

Subject: Budget and Corporate Plan Preparation
Date of Meeting: 11 July 2014
Report of: Executive Director Finance & Resources
Contact Officer: Name: Nigel Manvell Tel: 29-3104
James Hengeveld 29-1242
Email: nigel.manvell@brighton-hove.gov.uk
james.hengeveld@brighton-hove.gov.uk
Ward(s) affected: All

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT:

- 1.1 This report begins the planning process for the 2015/16 budget alongside the longer term development of the Council's next Corporate Plan which will run from 2015-19. It sets out an approach to more closely integrating the council's long term service and financial planning with a clearer focus on commissioning for outcomes for residents.
- 1.2 Central government deficit reduction measures are only around 50% complete both in terms of timescales and value of expenditure reductions. Any change to central government as a result of the May 2015 parliamentary election and any improvement in the national economic forecasts are expected to make only a very marginal difference to the scale of funding reductions facing local government.
- 1.3 The scale of the loss of central government grant funding over the next Corporate Plan cycle means that a more radical and long term approach to the council's service and financial planning is required. The approach proposed to consultation, engagement and scrutiny has been developed within that context. The budget gap is projected to be between £21.2m and £25.4m for 2015/16 and a further £67.2m over the following four years.

2. RECOMMENDATIONS:

That Policy & Resources Committee:

- 2.1 Note the resource and expenditure projections for 2015/16 and the Medium Term Financial Strategy (MTFS) projections set out in the body of the report and appendices 1 to 5.
- 2.2 Instruct the Executive Leadership Team (ELT) to develop budget proposals for 2015/16, for submission to Policy & Resources Committee for consideration, comprising:

- a 5.9% increase in the Brighton & Hove element of the council tax which would trigger a referendum in accordance with Chapter IVZA of the Local Government Finance Act 1992 and associated regulations; and
 - a substitute budget assuming a 2% threshold council tax increase that would come into effect if a referendum rejected a proposed 5.9% increase in council tax.
- 2.3 Require budget proposals to be developed by ELT alongside the creation of a new Corporate Plan for 2015-19, ensuring strong links between the Medium Term Financial Strategy and service and business planning.
- 2.4 Agree the approach to consultation, engagement and scrutiny as set out in section 5 of this report, which will be designed to shape the new Corporate Plan and Medium Term Financial Strategy as well as the 2015/16 Budget.
- 2.5 Agree the proposed approach to reviewing the Council Tax Reduction Scheme as set out in paragraphs 3.15 to 3.20.
- 2.6 Note the resource projections for the capital investment programme as shown in appendix 5.

3. CONTEXT/BACKGROUND INFORMATION:

Corporate Plan

- 3.1 The Council's current Corporate Plan covers the period 2011-2015. A new Corporate Plan for 2015-2019 needs to be developed in the context of the financial challenge being faced. The Corporate Plan will be anchored in the City's recently agreed Sustainable Communities Strategy called Brighton and Hove – the Connected City. It will also take account of the Joint Strategic Needs Assessment which provides important data about needs and demographic trends in the city. The Corporate Plan needs to be approved by Full Council and given the current no overall control context and local elections in 2015 it is important that as much consensus as possible is developed over the council's long term strategic planning. However the process also needs to accommodate important differences of views over certain key areas of policy. The proposed approach to consultation, engagement and scrutiny is designed to support this.

2013/14 Outturn

- 3.2 The 2013/14 provisional outturn was presented to Policy & Resources Committee on 12th June 2014 and showed an underspend of £1.085m. This was an improvement of £2.024m from the estimated outturn reported to Budget Council in February 2014. Policy & Resources Committee on the 12th June 2014 also approved the recommendations of the Governance of Value for Money phase 4 report which included the allocation of the £2.024m to support the Value for Money Phase 4 programme over 2014/15 and 2015/16. The collection fund surplus for council tax in 2013/14 was £1.644m, £0.244m lower than anticipated. The collection fund surplus for business rates 2013/14 was £1.59m after allowing for the repayment of safety net grant. These variances will be built into to the 2015/16 budget projections when the collection fund estimates for 2014/15 are more certain.

2014/15 Budget Position

- 3.3 A high level forecast of the likely level of spending at the end of this financial year based on spending patterns in the first 2 months of the year is shown in the TBM month 2 report elsewhere on this agenda. It shows an overall projected overspend for the General Fund of £5.531m assuming the allocation of £0.500m risk provision. Mitigating actions and recovery plans are being developed and implemented which should reduce the forecast risk but it is not clear at this stage by how much. The financial planning in this report assumes that a break even position is achieved but this position will need to be kept under review as mitigating actions and recovery plans are developed.

Medium Term Financial Strategy 2014/15 – 2019/20

Resources

Retained business rates

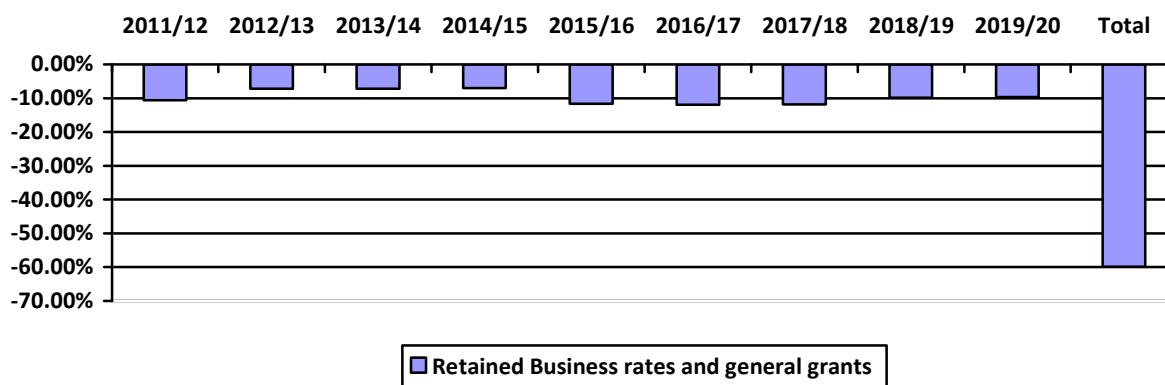
- 3.4 The 2014/15 business rates income assumptions included projected growth of 0.5% in rateable value (RV) as well as a further 1% increase through a review of the register. At this stage of the year it is too early to assess whether any change is required to these projections. Business rates income monitoring forms part of the TBM reporting process and updates will be provided to this committee throughout the year.
- 3.5 The Medium Term Financial Strategy assumes a further 0.5% growth in RV in 2015/16. The business rates income in 2015/16 will be based on the September Retail Price Index (RPI) increase and the current projection assumes a 2.8% increase. The projections will be revised when the inflationary increase is announced. Each 0.5% change in RPI is equivalent to £0.27m retained by the council.
- 3.6 In 2014/15 the government announced a number of new temporary reliefs as well as extending the small business rate relief. The government is compensating authorities for the lost income through Section 31 grants. The MTFs assumes these grants will cease from 1st April 2015 offset by a corresponding increase in business rates income, however if these reliefs were to be extended into future years the council would expect the government to continue to provide compensation.
- 3.7 The government also introduced a cap on the business rate inflationary increase for 2014/15 at 2% instead of the 3.2% RPI increase. The government has provided a section 31 grant of £0.55m in 2014/15 for this loss of income however this cap has an ongoing impact on the level of income and it is assumed that this grant funding will continue in future years.

General government grants

- 3.8 The revenue support grant forecast for 2015/16 of £45.45m is based on the provisional settlement announced alongside the 2014/15 local government finance settlement. This is a reduction of £18.0m compared with 2014/15.

3.9 The Top-up grant introduced as part of the business rates retention scheme of £1.6m increases by inflation each year and this will not change until the business rates retention system is reset probably in 2020.

3.10 The chart below shows the percentage change in the resource forecasts from the start of the current spending round up to 2019/20 i.e. up to the end of the next spending round. The figures exclude changes in specific grants.



Function and Funding changes

3.11 The government has announced one function and funding change relating the transfer of housing benefit fraud from local authorities to the Department of work and Pensions. This change will reduce the level of Housing Benefit Administration Grant however it is anticipated there will be a similar reduction in expenditure and therefore this transfer is anticipated to be cost neutral.

Specific Grants

3.12 The budget projections include the indicative specific grant allocations announced in the provisional settlement for 2015/16 where they were provided, however it is not known if these allocations will be revised as the part of the final settlement. The government has been reducing the level of support through specific grants, and has announced a 20% reduction in Education Services Grant nationally (equivalent to £0.8m locally). An allowance of £1.150m service pressure funding for reductions in unringfenced grants has been included in the budget projections. The assumptions for changes in specific grants and the effect on budget estimates and the Medium Term Financial Strategy are included in appendix 3 to this report.

Fees and Charges

3.13 Fees and charges budgets for 2015/16 are assumed to increase by a standard inflation rate of 2.0% with the exception of parking charges which are planned to be frozen for a second year, and penalty charge notices (parking fines) where the levels of fines are set by government and cannot be changed independently.

3.14 The Council's Corporate Fees & Charges Policy requires that all fees and charges are reviewed at least annually and should normally be increased by either: the standard rate of inflation, statutory increases, or actual increases in the costs of providing the service as applicable. Non-statutory increases above the standard rate of inflation and/or changes to concessions or subsidies should

be reported to and considered at the relevant service committee. Where appropriate, details of fees and charges changes for 2015/16 will be presented to the relevant service committee prior to Budget Council. An overarching review of the potential for further income from fees and charges is part of the VFM 4 programme.

Council Tax Reduction

- 3.15 The council's localised Council Tax Reduction Scheme (CTRS) was introduced on 1st April 2013 to replace the national Council Tax Benefit. In 2013/14 the council qualified for transitional support by ensuring the minimum liability for working age claimants was 8.5%. The council had originally planned to set the minimum liability at 10% but this was reduced down when the transitional support was offered by government. This level was maintained in 2014/15 despite the withdrawal of the transitional grant in the following year.
- 3.16 The current 2015/16 budget assumptions for CTRS are that the council will continue to maintain the current scheme with the 8.5% minimum liability level. However the funding from government for CTR is part of the council's main Formula Grant which is subject to significant reductions. The scheme has been in operation for more than a year now and so it is appropriate to undertake a more detailed review.
- 3.17 The statutory annual review of the scheme will be presented to this committee in December 2014 and then to Full Council and this will include consideration of the minimum liability level. The council intends to continue to operate a discretionary fund. Tax payers in particularly difficult financial circumstances are invited to apply for the discretionary funds provided for in the budget or are being referred to appropriate support and advice.

Council Tax Strategy, Tax Base and Collection Funds

- 3.18 The future resource estimates in the budget papers agreed at Full Council in February were based on a council tax increase of 2%. The indicative council tax strategy in this report assumes an increase of 5.9%, but it will be up to all Members at Budget Council in February 2015 to agree the final level of the council tax. The Chancellor confirmed in the Spending Review that a local referendum would need to be held for proposed council tax increases of more than 2% for 2015/16, therefore the council will need to set aside one off resources to cover the costs of a referendum and also prepare a Substitute budget based on a threshold Council Tax increase of 2%.
- 3.19 The grant settlement included new council tax freeze grant for 2015/16 equivalent to a 1% increase in council tax for those councils who agree to freeze their council tax in 2015/16. The government has confirmed that any council tax freeze grant will be protected in baseline funding in future years.
- 3.20 The council tax collection fund surplus balance at 31 March 2014 was lower than forecast however this will be taken into account alongside any estimated surplus or deficit for 2014/15 in January 2015 for the 2015/16 budget.
- 3.21 The planning assumption is that the tax base will increase by 0.25% from 2015/16 in line with the Medium Term Financial Strategy. This assumption will be

updated within The Council Tax Base Report due to be agreed by Policy & Resources in January 2015.

- 3.22 The council's share of the business rates collection fund surplus at 31 March 2014, after allowing for the repayment of safety net grant, was £1.59m. This will also be updated alongside any surplus or deficit projected in 2014/15 in January 2015 for the 2015/16 budget.

General Fund Revenue Budget Estimates

- 3.23 The revenue budget projections include key assumptions for pay and inflation, budget commitments, risk provisions and service pressures. These assumptions are set out in appendix 4.

General Fund Capital Investment Programme

- 3.24 A 10-year capital programme is being developed that will provide a strategy to identify longer term capital investment plans as well as a funding strategy and the potential outcomes for each investment plan. This strategy will include major investment requirements such as new pupil places, investment in the seafront infrastructure and partnership investment through major projects such as Brighton Waterfront. The strategy will also need to include future Heritage Lottery Fund bids such as the Stanmer Park Master Plan and the Volks Railway.
- 3.25 The projected capital programme and resources for the next two years are included in the table in Appendix 5. Grant funding is provided to the council as a Single Capital Pot and with the exception of Devolved Schools Capital Grant can be prioritised as the Council see fit. Unringfenced government grants for education, transport, health and housing are projected to be £22.4m in 2015/16 but are subject to confirmation from the Government in December 2014.

Capital receipts support the capital programme and the projections have been reviewed over a two year period and include receipts from the sale of Patcham Court Farm, 251-253 Preston Road, Hove Park depot, the former Whitehawk library site, Kings House, 76-79 & 80 Buckingham Road, 18 Market Street and a number of non-core rural assets to support the Stanmer Park redevelopment project.

Housing Revenue Account (HRA) Budget Estimates

- 3.26 A local authority's HRA must balance meaning that the authority must show in its financial planning that HRA income (mainly dwellings rents) meets expenditure and that the HRA is consequently viable. The introduction of self financing of the HRA from 1st April 2012 means that the authority needs to ensure sufficient income streams are available to meet the future management, repairs and investment needs of the stock and associated financing costs. The main determinants of the HRA budget are set out below.
- 3.27 Rents for 2015/16 will be calculated in accordance with the government's rent guidance as included in the DCLG's recently published 'Guidance on Rents for Social Housing' May 2014 which specifies a maximum increase of rent in any one year as being Consumer Price Index (CPI) inflation +1% for the next 10 years. The aim of this policy is to give some certainty to social landlords over their rental income and allow them to plan and 'invest in the maintenance and

improvement of existing homes, the provision of new affordable homes and in providing good services to their tenants'. However, the percentage of rent collected from tenants has begun to reduce over the last financial year as the amount of rent arrears have increased. The reasons for this increase are complex and are being analysed so that a targeted action plan can be developed. This is a critical area for the HRA, given that dwellings rents make up 86% of its total income.

- 3.28 Service Charges are payable by some tenants in addition to their rent. Service charges usually reflect additional services which may not be provided to every tenant or which may be connected with the provision of communal facilities, for example a charge for grounds maintenance services around a block of flats. A service charge must only ever aim to recover the actual cost of the service it pays for. The Government guidance therefore limits the increase to CPI + 1% unless the service is new or has fundamentally changed.
- 3.29 Although the HRA is a ring-fenced account and is not therefore subject to funding reductions applicable to the Council's General Fund, the HRA follows the principles of value for money and equally seeks to drive out inefficiencies and achieve cost economies wherever possible. This frees up more HRA resources to invest in priority investments for tenants as well as increasing the resources available for the building of new social housing in the City. Benchmarking of both service quality and cost with comparator organisations is used extensively to identify opportunities for better efficiency and service delivery. The Medium Term Financial Strategy has assumed efficiency savings of £0.550m for the HRA over 2015/16 and 2016/17. However, new benchmarking data will help to inform the savings target for 2015/16 and beyond.

HRA Capital Programme 2015/16

- 3.30 The capital investment plan for the HRA is mainly funded from direct revenue funding from tenants' rents. The 2015/16 programme includes forecast capital receipts, generated from the leasing of properties to Brighton & Hove Seaside Community Homes, to be used for maintaining our homes to the Brighton and Hove Standard and the use of retained capital receipts from Right to Buy sales for investment in new affordable homes. The HRA capital programme is incorporated within the overall capital programme projections at Appendix 5.

Budget and Corporate Plan Process

- 3.31 The ongoing scale of financial savings required over the next 5 years requires a different approach to the development of the budget and Corporate Plan. It is expected that the budget and Medium Term Financial Strategy will have the following components:
- Efficiency savings through the Council's Value for Money Programme Phase 4 including better procurement, maximising income and ensuring effective preventative services;
 - Reductions in the council's workforce through modernising the way we work and service redesign;
 - Re-commissioning and de-commissioning services to ensure that they deliver priority outcomes in the Corporate Plan;
 - Growth in resources from investment in the city creating additional council tax and business rates income.
- 3.32 The process will include:

- i) An update of the value for money screening documents prepared last year of all services with a clear range of options for each service. Screening will look at comparative value for money, relative priority of the service and/or the contribution of the service to the council's overall financial sustainability (e.g. income generating areas or preventive services);
- ii) Continued development of the Value for Money Programme and Modernisation 'Enablers' in accordance with the report to this committee in June;
- iii) Developing a cross-cutting commissioning plan alongside the Corporate Plan based on the Sustainable Communities Strategy and Joint Strategic Needs Assessments;
- iv) Reviewing the Asset Management Plan and developing a long term Capital Strategy.

3.33 Timetable

Proposed 2015/16 Budget Timetable		
Date	Meeting	Papers / Activities
11/07/2014	Policy & Resources	Budget and Corporate Plan Preparation TBM Month 2
16/10/2014	Policy & Resources	TBM Month 5
04/12/2014	Policy & Resources	TBM Month 7 Budget Update
22/01/2015	Policy & Resources	Tax Base Report Business Rates Retention forecasts 2015/16
12/02/2015	Policy & Resources	TBM Month 9 forecasts for 2014/15 budget position General Fund Revenue Budget 2015/16 Housing Revenue Account Budget 2015/16 Capital Programme 2015/16
26/02/2015	Budget Council	

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 The budget process allows all parties to put forward viable budget amendments and council tax proposals to Budget Council on 26th February 2015. Budget Council has the opportunity to debate both the proposals put forward by Policy & Resources Committee at the same time as any viable alternative proposals.

5. COMMUNITY ENGAGEMENT & CONSULTATION

General Fund

- 5.1 As mentioned above, there is an opportunity to consult and engage in a wider conversation with residents and stakeholders in relation to the both Medium Term Financial Strategy and the Council's Corporate Plan which will need a different approach given the scale of the financial challenge over the next 4 years.
- 5.2 Developing meaningful and helpful consultation processes in relation to the budget has proved difficult in the past due to the sheer scale of council activities and services and the complexity of local government finance, in particular understanding the relationship between the wide range of funding sources including Council Tax, Business Rates, Grants and Fees & Charges. This can make it difficult for residents, partners and other stakeholders to fully engage with budget discussions. The Council therefore intends to focus consultation and engagement on priorities for the City to help inform the development of its Corporate Plan as well as key financial choices such as the level of council tax. Budget planning can then be better informed by the identified priorities. It is intended where possible to link consultation about council priorities and spend to other public services through working with the Local Strategic Partnership, Brighton & Hove Connected and its City Management Board.
- 5.3 Detailed consultation and engagement plans are still being worked through with the Cross-party Budget Review Group. There will be a continued role for the scrutiny process and the council will continue to provide a variety of budget tools to help residents, partners and other stakeholders to understand the important aspects of the budget. Consultation and engagement is therefore likely to include:
- a role for scrutiny, continuing with last year's approach of focusing on thematic issues earlier in the process and exploring the links between Corporate Plan priorities with budget proposals;
 - engagement with key stakeholders such as the Community & Voluntary Sector Forum (CVSF), representatives from the Economic Partnership and business sector on matters or themes that are of specific interest to them;
 - ongoing engagement with staff and Trades Unions, including through the Staff Consultation Forum, Departmental Consultative Groups, team briefings and meetings;
 - cross party involvement in reviewing key financial and performance information ('VFM Screening') to help inform discussions about prioritising expenditure and options for savings alongside Corporate Plan discussions;
 - refreshing the on-line budget tool which has received positive feedback as a budget literacy aid which can help residents and others engage more fully in budget and Corporate Plan discussions and debate;
 - similarly, it is proposed to refresh the short 'budget animation' which many people found to be a useful and simple aid to understanding the council's services and budget;
 - repeating the budget questionnaire to residents and businesses to provide comparable information on priorities across years. However, this may be

augmented to include questions pertinent to development of a new Corporate Plan;

- service-led consultation, including with staff and users in those areas where options for savings have been identified;
- engagement with statutory partners in the city through the City Management Board.

5.4 It is envisaged that the support for General Fund consultation and engagement will be provided within existing budgets including an estimated £10,000 for costs such as printing and posting of questionnaires. Discussions will take place with partners to identify whether existing jointly held funds for partnership working can be used to augment this to ensure broader debate and engagement on public services in the city.

Schools

5.5 There is a statutory requirement on the local authority to consult with the Schools Forum on certain financial aspects of the schools budget including formula changes and the associated impact on budget distribution. The Schools Forum is a public meeting whose membership is made up of schools representation from across all phases and on which the Education Funding Agency has optional observer status.

5.6 Information is provided throughout the year to meetings of the Schools Forum concerning the development and/or changes to elements of the schools budget and the schools formula, now principally based on a national formula. There is a Formula Working sub-group that works with Education & Inclusion and Finance colleagues to ensure involvement and engagement of schools representatives in looking at considerations and options as proposals are developed.

5.7 Annual budget shares are usually presented to the January meeting of the Schools Forum for consultation and in recent years the Council's Executive Director of Finance & Resources has also attended this meeting and presented a report on the potential direct or indirect impacts of the Council's General Fund budget proposals on schools.

Housing Revenue Account

5.8 Council Housing tenants and leaseholders will be consulted on the 2015/16 HRA budget proposals. At this stage details are still being refined but it is proposed that the approach includes:

- A workshop with Housing and Finance staff and the Business and Value for Money Service Improvement Group to prioritise expenditure and options for savings;
- Holding resident focus groups targeted to those affected by budget proposals;
- Consultation with Area Panels.

6. CONCLUSION

- 6.1 The council is under a statutory duty to set its council tax and budget before 11 March each year. This report sets out the budget assumptions, process and timetable to meet this statutory duty.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 These are contained in the body and appendices of the report.

Finance Officer Consulted: James Hengeveld

Date: 02/07/14

Legal Implications:

- 7.2 The process of formulating a plan or strategy for the council's revenue and capital budgets are part of the remit of the Policy & Resources Committee. The recommendations at paragraph 2 above are therefore proper to be considered and, if appropriate, approved by it.
- 7.3 This report complies with the council's process for developing the budget framework, in accordance with part 7.2 of the Constitution.

Lawyer Consulted: Oliver Dixon

Date: 26/06/14

Equalities Implications:

- 7.4 As last year, we will be undertaking a budget screening process and will continue to improve the quality and consistency of Equality Impact Assessments (EIAs) as per the Overview and Scrutiny Committee's recommendation. Key stakeholders and groups will be engaged in developing EIAs but we will also need to consider how Scrutiny, other Members and Partners can be kept informed of EIA development and the screening process. In addition, where possible and proportionate to the decision being taken, we may need to assess the cumulative impact of the council's decision-making on individuals and groups affected in the light of reductions in expenditure across the public and third sectors. We will ensure the process considers the economic impact of proposals.

Sustainability Implications:

- 7.5 Carbon budgets will continue to be produced alongside the overall financial budget for the council.

Crime & Disorder Implications:

- 7.6 The crime and disorder implications of savings and service proposals will be set out in future budget reports where relevant.

Risk and Opportunity Management Implications:

- 7.7 There are considerable risks to the council's short and medium term budget strategy including the impact of the economic conditions and changes in the

national budget, spending exceeding budgets, pressures on existing budgets, further reductions in grant, legislative change demands for new spend. The budget process includes the recognition of these risks in determining the 2015/16 budget.

Public Health Implications:

- 7.8 This report includes financial planning for public health responsibilities.

Corporate / Citywide Implications:

- 7.9 This report is relevant to the whole of the city.

SUPPORTING DOCUMENTATION

Appendices:

1. Budget estimates for 2015/16 based on a council tax increase of 5.9% and Medium Term Financial Strategy Projections based on council tax increase of 2% in future years.
2. Budget estimates for 2015/16 and Medium Term Financial Strategy Projections based on council tax increases of 2%.
3. Specific Grants assumptions for 2015/16.
4. Expenditure assumptions 2015/16.
5. Capital Investment Programme for 2015/16 and 2016/17.

Documents in Members' Rooms

1. None

Background Documents

1. Files held within Financial Services
2. Brighton & Hove City Council Budget report, 27 February 2014