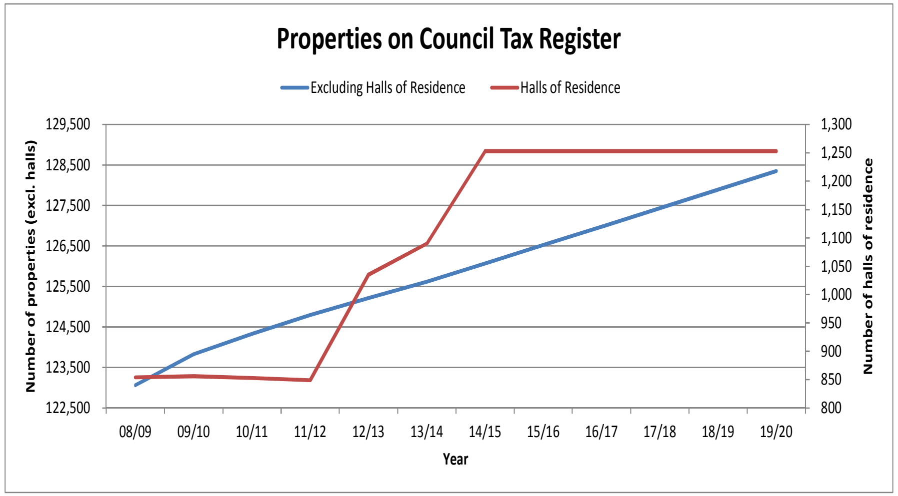
Business Rate Retention Projections

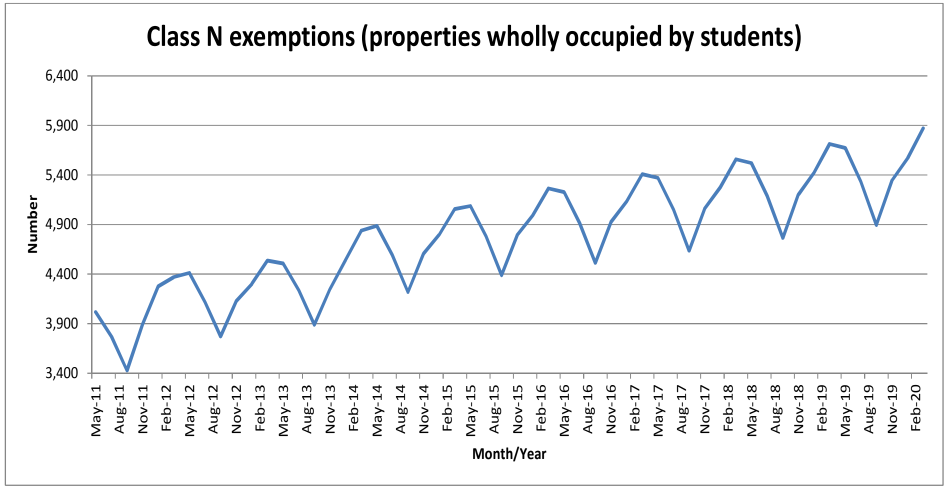
The first chart shows the projected change in the rateable value (RV) of properties liable to pay business rates in the city including the impact of revaluation in 2017 which leads to national resource equalisation rather than local gain. The RV is set by the Valuation Office. The council retains 49% of any increase in the rateable value (excluding changes from revaluation) but has no control over the multiplier (of the RV which determines the amount to be paid) which is set nationally by central government. The RV fluctuates as a result of properties coming on and off the system particularly as a result of new developments and crucially as a result of the impact of successful appeals by businesses against their RV. The appeals are determined by the Valuation Office and were the major cause of the dip in RV in 2013 and a further dip is expected in 2017 when the new rating list is published.



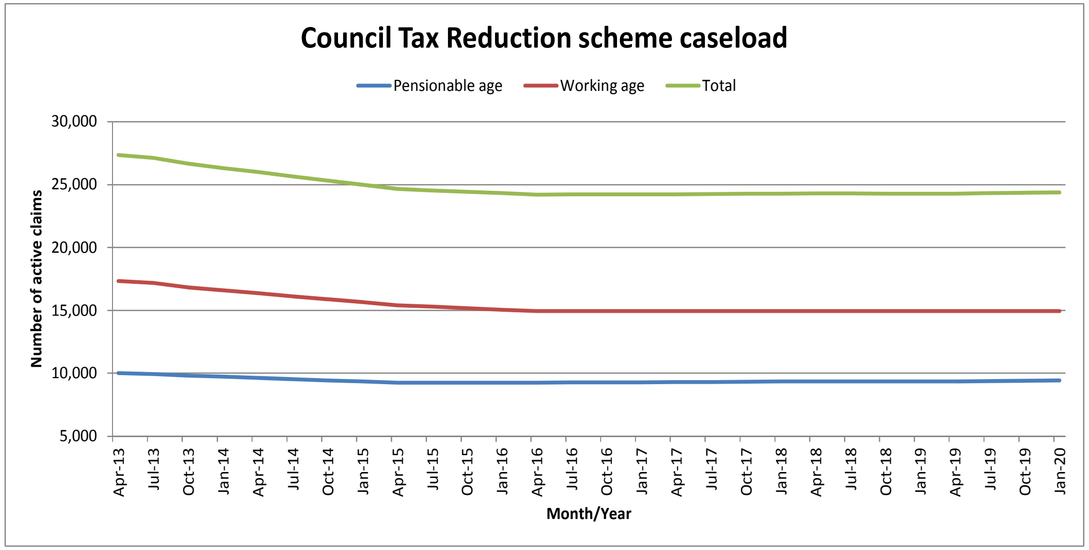
Council Taxbase Projections

The first chart shows the numbers of properties on the council tax register. Properties occupied by students are exempt from council tax and so this particularly highlights the changes in the taxbase excluding halls of residence and then the second chart shows the profile of student exemptions in properties other than halls of residence. While there is underlying growth in the council taxbase it is almost entirely offset by the growth in student exemptions – from 2015/16 the financial model assumes a net 0.25% growth.



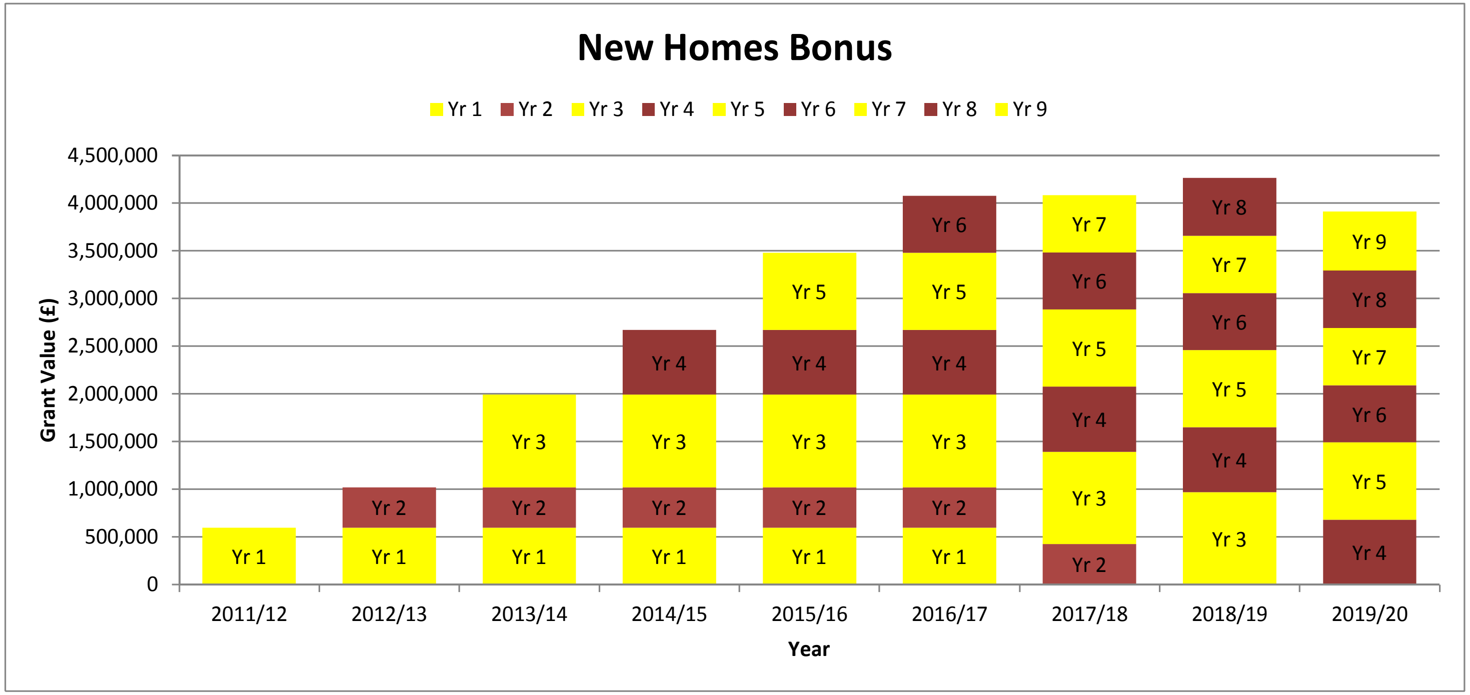


Council tax reduction is a discount on the amount of council tax payable by those on a low income. It is entirely funded from the council's General Fund resources, the previous funding for Council Tax Benefits was transferred into the general Revenue Support Grant in 2013/14. In 2013/14 the caseload fell both across pensionable and working age clients. It is currently projected to stay the same in future years – the caseload changes are entirely the council's risk. While the numbers of people of working age in employment can potentially be influenced by the council through its approach to economic development, the pensionable caseload is entirely due to demographics.



New Homes Bonus

New Homes Bonus provides an incentive for increasing the council taxbase, it is payable for a maximum of 6 years and has been funded in general by national top slices from local government funding. As a result of the pressures on the General Fund budget the council has used it to contribute to its budget gap, this means it needs to be mindful of whether additional funding is sufficient to compensate for the ending of resources gained in earlier years.



Medium Term Financial Strategy

Resources

The council's resource base is dependent on its council taxbase and its level of business rates retention. While we currently receive top up grant from central government, the direction of travel for local government finance is for local authorities to aim to be self sustaining amid an overall national context of reductions in public sector spending. This means we need to plan for a resilient and buoyant taxbase in order to protect vital services in the city.

For the **council taxbase** this means:

- enabling new development of housing through our planning policy, for example the Toads Hole Valley site
- progressing our planned council estate regeneration using Housing Revenue Account resources to leverage new investment
- working with the Universities to ensure that as much of their growing student housing needs are met through new student accommodation rather than existing housing attracting student exemptions for council tax
- having a tightly controlled system of discounts and exemptions
- ensuring that we have a fair council tax reduction scheme, balancing the need for as many people as possible to contribute to local services while supporting those in financial difficulty
- planning to increase council tax levels within the parameters set by central government but without triggering a referendum

By doing this we aim to:

- increase the number of new properties paying council tax and generating additional short term income through the New Homes Bonus
- stabilise the ongoing rise in properties not paying council tax as a result of student exemptions
- minimise the number of homes that are empty and not paying council tax and the number of fraudulent awards of discounts, especially single person discounts
- maintain a top quartile collection rate in comparison with similar authorities
- plan for council tax rises to protect vital public services

For **business rates retention** this means:

- working closely with the Economic Partnership and the Coast 2 Capital Local Enterprise Partnership (LEP) to attract inward investment into the city
- securing a City Deal with the government to ensure a thriving city region
- enabling the mixed use development of key sites in the city, using our land and, where the business case supports it, prudential borrowing or other financing arrangements, to generate new employment space
- having a system of discounts that protects the long term income stream from business rates
- lobby the government to change its approach to settling appeals and refunds which are outside the council's control and which have a disproportionate impact in Brighton & Hove including seeking a right to appeal valuations that it considers to be understated
- working with the Valuation Office to ensure the rating list is complete, up to date and fit for purpose for the council to predict and monitor the collection of what is owed

By doing this we aim to:

- protect and grow the council's share of the business rates taxbase
- minimise the number of businesses who are not paying the expected level of business rates
- maintain a top quartile collection rate in comparison with similar authorities

Government Grant Funding and Council Tax

The council will continue to rely on core funding from government (£63.4m of Revenue Support Grant in 2014/15) for some time even within a context of moving towards a self-sustaining system. We will therefore continue to lobby government to take into account a number of issues that are key to the financial resilience of the council including:

- local choice in determining council tax rises with increases of up to RPI allowable without the need to trigger a referendum
- ensuring that the high and growing number of student exemptions on the council taxbase are compensated for in the grant system
- securing a fair system for funding academies and free schools that doesn't have a detrimental impact on the council's ability to support and challenge schools across all sectors

- ensuring that Housing Benefit Administration Grant fairly reflects the costs incurred by the Council, particularly given delays to the rollout of Universal Credit and changing work patterns as a result of Welfare Reform
- ensuring that any changes to grant distribution methodology have a fair outcome for the city
- ensuring all new burdens on local government are fully funded

Fees, Charges and Rents

The council also has income from fees, charges and rents, specific government grants and makes bids for other sources of one off grants.

The overall approach to **fees and charges and rents** in this Medium Term Financial Strategy is:

- to recognise that fees, charges and rents are a vital part of the council's resource base but need to be set at sustainable levels
- to protect and enhance income in our leisure facilities, cultural destinations and venues through the quality of the visitor offer while ensuring fair discounts for concessionary groups
- to develop new income streams through identifying potential areas for additional charging or income generation

The council will seek to supplement its resource base by applying for **grants** in order to:

- deliver capital investment that it cannot afford from its core funding
- pump prime new service development designed to achieve long term financial savings

We are likely to need to be increasingly reliant on one off grant funding and therefore need to plan up front for ongoing maintenance of any capital investment and any exit costs from new initiative in order to minimise the long term impact on the revenue budget.

Specific service plans in relation to fees, charges, rents and grants are set out below.

Expenditure

The council will shift its focus in its budget planning from an emphasis on savings and changes to the budget to being clearer about how it is prioritising its substantial expenditure.

Adult Social Care

We will **maintain fair access** to Adult Social Care services at the current needs level of “Critical and Substantial” and we expect that these criteria will be in line with new nationally set criteria to be in place from 2015/16. We will fulfil our responsibilities to ensure the **quality** of services provided in the city and **safeguard** vulnerable adults including meeting new statutory responsibilities through the Care Bill.

We will support individuals to **stay in their own homes** and in their own communities wherever possible by:

- promoting personal budgets, choice and independence
- protecting funding for carers
- making better use of Telecare
- working closely with the community and voluntary sector to ensure flexible local provision that best meets individual needs

We will work closely with health partners and housing colleagues to ensure the **Better Care Fund** delivers whole system integration for those who are frail, including those who are homeless and have mental health difficulties as well as those who are elderly.

We will continue to assess the options for alternative service delivery models to protect the council’s capacity to be an essential provider of certain services in the city, in particular by enabling us to offer services and receive income from individuals on personal budgets.

By doing this we aim to:

- reduce our relatively high unit costs of providing adult social care particularly through reducing the numbers of clients in expensive residential and nursing home care;
- adapt to the changing demographics and needs of our population in a way which is affordable
- generate new sources of income to help protect quality services and safeguard the most vulnerable
- support agreed national and local targets to reduce acute hospital admissions

Children's Services

We will continue to invest in **prevention and early intervention** and prioritise resources on preventing families falling into need, and helping them to get out and stay out of crisis. We will do this through:

- our Stronger Families, Stronger Communities programme which supports families in multiple deprivation through jointly commissioning interventions across the council and with partner agencies such as police and probation services
- sustaining investment in early years services, but targeting interventions at those most in need, for example free childcare for the 20% most disadvantaged 2 year olds
- strengthening our **Early Help** services to ensure they are focussed on those children and families in need and that they make a difference

We will continuously improve our **procurement and commissioning** of:

- home to school transport, including working closely with transport colleagues and the adult social care client transport team
- expert assessments in care proceedings
- high cost placements, working across East and West Sussex, particularly South East Seven (SE7) partners on special educational needs (a Dedicated Schools Grant funded service)

We will work with the Department for Education to secure additional capital investment to increase the diversity of school provision within a context of strong partnership working across all the city's schools.

By doing this we aim to:

- support children to stay with their families and in their local communities rather than in expensive local authority placements
- reduce the amount the council spends on supporting the costs of institutional care pathways
- reduce our relatively high unit costs of providing children's social care
- secure capital investment for school places without subsidy from other council services

Communities, Culture and Public Health

The transfer of the Public Health function from 1 April 2013 provides an opportunity for us to align spend with other council services. While the public health budget is ring fenced, we aim to achieve **indirect savings** in other parts of the council through:

- coordinating support functions such as research and analysis and communications
- simplifying our commissioning of services from the community and voluntary sector as some organisations are in receipt of multiple funding streams from the council
- combining spend for example with transport, housing and sports and leisure initiatives to maximise its impact.

We will continue to seek to leverage **external investment** to maintain our historic assets, including for the Royal Pavilion Estate, and our cultural and leisure facilities including the seafront.

We will **collaborate with the community and voluntary sector**, supporting its programme to transform local infrastructure and seeking to move away in the medium term from a grants based funding model to placing more emphasis on a commissioning and contracting model.

By doing this we aim to:

- improve the outcomes and value for money of our Public Health function
- sustain and enhance income streams from our seafront properties, at our venues and at other visitor attractions for example through our catering concessions
- maintain a successful visitor economy to support accessible employment opportunities for our residents
- support a thriving third sector in the city that can contribute to resilient local communities and deliver a high social return on investment

Environment, Housing & Development

The Council's City **Regeneration** Unit will be at the heart of planning for the future development of the city, creating a balanced economy and a One Planet Living City within the framework set by the council's City Plan.

Capital investment in the Local Transport Plan will be protected and the opportunities presented by self-financing in the Housing Revenue Account will be used to generate estate regeneration.

Better use of **intelligence** through working with the police will ensure our public protection function is focussed on the most effective interventions and we will explore opportunities to **expand traded services.**

We will deliver savings and additional income through our **management of waste** by:

- expanding city centre communal recycling and driving down levels of waste arising
- working with SE7 partners on a long term strategy for securing commercial income streams from recyclate
- sharing the revenue from commercial waste disposal and electricity generation at the Energy from Waste facility in Newhaven

We will sustain investment in **homelessness prevention** and work in the city and with neighbouring authorities to procure sufficient quantities of temporary accommodation. We will work closely with colleagues in adult social care, children's services and health to secure appropriate accommodation for our most vulnerable clients and make the most cost-effective use of the Supporting People budget. We will work with the Sussex Energy Savings Partnership to reduce carbon emissions and tackle fuel poverty in the city's overall housing stock through.

By doing this we aim to:

- grow our council tax and business rates taxbase as described above
- better target our limited resources for public protection and develop new income streams
- minimise the costs of waste disposal and maximise the income we can derive from it
- contain the financial impact of the anticipated rise in demand for homelessness services and provide cost effective support for independent living for vulnerable clients
- secure investment into the city's housing stock with minimum subsidy from the council

Central Services

We will be proactive in our response to the government's **welfare reform** agenda and plan ahead for the transition to Universal Credit, working with the community and voluntary sector to:

- ensure access to financial advice and support
- enable digital inclusion as far as possible across all customer groups
- provide coordinated support to the most financially vulnerable for example through our discretionary funds

We will continue to invest in coordinated and fair early **debt collection and fraud prevention** to maximise our revenue streams.

We will make it easier for customers to **access our services on-line** and through digital media. We will invest in the council's ICT infrastructure over the next three years to ensure it is resilient and can support efficient working practices. We will drive the council's ambitious improvement programmes covering:

- Value for Money
- Workstyles
- Improving the Customer Experience
- Systems Thinking

through a single **Modernisation** Programme Board, underpinned by the council's People Strategy.

We will maintain **effective governance and performance management** and high quality legal, financial and procurement advice to safeguard the interests of the council taxpayer. We will work in **shared service arrangements** with other councils and partners where appropriate to secure value for money and maintain sufficient expert capacity.